ATTACHMENT C

LOCAL GOVERNMENTS AND LOCAL OBLIGATIONS

The Series A Bonds, together with any additional bonds issued under the Bond Resolution in the future (other than Subordinate Bonds), rank on a parity and are equally and ratably secured under the Bond Resolution. Under the Bond Resolution, all Bonds issued and outstanding thereunder are payable from payments made on Local Obligations by Local Governments. All Local Obligations (regardless of when they were entered into or from what Series of Bonds the Infrastructure Loan was made) and the payments made thereon are pledged to pay debt service on all Bonds issued under the Bond Resolution. Therefore, full and timely payment by each Local Government is required to provide sufficient Revenues with which to make payments on the Series A Bonds as well as all additional bonds issued and outstanding under the Bond Resolution.

The following chart contains an update, as of December 31, 2010, of information concerning the Local Governments that have received Infrastructure Loans from the proceeds of the Bonds. This information was originally set forth in Appendix C to the Official Statement for the 2002 Series A Bonds dated March 1, 2002, Appendix C to the Official Statement for the 2002 Series B Bonds dated October 1, 2002, Appendix C to the Official Statement for the 2003 Series A Bonds dated March 1, 2003, Appendix C to the Official Statement for the 2004 Series A Bonds dated April 22, 2004, Appendix C to the Official Statement for the 2004 Series B Bonds dated November 18, 2004, Appendix C to the Official Statement for the 2005 Series A Bonds dated May 26, 2005, Appendix C to the Official Statement for the 2006 Series A Bonds dated April 5, 2006, Appendix C to the Official Statement for the 2007 Series A Bonds dated May 31, 2007, and Appendix C to the Official Statement for the 2007 Series B Bonds dated November 14, 2007 (the “Official Statements”).

		AMBAC Indenture (2002-2007)			
		Infrastructure Loans Financed with the Proceeds of the Bonds			
		(Outstanding Loans as of December 31, 2010)			
Local Government	**Location by County**	**Series of Bonds**	**Amount of Loan ($)**	**Remaining Loan Term (in years)**	**Purpose**
Aberdeen	Harford	2002B	$2,193,200	12	Complete Ripken baseball complex and construct P.W.[1] facility
Aberdeen	Harford	2004B	$530,000	14	Complete construction on Department of Public Works Facility
Aberdeen	Harford	2007B	$2,759,500	17	Water plant & distribution system upgrades
Bel Air	Harford	2004A	$13,800	< 1	Refinance Sew er Agreement Loan
			$382,000	14	Refinance Sew er Agreement Loan
Berlin	Worcester	2004A	$2,639,500	24	Electric Utility System Upgrade
Berlin	Worcester	2007B	$229,800	5	Refinance LGIF[2] 1995 Series A Bond obligation
			$523,900	15	Refinance LGIF[2] 1995 Series A Bond obligation
			$1,119,900	17	Refinance LGIF[2] 1997 Series A Bond obligation
Centreville	Queen Anne's	2007A	$4,802,725	17	Street, w ater distribution, and w aste w ater impts.
			$1,792,000	27	Water treatment system construction
Chesapeake Beach	Calvert	2007A	$2,293,825	17	Railw ay trail, streetscape, and storm w ater impts.
Crisfield	Somerset	2007A	$619,700	17	Refinance LGIF[2] 1997 Series A Bond obligation
Cumberland	Alleghany	2004A	$158,200	2	Refinance LGIF[2] 1992 Series A Bond obligation
Federalsburg	Caroline	2004B	$3,315,000	24	Refinance 3 Farmer's Home Loans and 1 bank loan
Frostburg	Allegany	2003A	$3,711,600	13	Refinance 2 USDA[3] Rural Development Loans
Garrett Park	Montgomery	2002A	$556,900	12	Renovate Penn Place, improve streets & lighting
Havre de Grace	Harford	2002B	$226,800	7	Construct P.W.[1] facility
Havre de Grace	Harford	2003A	$1,049,000	8	Refinance 2 USDA[3] Rural Development Loans
Havre de Grace	Harford	2004A	$471,600	14	Complete construction on Department of Public Works Facility
Havre de Grace	Harford	2006A	$91,500	< 1	Vehicle and equipment purchases
			$322,000	6	City pier replacement project
			$342,500	16	Park improvements program
La Plata	Charles	2006A	$489,400	6	Refinance LGIF[2] 1996 Series A Bond obligation
			$2,066,300	16	Purchase property, street impts., and engineer and construct w ells
Laurel	Prince George's	2004A	$495,000	4	Fleet purchases and I.T.[4] Program purchase
			$1,903,000	9	Facility maintenance and street improvements

	AMBAC Indenture (2002-2007)				
	Infrastructure Loans Financed with the Proceeds of the Bonds				
	(Outstanding Loans as of December 31, 2010)				
Local Government	**Location by County**	**Series of Bonds**	**Amount of Loan ($)**	**Remaining Loan Term (in years)**	**Purpose**
Laurel	Prince George's	2007B	$7,085,800	12	Street and facility improvements; park improvements and fleet purchases
Middletown	Frederick	2006A	$214,000	16	East Green Street extension and improvements
Middletown	Frederick	2007A	$671,750	7	Refinance LGIF[2] 1997 Series A Bond obligation
Mount Airy	Carroll & Frederick	2002A	$1,734,000	22	Water system improvements
Myersville	Frederick	2002A	$2,844,100	22	Construct community facility & fire station
New Carrollton	Prince George's	2005A	$816,500	15	Bridge repairs and street improvements
North East	Cecil	2003A	$1,453,400	13	Refinance 2 USDA[3] Rural Development Loans
Perryville	Cecil	2002A	$14,500	2	Refinance bank loan
			$330,500	12	Refinance bank loan
Perryville	Cecil	2004B	$235,000	14	Street improvements
Princess Anne	Somerset	2005A	$489,500	15	Facility repairs and street improvements
St. Mary's Metropolitan Commission	St. Mary's	2006A	$395,700	10	Refinance LGIF[2] 1995 Series A Bond obligation
			$504,000	11	Refinance LGIF[2] 1996 Series A Bond obligation
St. Mary's Metropolitan Commission	St. Mary's	2007B	$9,746,100	17	Water and sewer line impts., pump station, road re-alignment, maintenance facility construction, well and water tower construction
Salisbury	Wicomico	2003A	$4,046,000	13	Construct sewer extension, renovate fire station, design fire station & purchase site, construct PW[1] facility, and stabilize Beaver Creek
Salisbury	Wicomico	2004A	$332,600	4	Purchase fire trucks
			$3,494,700	14	Construct a new fire station, and perform shoreline protection project
Somerset County Sanitary District	Somerset	2004A	$1,367,600	14	Refinance LGIF[2] 1994 Series A Bond obligation
Sykesville	Carroll	2002A	$223,400	7	Construct parking lots
Sykesville	Carroll	2005A	$235,700	10	Construct a police station
Takoma Park	Montgomery	2002A	$1,424,300	12	Construct community center
Takoma Park	Montgomery	2005A	$2,112,000	15	Complete construction of community center

	AMBAC Indenture (2002-2007)				
	Infrastructure Loans Financed with the Proceeds of the Bonds				
	(Outstanding Loans as of December 31, 2010)				
Local Government	**Location by County**	**Series of Bonds**	**Amount of Loan ($)**	**Remaining Loan Term (in years)**	**Purpose**
Taneytown	Carroll	2004A	$352,000	24	Renovate City Hall
Thurmont	Frederick	2006A	$2,589,600	16	Refinance LGIF[2] 1996 Series A Bond obligation
Westminster	Carroll	2002A	$1,777,300	12	Construct parking structure
Westminster	Carroll	2005A	$4,191,300	20	Facility maintenance, work on Green St., and reimbursement
		Total:	**$83,780,000**		

Footnotes:

[1] **Public Works Facility**

[2] **Local Government Infrastructure Finance Program**

[3] **U.S. Department of Agriculture**

[4] **Information Technology**

Reznick Group

ACCOUNTING ▪ TAX ▪ BUSINESS ADVISORY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

COMMUNITY DEVELOPMENT ADMINISTRATION
LOCAL GOVERNMENT INFRASTRUCTURE BONDS
(AMBAC INSURED)

JUNE 30, 2010 AND 2009

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

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Reznick Group
ACCOUNTING • TAX • BUSINESS ADVISORY

Reznick Group, P.C.
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Tel: (410) 783-4900

INDEPENDENT AUDITORS' REPORT

Office of the Secretary
Department of Housing and Community Development

We have audited the accompanying financial statements of the Community Development Administration Local Government Infrastructure Bonds (Ambac Insured) (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the Community Development Administration Local Government Infrastructure Bonds (Ambac Insured) and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Community Development Administration Local Government Infrastructure Bonds (Ambac Insured) of the Department of Housing and Community Development of the State of Maryland as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Reznick Group, P.C.

Baltimore, Maryland
September 30, 2010

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF NET ASSETS
(in thousands)

June 30, 2010 and 2009

	2010	2009
RESTRICTED ASSETS		
Restricted current assets		
Cash and cash equivalents on deposit with trustee	$ 11,806	$ 17,422
Community facilities loans	4,710	4,545
Accrued interest receivable	319	331
Total restricted current assets	16,835	22,298
Restricted long-term assets		
Community facilities loans, net of current portion	78,972	83,672
Total restricted assets	$ 95,807	$ 105,970
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued interest payable	$ 281	$ 296
Bonds payable	4,695	4,545
Due to local governments	11,383	17,065
Total current liabilities	16,359	21,906
Long-term liabilities		
Bonds payable, net of current portion	78,565	83,780
Advance trustee fees	18	16
Total long-term liabilities	78,583	83,796
Total liabilities	94,942	105,702
NET ASSETS		
Restricted	865	268
Total liabilities and net assets	$ 95,807	$ 105,970

See notes to financial statements

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
(in thousands)

Years ended June 30, 2010 and 2009

	2010	2009
Operating revenue		
Interest on community facilities loans	$ 3,554	$ 3,708
Interest income on cash equivalents	-	4
Fee income	37	38
	3,591	3,750
Operating expenses		
Interest expense on bonds	3,529	3,698
Operating income	62	52
Transfers of funds, as permitted by the various bond indentures	535	-
Changes in net assets	597	52
Net assets - restricted at beginning of year	268	216
Net assets - restricted at end of year	$ 865	$ 268

See notes to financial statements

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF CASH FLOWS
(in thousands)

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Principal and interest received on community facilities loans	$ 8,111	$ 7,990
Origination of community facilities loans	(5,682)	(13,261)
Advance trustee fees received	38	38
Trustee fees paid	(36)	(36)
Loan fees received	27	28
Net cash provided by (used in) operating activities	2,458	(5,241)
Cash flows from investing activities		
Interest received on cash equivalents	-	5
Net cash provided by investing activities	-	5
Cash flows from noncapital financing activities		
Payments on bond principal	(5,065)	(4,400)
Interest on bonds	(3,544)	(3,711)
Transfers among Funds	535	-
Net cash used in noncapital financing activities	(8,074)	(8,111)
NET DECREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE	(5,616)	(13,347)
Cash and cash equivalents on deposit with trustee at beginning of year	17,422	30,769
Cash and cash equivalents on deposit with trustee at end of year	$ 11,806	$ 17,422

(continued)

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2010 and 2009

	2010	2009
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	$ 62	$ 52
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Decrease in community facilities loans	4,545	4,400
Decrease (increase) in accrued interest receivable	12	(117)
Decrease in accrued interest payable	(15)	(13)
Decrease in due to local governments and other liabilities	(5,680)	(13,259)
Amortization of deferred income on loans	(10)	(10)
Interest received on cash equivalents	-	(5)
Interest on bonds	3,544	3,711
Net cash provided by (used in) operating activities	$ 2,458	$ (5,241)

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2010 and 2009

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) is authorized to issue Local Government Infrastructure Bonds (Ambac Insured) pursuant to Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland to provide a mechanism for financing the infrastructure needs of local governments. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

The accompanying financial statements only include CDA's Local Government Infrastructure Bonds (Ambac Insured) (the Fund). CDA's other Funds are not included.

The Fund was established to issue bonds to provide funds for construction and permanent financing to local governments for public facilities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Local Government Infrastructure Bonds (Ambac Insured) is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (GAAP).

Generally Accepted Accounting Principles

CDA reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). Consequently, CDA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARBS of the Committee on Accounting Procedure issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with accounting guidance issued by GASB, net assets should be reported as restricted when constraints placed on net asset use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all net assets of the Fund are restricted as to their use as all net assets are pledged to bondholders.

The Annual Financial Report may include a Management's Discussion and Analysis. Since CDA is an enterprise fund included in the State of Maryland's Comprehensive Annual Financial Report, a separate Management's Discussion and Analysis is not required in these financial statements. CDA prepares a Management's Discussion and Analysis for the General Accounting Division of the State of Maryland that is not part of these financial statements.

Cash and Cash Equivalents on Deposit with Trustee

Cash equivalents may include money market funds, repurchase agreements, investment agreements and any other investments, primarily obligations of the U.S. Treasury and U.S. Government Agencies, which have maturities of 90 or less days at the time of purchase. As of June 30, 2010 and 2009, all of the Fund's cash equivalents were invested in a money market mutual fund which is more fully described in Note 3.

Community Facilities Loans

Community facilities loans are carried at their unpaid principal balances, net of unamortized loan fees. See Note 4 for additional information on community facilities loans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

Community facilities loans are secured by the full faith and credit of the applicable local government. Therefore, CDA has determined that no allowance for loan losses was necessary as of June 30, 2010 and 2009.

Accrued Interest Receivable

Accrued interest includes both interest on cash deposits and interest on loans. As of June 30, 2010 and 2009, all loans were current. Therefore, all accrued interest on loans was recorded during the year.

Bonds Payable

Bonds payable are carried at their unpaid principal balances. There are no premiums or discounts to amortize. See Notes 5, 6, 7 and 8 for additional information.

Due to Local Governments

CDA records the total loan amount when the loan closes and collects interest from the local government on this full loan amount from the date of closing. Due to local governments represents the undrawn loan amount which is held by CDA as an escrow until the funds are needed by the local government.

Fee Income

CDA receives financing fees at loan origination. These fees are deferred and amortized over the life of the loan.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administrative Support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. Support services and the operating expenses of CDA have been allocated to CDA's General Bond Reserve Fund and are reported in the financial statements of CDA's Revenue Obligation Funds. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

The employees of CDA are covered by the Maryland State Retirement and Pension System and the costs of employees' retirement benefits are included in the salaries and related costs charged to CDA's General Bond Reserve Fund. See Note 10 for additional information.

Revenue and Expenses

CDA distinguishes operating revenue and expenses from non-operating items in accordance with accounting guidance issued by GASB. Operating revenue and expenses are identified as those activities that are directly related to financing public facilities for local governments. All of the Fund's activities are considered to be operating.

Use of Estimates

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In March 2009, GASB issued the Accounting Standards Codification (Codification). Effective upon issuance, the Codification is the single source of authoritative accounting principles recognized by GASB to be applied by governmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of CDA's accounting policies. The adoption of the Codification did not have a material impact on CDA's financial position or results of operations.

In May 2009, FASB issued guidance regarding subsequent events, which was subsequently updated in February 2010. This guidance established general standards of accounting for and disclosure of events that occur after the date of the statement of net assets but before financial statements are issued or are available to be issued. In particular, this guidance sets forth the period after the date of the statement of net assets during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the date of the statement of net assets in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the date of the statement of net assets. This guidance was effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009, and was therefore adopted by CDA for the period ending June 30, 2010. The adoption did not have a significant impact on the subsequent events that CDA reports, either through recognition or disclosure, in the financial statements. In February 2010, FASB amended its guidance on subsequent events for entities that are not SEC filers to disclose the date that the financial statements were available to be issued. This amendment was effective immediately. See Note 11 regarding the date through which subsequent events have been evaluated.

NOTE 3 - CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE

Proceeds from bonds and revenues from loans are invested in authorized investments as defined in the Local Government Infrastructure Bonds (Ambac Insured) Resolution (the Resolution) and in CDA's Investment Policy until required for financing projects, redeeming outstanding bonds, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. Government Agencies, investment agreements, money market funds and any other investment as defined by the Resolution.

As of June 30, 2010 and 2009, the Fund had $11,806 and $17,422 invested, respectively, in a money market mutual fund (Federated Treasury Obligations Fund) which is classified as cash and cash equivalents. The following represents the GASB evaluation of this asset for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses from rising interest rates, CDA's Investment Policy requires that the maturities of the investment portfolio are scheduled to meet the cash requirements for bond debt service, projected loan originations and ongoing operations.

The Federated Treasury Obligations Fund invests primarily in repurchase agreements collateralized by Treasury securities and U.S. Treasuries. It is operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. It can reasonably be expected to have a fair value that will be unaffected by interest rate changes because the interest rates are variable and the principal can be recovered on demand. As of June 30, 2010 and 2009, the cost of this money market mutual fund approximated fair value and its maturity is less than one year.

NOTE 3 - CASH AND CASH EQUIVALENTS ON DEPOSIT WITH TRUSTEE (Continued)

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither CDA's Investment Policy nor the Resolution requires investment agreements or deposits to be collateralized. CDA's Investment Policy places no limit on the amount that CDA may invest in any one issuer or counterparty. According to the Resolution, securities must be rated at the highest investment grade by any national rating agency. U.S. dollar denominated accounts and bankers' acceptances which have a rating on their short-term certificates of deposit must be in the two highest ratings by any nationally recognized rating agency. Accounting guidance issued by GASB requires disclosure by amount and investment issuer if investments in any one issuer represent 5 percent or more of total investments. Investments in mutual funds are excluded from this requirement.

As of June 30, 2010 and 2009, the Federated Treasury Obligations Fund was rated AAAm by Standard and Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, CDA will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. As of June 30, 2010 and 2009, the Fund's investments were not subject to custodial credit risk under accounting guidance issued by GASB. This money market fund is held in trust by the trustee, kept separate from the assets of the bank and from other trust accounts and is held in CDA's name.

NOTE 4 - COMMUNITY FACILITIES LOANS

Community facilities loans are secured by the full faith and credit of the applicable local government. As such, no allowance for loan losses was necessary as of June 30, 2010 and 2009. Interest rates on such loans range from 2.73% to 4.87%. As of June 30, 2010 and 2009, remaining loan terms range from approximately less than 1 year to 27 years and 2 to 28 years, respectively.

(in thousands)

NOTE 5 - BONDS PAYABLE

The bonds issued by CDA are special obligations of CDA and are payable from the revenue and special funds of the Resolution. These bonds do not constitute debt of and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision.

The provisions of the Resolution require or allow for the special redemption of bonds at par through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of community facilities loans. All outstanding bonds are subject to redemption at the option of CDA, in whole or in part at any time, after certain dates, as specified in the respective series resolutions. All bonds have fixed interest rates and all are tax-exempt.

The following is a summary of the bond activity for the year ended June 30, 2010 and the bonds payable as of June 30, 2010:

					Bond Activity		
	Issue Dated	Range of Interest Rates	Range of maturities	Bonds Payable at 2009	Scheduled maturity payments	Bonds Redeemed	Bonds Payable at 2010
Local Government Infrastructure Bonds (Ambac Insured)							
2002 Series A	03/01/02	3.85% - 5.00%	2010 - 2032	$ 9,305	$ (385)	$ (535)	$ 8,385
2002 Series B	10/01/02	3.00% - 4.375%	2010 - 2022	2,585	(165)	-	2,420
2003 Series A	03/01/03	3.00% - 4.50%	2010 - 2023	10,920	(660)	-	10,260
2004 Series A	04/22/04	3.00% - 4.875%	2010 - 2034	12,450	(840)	-	11,610
2004 Series B	11/18/04	3.00% - 4.50%	2010 - 2034	4,210	(130)	-	4,080
2005 Series A	05/26/05	3.75% - 4.40%	2010 - 2030	8,165	(320)	-	7,845
2006 Series A	04/05/06	3.50% - 4.25%	2010 - 2026	7,525	(510)	-	7,015
2007 Series A	05/31/07	3.75% - 4.25%	2010 - 2037	10,625	(445)	-	10,180
2007 Series B	11/14/07	3.50% - 4.25%	2010 - 2027	22,540	(1,075)	-	21,465
Total				$ 88,325	$ (4,530)	$ (535)	$ 83,260

(in thousands)

NOTE 5 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2009 and the bonds payable as of June 30, 2009:

					Bond Activity		
	Issue Dated	Range of Interest Rates	Range of maturities	Bonds Payable at 2008	Scheduled maturity payments	Bonds Redeemed	Bonds Payable at 2009
Local Government Infrastructure Bonds (Ambac Insured)							
2002 Series A	03/01/02	3.70% - 5.00%	2009 - 2032	$ 9,700	$ (395)	$ -	$ 9,305
2002 Series B	10/01/02	2.875% - 4.375%	2009 - 2022	2,745	(160)	-	2,585
2003 Series A	03/01/03	3.00% - 4.50%	2009 - 2023	11,560	(640)	-	10,920
2004 Series A	04/22/04	2.75% - 4.875%	2009 - 2034	13,270	(820)	-	12,450
2004 Series B	11/18/04	3.00% - 4.50%	2009 - 2034	4,335	(125)	-	4,210
2005 Series A	05/26/05	3.75% - 4.40%	2009 - 2030	8,475	(310)	-	8,165
2006 Series A	04/05/06	3.50% - 4.25%	2009 - 2026	8,015	(490)	-	7,525
2007 Series A	05/31/07	3.75% - 4.25%	2009 - 2037	11,050	(425)	-	10,625
2007 Series B	11/14/07	3.50% - 4.25%	2009 - 2027	23,575	(1,035)	-	22,540
Total				$ 92,725	$ (4,400)	$ -	$ 88,325

(in thousands)

NOTE 6 - DEBT SERVICE REQUIREMENTS

As of June 30, 2010, the required principal payments for bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in 5-year increments thereafter, were as follows:

Years ended June 30,	Interest	Principal
2011	$ 3,379	$ 4,695
2012	3,215	4,755
2013	3,046	4,830
2014	2,868	5,020
2015	2,678	4,980
2016 - 2020	10,375	25,945
2021 - 2025	5,016	21,955
2026 - 2030	1,522	8,295
2031 - 2035	333	2,575
2036 - 2040	13	210
Total	$ 32,445	$ 83,260

As of June 30, 2009, the required principal payments for bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in 5-year increments thereafter, were as follows:

Years ended June 30,	Interest	Principal
2010	$ 3,557	$ 4,545
2011	3,404	4,710
2012	3,240	4,770
2013	3,070	4,845
2014	2,891	5,035
2015 - 2019	11,507	25,785
2020 - 2024	6,118	24,185
2025 - 2029	2,023	10,575
2030 - 2034	505	3,565
2035 - 2039	26	310
Total	$ 36,341	$ 88,325

Community Development Administration
Local Government Infrastructure Bonds (Ambac Insured)

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2010 and 2009

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Bonds payable		
Beginning balance	$ 88,325	$ 92,725
Additions	-	-
Reductions	(5,065)	(4,400)
Ending balance	83,260	88,325
Less due within one year	(4,695)	(4,545)
Total long-term bonds payable	78,565	83,780
Other liabilities - advance trustee fees		
Beginning balance	16	14
Additions	38	38
Reductions	(36)	(36)
Ending balance	18	16
Total long-term other liabilities - advance trustee fees	18	16
Total long-term liabilities	$ 78,583	$ 83,796

NOTE 8 - BOND INSURANCE

All outstanding bonds of the Fund are insured by Ambac Assurance Corporation. The provisions of the policy require the insurer to pay that portion of the principal and interest on the bonds which become due for payment but are not paid by CDA. The insurance generally extends for the term of the bonds and cannot be canceled by the insurer. See Note 5 for list of outstanding bonds.

NOTE 9 - INTERFUND ACTIVITY

In accordance with the various bond indentures, net assets in each of the indentures are restricted and pledged to bondholders. However, restricted assets may be transferred subject to the provisions of the respective indenture.

During the year ended June 30, 2010, the General Bond Reserve Fund transferred $535 to Local Government Infrastructure Bonds (Ambac Insured) for the partial defeasance of bonds.

NOTE 10 - PENSION AND OTHER POST-RETIREMENT BENEFITS

Eligible employees of CDA and employees of the State of Maryland are covered under the retirement plans of the State Retirement and Pension System of Maryland (the System) and are also entitled to certain healthcare benefits upon retirement. CDA’s only liability for retirement and post-employment benefits is its required annual contribution, which was paid in full by CDA to the State of Maryland prior to year end. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202 or by visiting the website at www.sra.state.md.us.

NOTE 11 - SUBSEQUENT EVENTS

Events that occur after the date of the statement of net assets but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of net assets are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statement of net assets require disclosure in the accompanying notes. Management evaluated the activity of CDA through September 30, 2010 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Financial Information of Local Governments

Each County, Municipality, and special district in the State is required (i) to maintain the uniform system of financial reporting provided by the State's Department of Legislative Services; (ii) pursuant to Article 19, §40 of the Annotated Code of Maryland, to have its books, accounts, records and reports examined at least once each fiscal year by a certified public accountant and to file a copy of the audit report with the Legislative Auditor, and (iii) pursuant to Article 19 §37 of the Annotated Code of Maryland, to file with the State Department of Legislative Services not later than November 1 of each year the Uniform Financial Report (Forms F-65(MD-2) or F-65(MD-2A)) for the fiscal year ending on the immediately preceding June 30. The State Department of Legislative Services extracts information from the Uniform Financial Reports and publishes such information annually in a report to the Governor and General Assembly of Maryland.

The Uniform Financial Reports and the annual report of the Department of Legislative Services are available for public inspection in the offices of the Department of Legislative Services, 90 State Circle, Annapolis, Maryland. Copies of the Uniform Financial Reports or the annual report of the Department of Legislative Services may be obtained by writing to the State Department of Legislative Services, 90 State Circle, Room 226, Annapolis, Maryland 21401, or by calling (410) 946-5030.

The following information on each Local Government which will receive an Infrastructure Loan from the proceeds of the Bonds, combines data extracted from the Uniform Financial Reports and data submitted by each Local Government. This information has been certified by each Local Government as to its accuracy. This information does not represent all of the information contained in the Uniform Financial Reports, which are available as noted in the preceding paragraph. The Administration has not verified the information on the following pages and makes no representation as to the accuracy or completeness thereof or the financial condition of any Local Government, County, or Municipality (if any) guaranteeing the Local Obligations of its agency or instrumentality described in this Appendix.

Description and Location:	The City of Laurel is located in the center of three major cities; Annapolis, Baltimore, and Washington, DC. Adjacent to Interstate 95. The city is approx. 22 miles southwest of Baltimore	

Population: 22,672 (current estimate)

The following General Fund Information is as of June 30, of the applicable fiscal year. All amounts shown below are in dollars.

Revenues:

	Total Local Taxes	Total Licenses & Permits	Total Intergov-ernmental Revenues	Total Service Charges	Total Fines & For-feitures	Total Misc.	Long Term Debt Proceeds	Total Revenues
2010	$22,881,667	$752,628	$1,486,958	$1,232,700	$921,368	$275,493	$0	$27,550,814
2009	$20,514,165	$970,949	$1,696,942	$692,412	$633,436	$339,497	$78,096	$24,925,497
2008	$18,371,795	$1,134,453	$2,048,319	$1,057,124	$246,217	$627,232	$409,029	$23,894,169
2007	$15,855,584	$1,856,301	$2,135,453	$687,874	$245,235	$714,510	$52,673	$21,547,630
2006	$14,349,628	$1,695,547	$1,790,754	$698,865	$269,141	$663,009	$0	$19,466,944

Expenditures:

	Total General Govt.	Total Public Safety	Total Public Works	Total Parks, Recreation and Culture	Total Com. Dev. & Public Housing	Total Economic Dev. & Opportunity	Total Debt Service	Total Miscel-laneous	Total Expendi-tures
2010	$5,530,661	$7,092,979	$3,327,878	$1,447,450	$0	$0	$3,362,640	$3,947,373	$24,708,981
2009	$5,089,368	$6,383,910	$3,179,086	$1,607,950	$0	$0	$2,855,835	$3,572,961	$22,689,110
2008	$4,309,129	$5,389,408	$2,875,718	$1,317,290	$0	$0	$3,051,122	$4,422,690	$21,365,357
2007	$3,952,742	$5,287,567	$2,997,908	$1,275,198	$0	$0	$1,980,632	$3,026,315	$18,520,362
2006	$3,383,481	$4,763,447	$2,865,519	$1,109,341	$0	$0	$1,957,429	$3,311,541	$17,390,758

Assets & Liabilities:

	2010	2009	2008	2007	2006
Cash and Investments	$10,240,916	$14,163,609	$10,644,941	$10,334,825	$6,969,038
Total Assets	$13,793,494	$16,749,185	$13,028,449	$12,407,236	$9,132,517
Total Liabilities	$4,962,010	$9,393,925	$6,540,576	$6,181,260	$3,579,451
Total Fund Balance	$8,831,484	$7,355,260	$6,487,873	$6,225,976	$5,553,066
Unreserved/ Undesignate d Fund Balances	$5,346,338	$4,459,330	$4,053,781	$4,107,434	$3,675,278

Property Taxes and Taxes Receivable: Real Property

	Total assessed Value of Taxable Property[1]	General tax rate/$100	Actual Tax Levy	Amount Collected	Current Year Balance of Taxes Receivable
2010	$2,617,082,113	0.7100	$18,581,283	$18,400,553	$180,730
2009	$2,266,334,444	0.7200	$16,317,608	$16,198,192	$119,416
2008	$2,000,020,694	0.7200	$14,400,149	$14,233,368	$166,781
2007	$1,710,866,250	0.7200	$12,318,237	$12,056,213	$262,024
2006	$1,461,928,889	0.7200	$10,525,888	$10,379,540	$146,348

City of Laurel cont.

Property Taxes and Taxes Receivable: Personal Property

	Total assessed Value of Taxable Property[1]	General tax rate/$100	Actual Tax Levy	Amount Collected	Current Year Balance of Taxes Receivable
2010	$92,052,544	1.6900	$1,555,688	$362,610	$1,193,078
2009	$93,594,911	1.6900	$1,581,754	$845,092	$736,662
2008	$95,167,515	1.6900	$1,608,331	$1,536,984	$71,347
2007	$90,089,172	1.6900	$1,522,507	$1,479,967	$42,540
2006	$86,022,485	1.6900	$1,453,780	$1,404,761	$49,019

CITY OF LAUREL, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2010

CITY OF LAUREL
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JUNE 30, 2010

Lindsey + Associates LLC
Certified Public Accountants

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Independent Auditor's Report

Honorable Mayor
Members of the City Council
City of Laurel, Maryland

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laurel, Maryland (the City), as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the City as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1 to the financial statements, there were prior period accounting errors pertaining to capital assets and construction in progress. Accordingly, an adjustment has been made to beginning net assets to correct the accounting errors.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laurel as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis, pension trust fund – analysis of funding, other post-employment benefits plan – schedule of funding progress, other post-employment benefits plan – schedule of employer contributions, and budgetary comparison information on pages 3 through 10 and 48 through 51 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laurel, Maryland's basic financial statements. The supplemental schedules on pages 52 through 56 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 57 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 22, 2010

Lindsey & Associates, LLC

Financial Highlights

- At June 30, 2010, the assets of the City of Laurel exceeded the liabilities by $30,051,706 (net assets). Unrestricted net assets were $7,360,948.
- Net assets increased by $5,432,116 or 28% from June 30, 2009 to June 30, 2010. This was due to the capitalization of completed road construction projects, park improvement projects and investment in equipment; the purchase of the property at 7703 and 7705 Sandy Spring Road for the Department of Parks and Recreation Maintenance Operations; and the completion of the Barkman-Kaiser Public Safety Complex for the Laurel Police Department Headquarters.
- The fund balance of the general fund has increased by 20% from $7,355,260 at June 30, 2009 to $8,831,484 at June 30, 2010. This is due to the excess in revenues over expenditures; an increase in the reserve for encumbrances and the annual leave liability; and an increase in designated reserves for Fleet and Street Maintenance and Transportation.
- The total debt of the City of Laurel increased by $1,813,396. Debt service payments totaled $3,362,640. FY2010 draws on the CDA funds of $2,385,185 plus the execution of the $1,396,518 note for the purchase of 7703 and 7705 Sandy Spring Road as well as the increase of the OPEB liability by $585,000 and the increase and the annual leave liability of $128,491 exceeded the debt service payments made during the year; therefore the overall debt balance increased from the previous fiscal year.
- FY2010 was particularly challenging with regard to recordkeeping for grants. The City was fortunate to be the recipient of $1,065,488 in federal grant funds, $457,543 of which was the product of the American Recovery and Reinvestment Act of 2009. All of the grants were public-safety related. The challenges presented themselves through the reporting process as each agency with whom we dealt had differing deadlines, website access, and reporting formats and requirements. The Department of Budget and Personnel Services participated with representatives of the Laurel Police Department and the Department of Information Technology in site visits and separate audits of related financial materials and processes.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event causing the change occurs, regardless of the timing of related cash flows. Revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods (i.e. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include: general government, public safety, public works, and parks and recreation. Business-like activities are conducted by parks and recreation, public works and development management (within general government) by charging user and processing fees for various programs, sanitation fees and zoning applications, respectively.

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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City uses governmental funds (general, capital improvement program, long-term debt, and fixed assets) and the fiduciary fund for the retirement plans' financial records.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to allow readers to compare government funds and governmental activities.

Government-wide Financial Analysis

The City's total net assets as of June 30, 2010 were $30,051,706. The largest portion of net assets, 66%, is the investment in capital assets, net of related debt, in the amount of $19,839,107. The unrestricted portion, 24%, of net assets can be used to meet the needs of serving the citizens and obligations to creditors.

The following is a condensed statement of net assets:

City of Laurel, Maryland
Schedule of Net Assets

	Governmental Activities	
	2010	2009
Current and other assets	$ 15,628,335	$ 17,988,268
Capital assets	34,772,186	26,573,067
Total Assets	50,400,521	44,561,335
Long-term liabilities	11,369,982	10,535,083
Other liabilities	8,978,833	9,406,662
Total Liabilities	20,348,815	19,941,745
Net assets		
Invested in capital assets, net of related debt	19,839,107	12,739,893
Restricted	2,851,651	2,103,924
Unrestricted	7,360,948	9,775,773
Total Net Assets	$ 30,051,706	$ 24,619,590

Governmental Activities

Governmental activities increased the City's net assets by $5,432,116 or 28% over June 30, 2009. Property taxes comprised 80% of the total revenue, while the next highest source of revenue, intergovernmental funds, is 10% of the $25,215,605 general revenue. The remaining 10% of revenue is received from licenses, permits, interest operating grants, charges for services, fines and forfeitures, and miscellaneous items.

	Governmental Activities	
	2009	2010
Revenue		
Program Revenue		
Charges for services	$ 1,383,073	$ 1,639,794
Operating grants/contributions	2,173,963	2,915,255
Capital grants/contributions	-	-
General Revenue		
Property taxes	17,989,097	20,238,352
Income taxes	2,858,020	2,507,210
Other taxes	343,908	362,974
Licenses/permits	925,574	752,628
Interest	189,893	35,976
Miscellaneous	395,975	1,318,465
Total Revenue	26,259,503	29,770,654
Expenses		
General government	4,940,614	5,456,587
Public safety	7,030,314	8,018,099
Parks & recreation	1,625,894	1,844,251
Public works	3,864,564	4,064,678
Miscellaneous	3,885,328	4,274,081
Debt service	657,344	680,842
Total Expenses	22,004,058	24,338,538
Increase in net assets	4,255,445	5,432,116
Net assets, beginning of year - revised	22,864,145	24,619,590
Net assets, ending	$ 27,119,590	$ 30,051,706

Financial Analysis of the Government's Funds

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources.

The general fund is the chief operating fund of the City of Laurel. At the end of the current fiscal year, the total general fund balance is $8,831,484. There is $3,485,146 reserved or unreserved but designated from the fund balance for encumbrances (open purchase orders), inventory, and annual leave; and designated fleet and street reserves (for emergency repairs and replacements). Unreserved fund balance represents 22% of total general fund expenditures, while total fund balance represents 36% of that same amount.

The fund balance of the general fund has increased by 20% from $7,355,260 at June 30, 2009 to $8,831,484 at June 30, 2010 because revenues exceeded expenditures by $2,841,833 before operating transfers of $1,365,609.

The capital projects fund balance decreased by 56% from the prior fiscal year. This is due to significant expenditures made for the renovations to the Barkman-Kaiser Public Safety Complex as well as park improvement and technology projects: the funding for which was provided in previous fiscal years.

Fiduciary funds. The retirement plans of the City of Laurel employees are held in trust to provide future retirement benefits and death and disability benefits to participating employees and their beneficiaries. The net assets for the pension fund increased by 19% from June 30, 2009 to June 30, 2010. The City's contribution met the actuarial recommendation and the employee payroll deductions increased due to the increase in the pay plans. Investment gains of $2,553,069 put the balance of the net assets higher than that of June 30, 2009.

Budgetary Highlights. The General Operating Budget of FY2010 was amended three times. The first amendment became necessary when, in the second month of the fiscal year, the State of Maryland Board of Public Works reduced the Highway User Revenue distribution to local governments and the State Aid for Police Protection funding. The decrease required a reduction of $600,000. In July of 2009 Mayor Moe had required all departments to identify 3% of the operating budgets in anticipation of the reductions coming from the State. These reductions paired with the savings in health insurance and workers compensation premiums allowed the City to maintain service levels by the Department of Public Works the expenditures for which are partially offset by Highway User Revenue.

Savings in disposal fees, vehicle maintenance and outside services were used to amend the budget in order to lessen the impact of the Capital Improvement Program and debt service on future operating budgets. In particular, funds were appropriated to retire the $196,000 of the note executed for the purchase of the 811 Fifth Street.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets of $34,772,186 (net of accumulated depreciation) includes land and land improvements, infrastructure, buildings, and machinery, equipment and tools. This is a 30% increase from the prior fiscal year. The $9.88 million in increases were due to purchases of equipment and vehicles as well as the purchase of purchase of property at 7703 and 7705 Sandy Spring Road; the completion of the project to renovate for former church and school at 811 Fifth Street for the Laurel Police Department; the improvements to Riverfront Park including the park extension and the dam ruins preservation; the field restoration and amenity improvements to Cypress Street Athletic Field; and the replacement of the play structure at Sweitzer Park; and the reconstruction of seven streets.

In FY2010, $1,433,980 in equipment was purchased between the general fund and the capital improvement program. This includes computers and other electronic equipment as well as guns and office equipment. $871,294 in grant funds were used toward the new radio systems as well as 5 Segways, a motorcycle and 10 mountain bikes for the police department. Grant funds were also used to purchase E-tix systems for the patrol cars to issue computerized citations. Construction in Progress of $365,463 is comprised of the radio system tower; a data recording system; a command vehicle; and the phone system.

The following table displays the City's capital assets:

City of Laurel, Maryland
Capital Assets
(Net of depreciation)

Description	Governmental Activities
Land	$ 6,607,876
Construction-in-progress	365,463
Buildings and improvements	14,841,969
Machinery, tools, equipment	3,540,535
Land improvements	1,886,395
Infrastructure	7,529,948
TOTAL	$ 34,772,186

Long-term debt. At the end of the current fiscal year, the City had total long-term liabilities outstanding of $17,073,649. This amount is comprised of the 1996 Public Improvement Bond (PIB) of $2,990,000; $11,943,079 notes payable; $1,131,000 in OPEB liability and $1,009,570 in accrued vacation leave. This is an increase of $1,813,396 from the FY2009 balance. FY2010 draws on the CDA funds of $2,385,185; the execution of the note for the purchase of 7703 and 7705 Sandy Spring Road as well as the increase of the OPEB liability by $585,000 and the increase in the annual leave liability of $128,491 exceeded the debt service payments made during the year; therefore the overall debt balance increased from the previous fiscal year. Outstanding debt does not include the total of $8,406,000 issued through the CDA program just the amount of the draw downs of $7,144,273. However, the total of the issue is used when calculating debt leeway.

The following table reflects the City's long-term debt:

City of Laurel, Maryland
Long-term Debt

	Governmental Activities
General obligation bonds	$ 2,990,000
Notes payable	11,943,079
Accrued leave liability	1,009,570
OPEB Liability	1,131,000
Total	$ 17,073,649

Economic Factors and Activities

By the end of the first quarter of the City of Laurel's Fiscal Year 2009 the nation had entered a recession. Due to the measures taken by the Federal government to improve the economy, the City received $457,544 in American Recovery and Reinvestment Act funds either directly from the Federal government or through the State of Maryland. Most of the grants were relative to public safety. Though this funding is not interchangeable in its application it allows flexibility in future budgets in order to make one-time purchases and the addition of three police officers.

The mixed use development of the Patriot Group and the redevelopment of the Laurel Mall have not moved forward as the credit market is still reluctant to provide large funding packages. These projects are ready to move forward with the exception of the storm water management permits from Prince George's County. These are key developments for the City's commercial area and economic growth providing permanent, sustained employment opportunities. We anxiously await forward movement and completion of both projects.

Additionally, the City Administrator and Director of Community Planning and Business Services remain active in the Maryland Military Installation Council in order to plan and prepare the City for the impacts of the Base Realignment and Closure (BRAC) at Ft. George G. Meade which is 5 miles outside the City of Laurel. An estimated 5,000-10,000 jobs are expected to be relocated to the base, so there are potential infrastructure implications in and around the City of Laurel.

The Department of Community Planning & Business Services, in addition to the distinction of the City of Laurel having its own zoning authority, Life Safety Review completes the one-stop shop for developers so all aspects of zoning, permitting and fire code review can be conducted by the City of Laurel. This operation has proven to be highly successful in the vastly reduced amount of time to review proposed projects for fire code compliance. This makes the City of Laurel an even more desirable and efficient place to do business than it already was.

The City has invested a great deal of money in improvements to existing infrastructure, including streets, park improvements and information technology. The City has also required the same from developers to reduce the impact of new development on existing taxpayers, including but not limited to providing funding for improved intersections; provide funding for new sworn personnel; and providing parkland dedication or fees in lieu of parkland.

These activities as well as the geographic location of the City of Laurel, outstanding services provided by the Nationally Accredited Laurel Police Department, Department of Public Works, Department of Parks & Recreation, and the responsiveness of elected officials and City Hall staff continue to attract new residents and businesses further improving the City's economy.

Because development has slowed a great deal in the City of Laurel, officials remain cautious regarding the national and state economies. Budgetary concerns regarding energy costs for City facility utilities and vehicle fuel has the full attention of elected officials and staff. Also of great concern are health insurance and workers compensation insurance costs and the impact of escalating economic issues on income tax and real estate tax revenues.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Budget & Personnel Services at 8103 Sandy Spring Road, Laurel, MD 20707.

CITY OF LAUREL, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Total
ASSETS		
Current Assets		
Equity in pooled cash and cash equivalents	$ 10,270,348	$ 10,270,348
Restricted cash	1,622,015	1,622,015
Taxes receivable, net of allowances	1,373,808	1,373,808
Notes receivable	31,677	31,677
Other receivables	260,771	260,771
Accounts receivable - income taxes	538,763	538,763
Due from other governments	1,050,827	1,050,827
Due from other funds	47,854	47,854
Inventory	182,833	182,833
Total Current Assets	15,378,896	15,378,896
Noncurrent Assets		
Notes receivable	249,439	249,439
Net capital assets	34,772,186	34,772,186
Total Noncurrent Assets	35,021,625	35,021,625
TOTAL ASSETS	$ 50,400,521	$ 50,400,521
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,241,468	$ 1,241,468
Accrued interest	5,343	5,343
Deposits	1,622,015	1,622,015
Unearned revenue	406,340	406,340
Current portion of long-term debt	5,703,667	5,703,667
Total Current Liabilities	8,978,833	8,978,833
Noncurrent Liabilities		
OPEB liability	1,131,000	1,131,000
Compensated absences	1,009,570	1,009,570
Loan payable - long-term	9,229,412	9,229,412
Total Noncurrent Liabilities	11,369,982	11,369,982
TOTAL LIABILITIES	20,348,815	20,348,815
NET ASSETS		
Invested in capital assets, net of related debt	19,839,107	19,839,107
Restricted		
Inventory	183,433	183,433
Fleet - general	630,554	630,554
Fleet - EMS	-	-
Street maintenance	1,028,094	1,028,094
Capital projects	-	-
Long-term debt	1,009,570	1,009,570
Unrestricted	7,360,948	7,360,948
TOTAL NET ASSETS	30,051,706	30,051,706
TOTAL LIABILITIES AND NET ASSETS	$ 50,400,521	$ 50,400,521

The accompanying notes to these financial statements are an integral part of these statements.

CITY OF LAUREL, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

			Program Revenues			Net (Expense) Revenue and Changes in Net Assets — Primary Government	
Functions/Programs	Expenses	Indirect Expense Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary Government							
Governmental Activities:							
General government	$ 5,456,587	$ 1,038,486	$ 200,665	$ 390,926	$ -	$ (5,903,482)	$ (5,903,482)
Public safety	8,018,099	2,211,187	921,368	418,109	-	(8,889,809)	(8,889,809)
Parks and recreation	1,844,251	489,334	401,499	164,903	-	(1,767,183)	(1,767,183)
Public works	4,064,678	1,215,916	116,262	1,941,317	-	(3,223,015)	(3,223,015)
Miscellaneous	4,274,081	(4,274,081)	-	-	-	-	-
Interest	680,842	(680,842)	-	-	-	-	-
Total Governmental Activities	24,338,538	-	1,639,794	2,915,255	-	(19,783,489)	(19,783,489)
Total Primary Government	$ 24,338,538	$ -	$ 1,639,794	$ 2,915,255	$ -	$ (19,783,489)	$ (19,783,489)

	Governmental Activities	Total
General revenues:		
Taxes		
Income taxes	2,507,210	2,507,210
Property taxes	20,238,352	20,238,352
Other taxes	362,974	362,974
Licenses and permits	752,628	752,628
Interest and investment earnings	35,976	35,976
Miscellaneous	1,318,465	1,318,465
Total General Revenues	25,215,605	25,215,605
Transfers in (out)	-	-
Change in Net Assets	5,432,116	5,432,116
Net Assets, beginning of year - revised	24,619,590	24,619,590
Net Assets, end of year	$ 30,051,706	$ 30,051,706

The accompanying notes to these financial statements are an integral part of these statements.

CITY OF LAUREL, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Capital Projects Fund	Non-Major Fund Special Taxing District	Total Governmental Funds
ASSETS				
Equity in pooled cash and cash equivalents	$ 8,618,901	$ 1,651,447	$ -	$ 10,270,348
Restricted cash	1,622,015	-	-	1,622,015
Taxes receivable, net of allowances	1,373,808	-	-	1,373,808
Notes receivable	281,116	-	-	281,116
Other receivables	260,761	10	-	260,771
Accounts receivable - income taxes	538,763	-	-	538,763
Due from other governments	306,332	744,495	-	1,050,827
Due from other funds	608,965	-	-	608,965
Inventory	182,833	-	-	182,833
TOTAL ASSETS	$ 13,793,494	$ 2,395,952	$ -	$ 16,189,446
LIABILITIES				
Accounts payable and accrued expenses	$ 1,241,468	$ -	$ -	$ 1,241,468
Accrued interest	5,343	-	-	5,343
Deposits	1,622,015	-	-	1,622,015
Due to other funds	-	561,111	-	561,111
Deferred revenue	1,554,421	-	-	1,554,421
Deferred revenue - income taxes	538,763	-	-	538,763
TOTAL LIABILITIES	4,962,010	561,111	-	5,523,121
FUND BALANCES				
Reserved	2,475,576	1,834,841	-	4,310,417
Unreserved - designated	1,009,570	-	-	1,009,570
Unreserved, undesignated	5,346,338	-	-	5,346,338
TOTAL FUND BALANCES	8,831,484	1,834,841		10,666,325
TOTAL LIABILITIES AND FUND BALANCES	$ 13,793,494	$ 2,395,952	$ -	$ 16,189,446

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total Governmental Fund Balances	$ 10,666,325
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	34,772,186
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(17,073,649)
Deferred income tax revenues are recorded on the modified accrual basis in the fund finanical statements.	538,763
Certain receivables are offset by deferred revenue in the governmental funds since they are not available to pay for current period expenditures. This is the amount of deferred revenue related to those receivables.	1,148,081
Net Assets of Governmental Activities	$ 30,051,706

The accompanying notes to these financial statements are an integral part of these statements.

CITY OF LAUREL, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Projects Fund	Non-Major Fund Special Taxing District	Total Governmental Funds
REVENUES				
Taxes	$ 20,428,946	$ -	$ 101,381	$ 20,530,327
Intergovernmental	4,450,142	1,828,137	-	6,278,279
Licenses and permits	752,628	-	-	752,628
Charges for services	718,426	-	-	718,426
Fines and forfeitures	921,368	-	-	921,368
Miscellaneous	279,304	380,566	-	659,870
Total Revenues	27,550,814	2,208,703	101,381	29,860,898
EXPENDITURES				
Current Operations				
General government	5,310,094	-	-	5,310,094
Public safety	7,414,213	-	-	7,414,213
Parks and recreation	1,606,130	-	-	1,606,130
Public works	3,627,767	-	-	3,627,767
Miscellaneous	3,388,137	231,476	50,000	3,669,613
Capital projects	-	9,496,039	-	9,496,039
Debt Service				
Principal	2,681,798	-	-	2,681,798
Interest	680,842	-	-	680,842
Total Expenditures	24,708,981	9,727,515	50,000	34,486,496
Excess of revenues over (under) expenditures before other financing sources (uses)	2,841,833	(7,518,812)	51,381	(4,625,598)
Other financing sources (uses)				
Loan proceeds	-	3,781,703	-	3,781,703
Operating transfers in (out)	(1,365,609)	1,416,990	(51,381)	-
Total other financing sources (uses)	(1,365,609)	5,198,693	(51,381)	3,781,703
Excess of revenue and other financing sources over (under) expenditures and other financing sources (uses)	1,476,224	(2,320,119)	-	(843,895)
Fund balance, beginning of year	7,355,260	4,154,960	-	11,510,220
Fund balance, end of year	$ 8,831,484	$ 1,834,841	$ -	$ 10,666,325

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net Change in Fund Balances - Total Governmental Funds	$ (843,895)
Repayment of debt principal is reported in governmental funds, however, in the statement of activities, it is recorded as a reduction in long-term debt. This is the amount of principal debt repayment.	2,681,798
Proceeds from new debt is considered an other financing source in the governmental funds, but is recorded as an increase in long-term debt in the statement of activities. This is the amount of the proceeds from new debt.	(3,781,703)
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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	8,201,409
Increases in deferred state income taxes do not provide current financial resources and are not reported as revenues in the governmental funds.	54,489
Difference in accounting for compensated absences between modified accrual and accrual accounting.	(128,491)
Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to fianance current expenditures. Accrual-basis recognition is not limited by availability. This is the difference in revenue recorded under modified accrual and accrual basis per the Statement of Activities.	(144,733)
OPEB contributions are long-term liabilities and the related expense is not reported in the funds.	(585,000)
Loss on disposal of fixed asset	(2,290)
Other various differences between accrual accounting and modified accrual accounting.	(19,468)
Change in Net Assets of Governmental Activities	$ 5,432,116

The accompanying notes to these financial statements are an integral part of these statements.

CITY OF LAUREL, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND - PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2010

ASSETS		
Cash and cash equivalents	$	75,945
Investments, at fair value		17,543,013
Contributions receivable		-
Other assets		2,353
TOTAL ASSETS	$	17,621,311
LIABILITIES		
Accounts payable	$	212
Due to general fund		47,854
Total liabilities		48,066
NET ASSETS		
Held in trust for pension benefits		17,573,245
TOTAL LIABILITIES AND NET ASSETS	$	17,621,311

The accompanying notes to these financial statements are an integral part of these statements.

CITY OF LAUREL, MARYLAND
STATEMENT OF CHANGES IN NET ASSETS
AGENCY FUND - PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2010

ADDITIONS		
Contributions		
Employer	$	1,155,535
Plan member		556,961
Total contributions		1,712,496
Investment Income		
Interest income		669
Dividends		369,339
Net change in fair value of investments		2,183,061
Net investment income (loss)		2,553,069
Total additions		4,265,565
DEDUCTIONS		
Distributions		1,402,807
Administrative expenses		72,541
		1,475,348
Net increase		2,790,217
Net assets held in trust for pension benefits, beginning of year		14,783,028
Net assets held in trust for pension benefits, end of year	$	17,573,245

The accompanying notes to these financial statements are an integral part of these statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Laurel, Maryland, was incorporated on April 4, 1870, under the provisions of the laws of the State of Maryland. The City operates under a Mayor/Council form of government and provides the following services: general government, public safety, public works, parks and recreation. The basic financial statements include the departments, agencies, and other organizational units over which the Mayor and City Council exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statements No. 14. and No. 39. Based on those criteria, there are no component units. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the City) and activities for which the primary government is financially accountable. Financial accountability exists if a primary government appoints a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, the City's basic financial statements include the City of Laurel Police Retirement Plan, the City of Laurel Employees (Administrative and Maintenance) Retirement Plan, and all departments, funds and account groups operated by the City. The activity of the City's retirement plans is reported in the Pension Trust Fund in the accompanying basic financial statements.

The financial activities of the Laurel Volunteer Fire Department and the Laurel Volunteer Rescue Squad are not considered part of the City's reporting entity. These are separate entities for which the City is not financially accountable.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America applicable to government units.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The City's governmental funds include the General Fund and the Capital Projects Fund.

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources used for the acquisition or construction of major capital facilities.

The Special Revenue Fund accounts for financial resources of a special taxing district.

The City has one fiduciary fund. It is used to account for pension assets held by the City in a trustee capacity.

Basis of Accounting

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. The City has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This is the same approach used in the preparation of the proprietary fund financial statements, if any, but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The government-wide statement of activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the City, if any, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City. Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Separate financial statements are provided for governmental funds, proprietary funds, if any, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and enterprise financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

Governmental Funds

City activities pertaining to general government, public safety, public works, parks and recreation, and debt service are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental activities.

The major governmental funds are:

- General Fund is the City's primary operating fund. It is used to account for all financial resources except for those required to be accounted for in another fund.

- The Capital Projects Fund accounts for financial resources used for the acquisition or construction of major capital facilities.

The City has a nonmajor Special Revenue Fund to account for a special taxing district. These funds are to be used to ensure continued bus services in the District and for infrastructure operations and maintenance in the District.

Fiduciary Fund

The City has one fiduciary fund. The Pension Trust Fund is used to account for pension assets held by the City in a trustee capacity. This fund is accounted for and reported in a manner similar to proprietary funds, since capital maintenance is critical.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Budgetary Accounting and Control

The City follows these procedures in establishing the budgetary data reflected on page 51:

1. On or by May 1 of each year, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and estimates of anticipated revenue and uses of fund balance, which shall equal or exceed the total proposed expenditures.

2. Before adopting a budget, the City Council holds a public hearing to obtain taxpayer comments. Time and location of this hearing are advertised at least two weeks in advance. The Council has historically held two public hearings.

3. Prior to July 1, the budget is legally enacted through passage of an ordinance.

4. From the date of budget enactment, proposed expenditures become appropriations authorized by the City Council. Any transfer of funds between major appropriations, by the Mayor, requires approval of the City Council.

5. Formal budgetary integration is employed as a management control device during the year for the general fund. The policy established by the Mayor and City Council of Laurel, with respect to the City budget (budgetary basis), does not conform to generally accepted accounting principles (GAAP basis). The differences between budgetary and GAAP basis are shown in footnote 20.

Budget amounts are as adopted by the Mayor and City Council. Individual amendments were not material in relation to the original budgeted amounts. The department level is the level of control which may not be legally exceeded.

Unencumbered appropriations of the operating budget lapse at the end of each fiscal year. Appropriations in the capital budget continue as authority for subsequent period expenditures, and lapse in the year of completion of the capital project.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments," investments held at June 30, 2010 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Receivables at June 30, 2010 consist of real estate taxes, personal property taxes, highway user revenue, and other receivables. Taxes, special assessments, utility charges and accrued interest are deemed collectible in full.

Inventory of Supplies

Inventories, if any, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds, if any, when used.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Capital Assets and Depreciation

Capital assets consist of infrastructure, land, buildings and equipment with an initial individual cost of more than $500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost. Donated capital assets are recorded at an estimated fair value at the date of donation. In accordance with GASB No. 51, intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

Major outlays for capital assets and improvements are capitalized as projects are constructed, and costs of uncompleted projects are accumulated in construction-in-progress, which is carried at the lower of cost or market.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Infrastructure	20 years
Land improvements	15 years
Buildings and improvements	40 years
Equipment	5 – 15 years

Restricted Reserves

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

Deferred Income Tax Revenue

At June 30, 2010, the City was advised by the State of Maryland that $538,763 of the Local Tax Reserve Fund was allocable to the City. In accordance with the provision of GASB No. 33, the City recorded receivable and deferred income tax revenue in the amount of $538,763 in the fund financial statements. Changes in this amount have been reflected as current year income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

Interest Expense

Interest is expensed as incurred except when interest is incurred during the construction period and is capitalized as part of the cost of the asset.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Compensated Absences

Unused annual leave is adjusted to current salary cost at June 30. Annual leave in excess of 40 days is converted to sick leave on July 1. There is no limit on annual leave payable upon termination or retirement. The City classifies as a current liability the portion expected to be paid from expendable financial resources within the next fiscal year.

City employees are permitted to accumulate compensatory time, limited to five days, in accordance with the Fair Labor Standards Act of 1985 based on employment status. Unused compensatory time is paid to employees upon separation from service.

Personal leave is accrued and unused hours in excess of 10 hours are forfeited on July 1. The City does not reimburse employees for the accumulated personal leave upon termination or retirement. It is not practicable to estimate the portion of such amount which will ultimately be paid because payment is contingent upon future employment. Management expects the City's commitment to provide personal leave to be met during the normal course of activities over the working lives of its employees.

Sick leave is accrued based on varying factors per employee group. The City does not reimburse employees for the unused accumulated sick leave upon termination or retirement, but it may be factored into an employee's retirement benefit.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Net Assets

The government-wide statement of net assets reports $2,851,651 of restricted net assets which is either restricted by enabling legislation or restrictions determined to be legally enforceable.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Equity Classifications

Equity is classified as net assets and is displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as needed.

Prior Period Adjustment

The prior year's net assets for the governmental activities was incorrect due to accounting errors primarily pertaining to capital assets and construction in progress. In prior years, expenditures in the amount of $2,500,000 were capitalized in buildings as well as included in construction in progress. As a result, beginning net assets was decreased by $2,500,000 from $27,119,590 to $24,619,590.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Annual budgets are adopted for all City funds. The City Council may subsequently amend the budget and the budget was amended during fiscal year 2010. For day-to-day management control, expenditures may not exceed budget at the department level. The City prepares an annual operating budget on a basis not consistent with generally accepted accounting principles. Refer to footnote 20 for a reconciliation to a GAAP basis.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool.

The City's deposits are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

Pooling of Cash

The City pools all individual fund cash balances. Income is distributed to the funds based on contribution to the pool.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral valued at 102 percent of principal and accrued interest. Collateral is to be held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

At year-end, the carrying amounts of the City's deposits were $1,541,502 and the bank balances totaled $2,025,821. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC). At year end, the City's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized. Restricted cash consisted of the following at June 30, 2010:

Escrow deposits	$ 1,622,015
	$ 1,622,015

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in bankers' acceptances and commercial paper to the highest letter and numerical rating by at least one nationally recognized statistical rating organization. The Maryland Local Government Investment Pool (the Pool) is duly chartered, administered and subject to regulatory oversight by the State of Maryland. The Pool is managed in a "Rule 2(a)-7 like" manner and has an S&P rating of AAAm. The Pool was created under Maryland State Law and is regulated by the Maryland State Treasurer's Office. It is maintained exclusively to assist eligible participants, as defined by Articles 95 and 22 of the Annotated Code of Maryland. The Pool may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by Section 6-222 of the State Finance and Procurement Article. No direct investment may have a maturity date of more than 13 months after its acquisition. Securities of the Pool are valued daily on an amortized cost basis, which approximates market value, and are held to maturity under normal circumstances.

Investments in money market funds are valued at the closing net asset value per share on the day of valuation. The fair value of the position in the Pool is the same as the value of the pool net assets (shares).

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's policy is to limit its interest rate risk by primarily investing in securities with maturity dates under one year.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is to diversify its investments by security type and institution. With the exception of direct purchases of U.S. Treasury instruments, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution unless the portfolio value is less than $100,000.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City's investment policy requires that deposits must have, at all times, collateral with a market value that meets or exceeds the City's deposits with the financial institution that are not covered by deposit insurance.

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Investments

Generally, the City's investing activities are managed by the Controller and the City Council. The City has adopted an investment policy which will provide the highest reasonable investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all State and local statutes governing the investment of public funds. Permissible investments include any obligation for which the United States has pledged its full faith and credit for the payment of principal and interest; any obligation that a federal agency issues in accordance with an act of Congress; bankers' acceptance; repurchase agreements; certificates of deposit; certain money market mutual funds; the Maryland Local Government Investment Pool (MLGIP); and commercial paper. The City's policy and State law require that the underlying repurchase agreements and certificates of deposit's collateral must have a market value of at least 102 percent of the cost plus accrued interest of the investments. Investment with financial institutions chartered in a foreign country is prohibited.

The City's policy further limits the percentage of the total portfolio that can be invested in certain investment types at the date of purchase. These investment types and the maximum percentage of the portfolio that can be invested in each are: investment in the debt of other federal agencies and/or instrumentalities, 25%; bankers' acceptance, 25%; certain money market mutual funds, 25%; and MLGIP, 50%. State law places no limits on these types of investments. The City also limits its investment in commercial paper to 5%, which matches State law.

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

As of June 30, 2010, the City had the following investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings	Weighted Average Days to Maturity
MLGIP	$ 2,951,045	$ 2,951,045	AAAm	46
Repurchase agreements	4,245,089	4,245,089	N/A	1
Money market funds	1,599,427	1,599,427	AAAm	34
Certificates of Deposit:				
Fleet Reserve	550,000	550,000	N/A	210
Street Maintenance Reserve	1,000,000	1,000,000	N/A	210
	$ 10,345,561	$ 10,345,561		
Agency Fund -				
Repurchase agreements	711,389	711,389	N/A	1
Mutual funds	16,831,624	16,831,624	N/A	
	$ 17,543,013	$ 17,543,013		

Notes: 1- Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.
2- **Interest Rate Risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

A reconciliation of cash and cash equivalents per the Statement of Net Assets totaling $11,892,363 ($10,270,348 unrestricted and $1,622,015 restricted) to investments, deposits and petty cash follows.

Investments	$ 10,345,561
Deposits	1,541,502
Petty cash	5,300
	$ 11,892,363

NOTE 4 – TAXES RECEIVABLE

Taxes receivable are comprised of the following as of June 30, 2010.

Personal property	$ 180,730
Real estate	1,193,078
	$ 1,373,808

NOTE 5 – NOTES RECEIVABLE

The City has made advances to the volunteer fire department for purchases of equipment owned and used by the volunteer fire department. These advances are evidenced by signed note agreements. Detail of notes receivable at June 30, 2010 are as follows:

Entity	Interest rate at June 30, 2010	Maturity date	Repayment term	Amount due
Vol. Fire Dept.	4.21%	February, 2018	Monthly	$ 281,116
				$ 281,116

NOTE 6 – OTHER ACCOUNTS RECEIVABLE

Other accounts receivable are comprised of the following as of June 30, 2010.

Cable franchise fee	$ 130,955
Grass cutting receivable	34,961
Refuse - residential	17,819
Parks & recreation receivable	19,648
Various	57,388
	$ 260,771

NOTE 7 – LEASE AGREEMENT

On January 26, 2010 the City entered into a lease agreement to rent a piece of property. Monthly payments are due to the City in the amount of $1,650 beginning February 1, 2010 and ending January 31, 2012. However, the City did not settle on the property until June 2, 2010 and the City was paid a pro-rated amount for 28 days in June. Rental income for the year ended June 30, 2010 was $1,540.

NOTE 7 – LEASE AGREEMENT – continued

Future minimum rental income is as follows:

Year ended June 30	
2011	$ 19,800
2012	11,550
	$ 31,350

NOTE 8 – DEFERRED/UNEARNED REVENUES

Government funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds all defer revenue recognition in connection with resources that have been received but not earned.

At the end of the current fiscal year, the deferred revenues and unearned revenues reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Income taxes, General Fund	$ 538,763	$ -	$ 538,763
Property taxes, General Fund	866,965	-	866,965
Loan receivable, General Fund	281,116	-	281,116
Impact fees, General Fund	-	343,676	343,676
Other unearned revenues	-	62,664	62,664
	$ 1,686,844	$ 406,340	$ 2,093,184

NOTE 9 – INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at June 30, 2010 are as follows:

Fund	Interfund receivables	Interfund payables
General fund	$ 608,965	$ -
Capital projects fund	-	561,111
Pension trust fund	-	47,854
	$ 608,965	$ 608,965

NOTE 9 – INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES - continued

Interfund receivables and payables are utilized when payments are made on behalf of another fund. All amounts are expected to be paid within one year. The interfund receivable and payable between the general fund and the capital projects fund are eliminated in the Statement of Net Assets.

NOTE 10 – PROPERTY TAX

The City's real property tax is levied each July 1, on the assessed value for all property located within City boundaries. Real property tax revenue is recognized when received. Assessed values are established by the Maryland State Department of Assessments and Taxation based on estimates of fair market value, multiplied by that year's assessment rate. The rate per $100 of assessed value was $.71 in 2010.

Taxes are due on July 1; however, they do not become delinquent until after September 30. Property on which taxes are not paid by the following March 1, may be sold at tax sale. Current tax collections for the year ended June 30, 2010, were 99% of the levy.

The City's real property rate for the special taxing district was $.03 per $100 assessed value in 2010.

The City's personal property taxes are levied monthly by the City on a rotating basis. Assessed values are established by the Maryland State Department of Assessments and Taxation based on estimates of fair market value multiplied by that year's assessment rate. The rate per $100 of assessed value was $1.69 in 2010. Personal property tax revenue is recognized when received.

NOTE 11 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	$ 6,519,205	$ 203,575	$ 114,904	$ 6,607,876
Construction in progress	1,563,667	365,463	1,563,667	365,463
Subtotal	8,082,872	569,038	1,678,571	6,973,339
Depreciable capital assets:				
Infrastructure	19,919,311	1,348,275	628,561	20,639,025
Land improvements	2,603,458	512,444	-	3,115,902
Buildings and improvements	13,576,428	7,510,697	-	21,087,125
Machinery, tools and equipment	8,550,083	1,433,980	59,234	9,924,829
Subtotal	44,649,280	10,805,396	687,795	54,766,881
Total capital assets	52,732,152	11,374,434	2,366,366	61,740,220
Accumulated depreciation:				
Infrastructure	13,451,861	285,777	628,561	13,109,077
Land improvements	1,119,649	109,858	-	1,229,507
Buildings and improvements	5,899,383	345,773	-	6,245,156
Machinery, tools and equipment	5,688,192	753,046	56,944	6,384,294
Subtotal, accumulated depreciation	26,159,085	1,494,454	685,505	26,968,034
Net capital assets	$ 26,573,067	$ 9,879,980	$ 1,680,861	$ 34,772,186

Depreciation was charged to functions as follows:

General government	$ 179,500
Public safety	658,759
Parks and recrecation	239,470
Public works	416,725
	$ 1,494,454

The City has construction commitments of approximately $323,869 as of June 30, 2010.

NOTE 12 – LONG-TERM DEBT

General obligation bonds consist of the following at June 30, 2010:

$13,280,000 – public improvement bonds, 1996 Series A; due in annual installments of $155,000 to $1,530,000 through October 1, 2011; interest varies from 4.10% to 5.5% and is due semiannually on April 1 and October 1. Interest paid on the bonds for the year ended June 30, 2010 was $186,405. Balance due on June 30, 2010 was $2,990,000.

On November 1, 1996, the City issued $13,280,000 in bonds with a varying interest rate from 4.10% to 5.50%, A portion of the bonds advance refunded $10,875,000 of outstanding 1991 public improvements bonds with a varying interest rate from 6.25% to 7.00%. Of the $13,280,000, $12,177,200 was deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded portion of the 1991 public improvement bonds. As a result, a portion of the 1991 bonds are considered to be defeased and the associated liability has been removed from the balance sheet. The City completed the advance refunding to reduce its debt service payments over the next 16 years by $271,201 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $251,362. The bonds defeased and removed from the balance sheet consisted of 1991 public improvement bonds totaling $10,875,000, maturing in 2011, with a redemption price of 102% and a call date of July 1, 2002.

NOTE 12 – LONG-TERM DEBT – continued

Redemption

Optional Redemption

Bonds which mature on or before October 1, 2006, are not subject to redemption prior to their maturities. Bonds which mature on or after October 1, 2007, are subject to redemption commencing on October 1, 2006, as a whole at any time or in part on any interest payment date, at the option of the City, at the following redemption prices, expressed as a percentage of the principal amount of bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption:

Periods during which redeemable (both dates inclusive)	Redemption Price
October 1, 2008 and thereafter	100.00%

$8,406,000 - Public improvement bonds, 2007 Series B; due in annual installments of $599,561 to $759,105 through May 1, 2022; interest varies from 1.88% to 2.07%. The semiannual interest payments are offset by interest on the undrawn proceeds held in an escrow account by and in the name of the CDA. Interest paid on the bond for the year ended June 30, 2010 was $284,447 less interest income of $812. The outstanding principal balance and balance of undrawn proceeds on June 30, 2010 were $5,824,073 and $1,261,727 respectively.

Notes payable consists of the following at June 30, 2010:

Note payable to PNC Bank (the Bank) on behalf of the Laurel Volunteer Fire Department in the amount of $350,000 for the purchase of a new fire truck. The note is payable to the Bank in monthly principal and interest payments of $3,589 through February 12, 2018, with interest at 4.21%. Total interest paid on the note payable was $12,707. As of June 30, 2010 the outstanding principal balance is $281,116.

NOTE 12 – LONG-TERM DEBT – continued

Note payable to the Community Development Administration ("CDA"), an agency in the Division of Development Finance of the Maryland Department of Housing and Community Development ("DHCD") in the amount of $4,043,500 to finance certain infrastructure and fleet projects. The note is payable to CDA in annual principal payments ranging from $260,400 to $331,900 and semiannual interest payments with rates ranging from 2.000% to 4.375%. The semiannual interest payments are offset by interest earned on the undrawn proceeds of the note held in an escrow account by and in the name of CDA. As of June 30, 2010, the outstanding principal balance on the note is $2,398,000. Interest expense of $103,952 was incurred and paid as of June 30, 2010.

Note payable to Citizens National Bank (the Bank) in the amount of $2,500,000 to finance the purchase of a building to be used by the Laurel Police Department. The note is interest only maturing in June 2010 with interest at 3.55%. The note was amended on June 21, 2010 extending the maturity date to September 20, 2010. As of June 30, 2010, the outstanding principal balance on the note is $2,043,372. Interest paid on the note for the year ended June 30, 2010 was $74,146.

Note payable to Patuxent Greens Golf, LLC. in the amount of $515,642 for the purchase of property in the City. The note is due in two payments. The first payment of $257,821 plus accrued interest is due on January 23, 2010. The remaining balance of $257,821 plus accrued interest is due on January 23, 2011. The interest rate on the note is 7.0%. The City elected to pay the balance in full on August 4, 2009. The balance outstanding at June 30, 2010 is $0. Interest paid on the note for the year ended June 30, 2010 was $19,185.

Note payable to PNC Bank in the amount of $1,396,518 to finance the purchase of a building to be used by the Laurel Parks and Recreation Department. The note is interest only maturing in January 2011 with interest at 2.75%. As of June 30, 2010, the outstanding principal balance on the note is $1,396,518. Interest paid on the note for the year ended June 30, 2010 was $0.

NOTE 12 – LONG-TERM DEBT - continued

The changes in governmental long-term debt for the year ended June 30, 2010 are summarized below.

	Beginning Balance	Additions	Retirements	Ending Balance	Amount due in one year
General obligation bonds	$ 4,380,000	$ -	$ (1,390,000)	$ 2,990,000	$ 1,460,000
Bank loans	2,870,486	1,396,518	(545,998)	3,721,006	3,471,567
CDA loans	6,582,688	2,385,185	(745,800)	8,222,073	772,100
Total	$ 13,833,174	$ 3,781,703	$ (2,681,798)	$ 14,933,079	$ 5,703,667
Compensated absences	$ 881,079	$ 128,491	$ -	$ 1,009,570	$ -
OPEB liability	$ 546,000	$ 585,000	$ -	$ 1,131,000	$ -

The following is a schedule by years of future principal and estimated interest payments required to amortize all debt outstanding as of June 30, 2010. Estimated interest payments were based on rates in effect at June 30, 2010 and do not include the effect of interest earned on undrawn proceeds of the note payable, if any.

NOTE 12 – LONG-TERM DEBT – continued

	Bank Loans		CDA Loans (A)	
Year ended June 30,	Principal	Interest	Principal	Interest
2011	$ 3,471,567	$ 53,831	$ 772,100	$ 362,204
2012	33,029	10,034	799,900	335,929
2013	34,493	8,569	829,100	307,932
2014	35,996	7,067	861,400	249,857
2015	37,563	5,500	759,500	246,306
2016-2020	108,358	6,475	4,033,300	764,563
2021-2025	-	-	1,428,500	88,068
Total	$ 3,721,006	$ 91,476	$ 9,483,800	$ 2,354,859

	General Obligation Bonds		Total	
Year ended June 30,	Principal	Interest	Principal	Interest
2011	$ 1,460,000	$ 113,730	$ 5,703,667	$ 529,765
2012	1,530,000	38,250	2,362,929	384,213
2013	-	-	863,593	316,501
2014	-	-	897,396	256,924
2015	-	-	797,063	251,806
2016-2020	-	-	4,141,658	771,038
2021-2025	-	-	1,428,500	88,068
Total	$ 2,990,000	$ 151,980	$ 16,194,806	$ 2,598,315

(A) This payout schedule assumes the remaining $1,261,727 of undrawn proceeds are drawn down.

NOTE 13 – CONCENTRATION OF CREDIT RISK

The City derives most of its revenues from the citizens of the City. The City is located in Prince George’s County, Maryland.

NOTE 14 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and related disasters. The City is a capital member of the Local Government Insurance Trust (LGIT) sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties.

LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability, and property coverage.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During fiscal year 2010, the City paid premiums of $213,746 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any resulting from these risks, have not exceeded commercial insurance coverage in the past fiscal year.

Premiums are charged to the appropriate City's General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments for the last three fiscal years.

NOTE 15 – DEFERRED COMPENSATION PLAN

The City Council established two deferred compensation plans in accordance with Internal Revenue Code Section 457. These plans, available to all full-time and part-time employees, elected officials and auxiliary employees, permit them to defer any portion of their salary until future years. The City does not contribute to these plans.

All amounts of compensation deferred under the plans, and all related income are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plans are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, in accordance with Governmental Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for the Internal Revenue Code 457 Deferred Compensation Plan," the investments designated for compensation benefits are not reflected in the City's financial statements.

NOTE 15 – DEFERRED COMPENSATION PLAN - continued

ITT Hartford is the plan administrator and the trustee for one plan, and ING (formerly Aetna Life Insurance and Annuity Company) is the plan administrator and the trustee for the other plan.

NOTE 16 – PENSION PLAN

Plan Description

The City contributes to the City of Laurel Police Retirement Plan and the City of Laurel Employee (Administrative and Maintenance) Retirement Plan (Plans). Both Plans contain virtually the same provisions and the valuation of each of the Plans uses virtually the same assumptions. Accordingly, for ease of disclosure and understanding, they are presented here as one plan, except as indicated. The Plans are single-employer defined benefit plans which provide retirement benefits and death and disability benefits to participating employees and their beneficiaries. All full-time and part-time employees of the City must participate in the applicable Plan. A participant becomes fully vested in his or her accrued benefit after 5 years of credited service. Credited service is determined for any participant as the years and completed months during which the participant shall have been in the employment of the City. Additionally, credited service includes credited service transferred from other government employers in the State of Maryland or purchased for military service or government service anywhere in the United States, not to exceed 5 years. Administrative and Maintenance employees are eligible to receive retirement benefits as of the participant's 65th birthday and the completion of 5 years of credited service or upon the completion of 30 years of credited service regardless of age. Police employees are eligible to receive retirement benefits the earlier of the participant's 65th birthday and the completion of 5 years of credited service or upon completion of 20 years of credited service regardless of age. All participants under the Plans as of June 30, 2007, are entitled to a minimum benefit as of such date determined under the provisions of the plan then in effect. Employees may elect to receive their pension benefits in the form of a single life annuity, a period certain and continuous annuity, a joint and survivor annuity or a Social Security annuity. Administrative and Maintenance employee's normal retirement allowance consists of 1.67% of final average compensation multiplied by credited service not greater than 30 years. Police employee's normal retirement allowance consists of 2.5% of final average compensation for each of the first 20 years of credited service plus 1.5% of final average compensation for each of the next 5 years of credited service. The Plans allow the City to grant a cost of living increase to participants or beneficiaries annually. The most recent cost of living adjustment was an increase of 2.5% effective July 1, 1998.

NOTE 16 – PENSION PLAN - continued

The Plans may be amended by the City Council, and the Plans were amended as of January 1, 2005 to include provisions for a Deferred Retirement Option Plan ("DROP"). Under the DROP, participants eligible to participate may elect to defer the commencement of his or her retirement benefits from a minimum period of one year to a maximum period of seven years. The period of participation automatically ends when a participant terminates employment for any reason. Election to participate in the DROP was to end December 31, 2009, but was extended in 2009 to December 31, 2014.

Funding Policy

As a condition of employment, employees must contribute 4.5% (Administrative and Maintenance) and 8.8% (Police) of base earnings, excluding bonuses, commissions, overtime payments and other additional compensation. The City's funding policy is to make annual contributions to the Plans as calculated by the actuary in amounts sufficient to provide the benefits of the Plans. The City does not calculate a net pension obligation, but develops an annual required contribution as a percent of payroll. The annual pension cost is equal to the annual required contribution. The contribution rate applied to actual payroll is actuarially determined and consists of a normal cost component and an unfunded actuarial component. The City had annual required contributions of $1,155,535, $1,037,594, and $980,853, for the fiscal years ended June 30, 2010, 2009, and 2008. The City has made all annual required contributions. The contributions made to the Plans for fiscal year 2010 were made in accordance with the actuarial valuation for the plan year ending June 30, 2009. The contributions consisted of amounts contributed by the employees of $556,961 and amounts contributed by the City of $1,155,535.

The plans invest in mutual funds.

The number of employees covered and current membership classifications as of June 30, 2009 are as follows:

Active participants	169
Terminated vested participants	9
Retirees and beneficiaries	66
Total participants	244

Administrative and Maintenance employees are assumed to retire following the earlier of (i) attainment of age 65, or (ii) the completion of 30 years of service.

NOTE 16 – PENSION PLAN – continued

Police employees are assumed to retire based on years of service as follows:

Years of Service	Percentage Retiring
20	20.0%
21	12.5%
22	28.5%
23	40.0%
24	33.3%
25	100.0%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the accrued actuarial liability.

Actuarial valuation date:	July 1, 2009
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar
Remaining amortization period:	25 years - Police Plan
	30 years - Employee Plan
Asset valuation method:	Asset smoothing
Actuarial assumptions:	
Investment rate of return	7.5% compounded annually
Projected salary increases	5.0% compounded annually
Cost of living adjustments	0.00%
Inflation rate	3.5% compounded annually
Contribution rates:	
Police	8.8%
Employees	4.5%
Mortality: healthy lives (employees)	RP-2000 Combined Mortality Table of Males and Females
Mortality: disabled lives (employees)	Healthy life mortality set forward 10 years
Mortality: healthy lives (police)	RP-2000 Blue Collar Mortality Table of Males and Females
Mortality: disabled lives (police)	Healthy life mortality set forward 10 years

NOTE 16 – PENSION PLAN – continued

The amount shown as the "actuarial accrued liability" is a standard disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess, on a going concern basis, the funding status of the Plan to which contributions are made, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

PENSION TRUST FUND - ANALYSIS OF FUNDING

Actuarial Valuation Date July 1, 2009	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Employees Plan						
2009	$ 8,658,749	$ 12,639,873	$ 3,981,124	68.50%	$ 4,618,146	86.21%
Police Plan						
2009	9,483,321	17,018,090	7,534,769	55.72%	2,788,432	270.22%

Refer to Required Supplementary Information on page 48 for additional information regarding these plans. There are no separately issued financial statements for these plans.

NOTE 17 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City pays up to $300 per month for life for each retiree's health insurance. The retiree may use this money to obtain health insurance coverage from other carriers, or use the City's insurance provider. The City reimburses the costs for coverage for the retiree only, not dependents, for $300 of premiums per month.

Funding Policy

The City has not established an OPEB trust as of June 30, 2010 and has not made a contribution for the year ended June 30, 2010.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the Plan and the City's net OPEB obligation as of June 30, 2010.

Annual required contribution (ARC)	$ 584,000
Less: Contributions made	-
Less: NOO Amortization	(18,000)
Plus: Interest on NOO	19,000
Increase in net OPEB obligation (NOO)	585,000
Net OPEB obligation - beginning of year	546,000
Net OPEB obligation - end of year	$ 1,131,000
Percentage of annual OPEB cost contributed	0.00%

Funded Status

As of July 1, 2010, there was not an OPEB trust. The actuarial accrued liability for benefits was $6,502,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $6,502,000. The ratio of the actuarial value of assets to the actuarial accrued liability was 0%. The covered payroll (annual payroll of active employees covered under the Plan) was $10,053,543 and the ratio of the UAAL to the covered payroll was 64.67%.

NOTE 17 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) - continued

Actuarial Methods and Assumptions

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 healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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 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.

The accompanying schedules of funding progress and employer contributions following the footnotes present trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits and amounts contributed to the plan.

The actuarial method and significant assumptions listed below were used in the actuarial valuation as of July 1, 2010.

Actuarial cost method	Projected Unit Credit
Asset valuation method	Not applicable
Rate of return on investments	4.00%
Aggregate salary growth	3.50%
Healthcare cost trend rate	Medical and prescription: 8.50% for FY 2009 and 2010 trending down to 5.20% in FY 2080
Amortization method	Level percentage of projected payroll
Amortization period	30 years
Status of period	To be determined (closed or open)

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Grants

The City receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the City is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the City's management, no material refunds will be required as a result of disallowed expenditures.

Litigation

In the normal course of business the City is a defendant in several lawsuits which management is vigorously defending. No contingency has been established because neither the outcome of the cases nor the amount of an award, if any, can be determined. The City's attorney and the insurance carrier are defending these matters.

NOTE 19 – RISKS AND UNCERTAINTIES

The Plans invest in various investment securities. Investment securities are exposed to various risks such as interest risk, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

NOTE 20 – RECONCILIATION OF NON-GAAP BUDGET TO GAAP BUDGET

The financial statements and notes conform to GAAP. The budget is prepared on a basis not consistent with GAAP. The reconciliation between the non-GAAP budget and GAAP follows:

Excess of revenue over expenditures, encumbrances and other financing sources (uses) - non-GAAP budgetary basis - general fund	$ -
Increase (decrease) due to:	
Expenditures of amounts encumbered during prior year	(792,006)
Reserved encumbrances (GAAP basis) at June 30, 2010, but recognized as expenditures for budgetary purposes	633,495
Excess of revenue over expenditures and other financing sources (uses) - GAAP	$ (158,511)

NOTE 21 – FUND BALANCE REPORTING

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" is effective for the year ended June 30, 2011. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The City has not determined the financial statement effect of GASB No. 54.

CITY OF LAUREL, MARYLAND

PENSION TRUST FUND - ANALYSIS OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS - REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Actuarial Valuation Date July 1, 2009	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Employees Plan						
2009	$ 8,658,749	$ 12,639,873	$ 3,981,124	68.50%	$ 4,618,146	86.21%
2008	8,756,381	11,340,351	2,583,970	77.21%	4,016,384	64.34%
2007	8,371,476	10,541,991	2,170,515	79.41%	3,628,886	59.81%
2006	7,414,713	9,734,544	2,319,831	76.17%	3,497,546	66.33%
2005	6,736,632	9,238,960	2,502,328	72.92%	3,527,433	70.94%
2004	6,118,691	8,245,176	2,126,485	74.21%	3,034,120	70.09%
2003	5,570,783	7,332,541	1,761,758	75.97%	2,915,206	60.43%
Police Plan						
2009	9,483,321	17,018,090	7,534,769	55.72%	2,788,432	270.22%
2008	9,551,099	15,721,489	6,170,390	60.75%	2,468,075	250.01%
2007	8,804,646	15,022,820	6,218,174	58.61%	2,237,874	277.86%
2006	7,606,070	13,784,982	6,178,912	55.18%	1,982,730	311.64%
2005	6,648,724	12,026,102	5,377,378	55.29%	2,343,249	229.48%
2004	5,834,671	11,197,428	5,362,757	52.11%	2,074,954	258.45%
2003	5,200,000	9,991,988	4,791,988	52.04%	1,807,801	265.07%

The following schedule gives information on employer required contributions.

Years ended June 30,	Annual required contribution (ARC)	Percentage of ARC contributed
2010	$ 1,155,535	100.00%
2009	1,037,594	104.89%
2008	980,853	116.98%
2007	922,940	123.84%
2006	837,239	114.46%
2005	722,073	126.68%
2004	561,872	137.52%
2003	378,987	100.00%
2002	248,429	100.63%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

CITY OF LAUREL, MARYLAND

OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Actuarial Valuation Date July 1,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2010	$ -	$ 6,502,000	$ 6,502,000	0.00%	$ 10,053,543	64.67%
2009	-	6,119,000	6,119,000	0.00%	9,178,525	66.67%

Information for prior years not available

CITY OF LAUREL, MARYLAND

OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Year Ended June 30,	Annual Required Contribution (ARC)	Percentage Contributed: Employer Contribution	Percentage Contributed: Total
2010	$ 584,000	0.00%	0.00%
2009	546,000	0.00%	0.00%

Information for prior years not available.

CITY OF LAUREL, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund			
	Original Budget	**Final Budget**	**Actual**	**Variance**
Revenues				
Taxes	$ 20,360,619	$ 20,360,619	$ 20,428,946	$ 68,327
Intergovernmental	3,662,614	3,692,022	4,450,142	758,120
Licenses and permits	741,604	683,604	752,628	69,024
Charges for services	679,210	679,210	718,426	39,216
Fines and forfeitures	550,940	767,298	921,368	154,070
Miscellaneous	313,516	263,825	233,899	(29,926)
Loan repayments	43,064	43,064	45,405	2,341
Total Revenues	$ 26,351,567	$ 26,489,642	$ 27,550,814	$ 1,061,172
Expenditures				
General government	$ 5,432,425	$ 5,559,056	$ 5,310,094	$ 248,962
Public safety	7,405,302	7,510,443	7,414,213	96,230
Parks and recreation	1,696,231	1,674,325	1,606,130	68,195
Public works	4,116,489	3,804,713	3,627,767	176,946
Miscellaneous	4,713,754	4,738,739	3,388,137	1,350,602
Debt service	2,987,366	3,202,366	3,362,640	(160,274)
Total Expenditures	$ 26,351,567	$ 26,489,642	$ 24,708,981	$ 1,780,661

SUPPLEMENTAL SCHEDULES

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES				
Taxes				
Real and personal property	$ 20,145,619	$ 20,145,619	$ 20,136,971	$ (8,648)
Local - admissions	150,000	150,000	184,098	34,098
Penalties and interest	65,000	65,000	107,877	42,877
Total Taxes	20,360,619	20,360,619	20,428,946	68,327
Intergovernmental				
State and Federal Grants				
Other federal and state grants	152,057	528,456	372,244	(156,212)
Police protection	335,000	462,560	473,361	10,801
Police aid supplement	54,862	72,035	89,481	17,446
Total state and federal grants	541,919	1,063,051	935,086	(127,965)
State Shared Taxes				
Local income tax	2,000,000	2,000,000	2,452,721	452,721
Race track impact fees	50,000	50,000	15,375	(34,625)
Developer impact fees	-	-	571,319	571,319
Highway user	659,689	167,965	95,674	(72,291)
Hotel/motel taxes	200,000	200,000	178,876	(21,124)
Total state shared taxes	2,909,689	2,417,965	3,313,965	896,000
County Grants				
Financial corporations	6,362	6,362	6,362	-
M-NCPPC grants	165,644	165,644	164,903	(741)
Highway safety grant	24,000	24,000	17,506	(6,494)
Other grants	15,000	15,000	12,320	(2,680)
Total county grants	211,006	211,006	201,091	(9,915)
Total Intergovernmental	3,662,614	3,692,022	4,450,142	758,120

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Licenses and permits				
Liquor	$ 13,000	$ 13,000	$ 14,575	$ 1,575
Amusement permits	14,000	14,000	13,318	(682)
Building permits	103,750	103,750	126,908	23,158
Cable TV	270,000	270,000	310,151	40,151
Traders licenses	50,000	50,000	51,308	1,308
Rental licenses	42,000	42,000	62,505	20,505
Other permits and licenses	248,854	190,854	173,863	(16,991)
Total licenses and permits	741,604	683,604	752,628	69,024
Charges for services				
Passport execution fees	50,000	50,000	45,126	(4,874)
Zoning fees	30,000	30,000	32,035	2,035
Refuse collection	103,000	103,000	116,262	13,262
Recreation fees	424,450	424,450	401,499	(22,951)
Facility rentals	46,200	46,200	57,045	10,845
Other	25,560	25,560	66,459	40,899
Total charges for services	679,210	679,210	718,426	39,216
Fines and forfeitures				
Red light camera tickets	448,965	665,323	734,225	68,902
Parking tickets	70,000	70,000	108,663	38,663
False alarm fines	17,620	17,620	29,805	12,185
Release fee - impound	14,355	14,355	38,696	24,341
Other	-	-	9,979	9,979
Total fines and forfeitures	550,940	767,298	921,368	154,070

CITY OF LAUREL, MARYLAND
SCHEDULE OF REVENUES
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Miscellaneous				
Interest on investments	$ 191,000	$ 22,642	$ 31,203	$ 8,561
Disposal rebate	60,728	60,728	60,856	128
Other	61,788	180,455	141,840	(38,615)
Total miscellaneous	313,516	263,825	233,899	(29,926)
Loan repayments				
Fire department repayments	43,064	43,064	43,063	(1)
Rescue squad repayments	-	-	2,342	2,342
Total loan repayments	43,064	43,064	45,405	2,341
Total Revenue	$ 26,351,567	$ 26,489,642	$ 27,550,814	$ 1,061,172

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
General Government				
City council	$ 98,255	$ 96,717	$ 84,719	$ 11,998
Clerk to the council	182,482	184,913	178,965	5,948
Mayor	567,052	554,552	493,385	61,167
City administrator	532,864	522,864	512,162	10,702
Registration and elections	13,235	16,842	11,443	5,399
Budget and personnel services	688,428	631,963	626,389	5,574
Planning and zoning	995,562	903,062	876,663	26,399
Information technology and community services	1,092,081	1,306,902	1,224,507	82,395
Municipal center maintenance	518,065	576,799	569,191	7,608
Other facilities maintenance	659,806	679,847	663,919	15,928
Community promotion	84,595	84,595	68,751	15,844
Total general government	5,432,425	5,559,056	5,310,094	248,962
Public Safety				
Police department	6,888,480	7,048,558	6,980,400	68,158
Emergency services management	463,322	415,617	391,627	23,990
Police department facility	53,500	46,268	42,186	4,082
Total public safety	7,405,302	7,510,443	7,414,213	96,230
Parks and recreation				
Greenview drive	65,889	65,889	64,982	907
Parks and recreation administration	627,898	602,898	578,298	24,600
Recreation	275,516	266,954	254,580	12,374
Laurel municipal pool	149,223	153,343	151,722	1,621
Laurel community center programs	254,289	254,325	230,893	23,432
Armory programs	138,969	141,469	140,278	1,191
Gude lakehouse programs	15,164	15,164	11,575	3,589
Senior services programs	169,283	174,283	173,802	481
Total parks and recreation	1,696,231	1,674,325	1,606,130	68,195

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Public Works				
Public works administration	$ 351,624	$ 351,624	$ 350,023	$ 1,601
Automotive maintenance	853,026	748,026	655,612	92,414
Waste collection and disposal	1,324,122	1,049,122	1,029,423	19,699
Recycling	195,286	200,286	168,544	31,742
Highways and streets	480,418	464,418	452,054	12,364
Snow and ice removal	86,605	245,310	232,788	12,522
Street lighting	352,000	297,519	289,345	8,174
Engineering and technical services	185,297	180,297	176,875	3,422
Traffic engineering	172,048	152,048	162,624	(10,576)
Tree management	116,063	116,063	110,479	5,584
Total public works	4,116,489	3,804,713	3,627,767	176,946
Miscellaneous				
Retirement pension	1,175,535	1,214,125	1,162,125	52,000
Employee training	73,928	59,928	53,354	6,574
Employee tuition	6,700	4,700	3,705	995
Insurance	2,714,591	2,096,091	2,093,071	3,020
Other	743,000	1,363,895	75,882	1,288,013
Total miscellaneous	4,713,754	4,738,739	3,388,137	1,350,602
Debt Service				
Principal	2,323,157	2,538,157	2,681,798	(143,641)
Interest	664,209	664,209	680,842	(16,633)
Total debt service	2,987,366	3,202,366	3,362,640	(160,274)
Total Expenditures	$ 26,351,567	$ 26,489,642	$ 24,708,981	$ 1,780,661

CITY OF LAUREL, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Program Title/Grant Title	Federal CFDA#	Program or Award Amount	Revenue Received	Expenditures
U.S. DEPARMENT OF JUSTICE				
Office of Community Oriented Policing				
Public Safety Partnership and Community Policing - ARRA				
COPS Hiring Recovery	16.710	$ 726,411	$ 98,195	$ 98,195
COPS Other Tech	16.710	450,000	-	-
COPS Law Enforcement Tech	16.710	607,945	607,945	607,945
Total Public Safety		1,784,356	706,140	706,140
Bureau of Justice Assistance				
Edward Byrne Memorial JAG Program				
Survelliance Technology	16.738	39,727	39,579	39,579
Traffic Enforcement	16.738	19,815	19,815	19,815
Edward Byrne Memorial JAG Program - ARRA				
Law Enforcement Tech	16.803	124,994	124,994	124,994
Environmental Policing	16.804	81,961	81,961	81,961
Total Edward Byrne		266,497	266,349	266,349
TOTAL U.S. DEPARTMENT OF JUSTICE		2,050,853	972,489	972,489
DEPARTMENT OF ENERGY				
Energy Efficiency and Conservation - ARRA	81.128	93,000	93,000	93,000
TOTAL DEPARTMENT OF ENERGY		93,000	93,000	93,000
TOTAL		**$ 2,143,853**	**$ 1,065,489**	**$ 1,065,489**

CITY OF LAUREL, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 – GENERAL

The Schedule of Expenditures of Federal Awards comprises a listing of the federal revenues expended by the City during the fiscal year ended June 30, 2010. The schedule is organized by program or grant as defined by the appropriate federal or state agency responsible for distributing the funds. All programs started and/or terminated during the year and those programs which remained open during the year are included in the schedule.

NOTE 2 – BASIS OF ACCOUNTING

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

NOTE 3 – RELATIONSHIP TO FINANCIAL STATEMENTS

Federal award expenditures are reported in the City's financial statements as follows:

Grant Description	CFDA Number	FY 2010 Expenditures	
Public Safety Partnership and Community Policing -ARRA	16.710	$	706,140
Edward Byrne Memorial JAG Program	16.738		59,394
Edward Byrne Memorial JAG Program - ARRA	16.803		124,994
Edward Byrne Memorial JAG Program - ARRA	16.804		81,961
Energy Efficiency and Conservation - ARRA	81.128		93,000
Total Expenditures of Federal Awards		$	1,065,489

Single Audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2010. Single Audit testing has not previously been performed, nor was it required.

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

Honorable Mayor
Members of the City Council
City of Laurel, MD

Compliance

We have audited the City of Laurel's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the city complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

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

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

October 22, 2010

Lindsey & Associates, LLC

Lindsey + Associates LLC
Certified Public Accountants

Lindsey + Associates

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

The Honorable Members of the City Council
City of Laurel, Maryland

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laurel, Maryland (the "City"), and as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report therein dated October 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Laurel's internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Laurel's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City of Laurel's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2010-01.

Compliance and Other Matters

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

The City of Laurel's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. We did not audit the City's response and, accordingly, we express no opinion on it.

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

October 22, 2010

Lindsay & Associates, LLC

SCHEDULE OF FINDINGS AND RESPONSES
CITY OF LAUREL, MARYLAND
JUNE 30, 2010

Finding 2010-01 – Capital Asset Management

Condition:
During our audit we noted that a capital asset had inadvertently been capitalized into buildings as well as included in construction in progress for renovations on the same building.

Cause:

Management did not allow sufficient time to properly reconcile building improvements and infrastructure records. Management also did not properly delegate and work with project-managing departments. The project in question ran for multiple years, creating some confusion as to when expenditures were incurred and capitalized.

Effect:

Capital assets were overstated by $2,500,000 which resulted in a misstatement of net assets and capital assets.

Recommendation:

We recommend management reconcile expenditures relating to capital additions throughout the construction process. It is easier to reconcile while the transactions are fresh rather than waiting until the end of the project, especially if the project runs for multiple years. We also recommend management consider continuing education and training relating to the fixed asset software package.

Management Response:

Management has corrected this error in their fixed asset ledger during FY 2010. Management has also implemented additional procedures during FY 2011 for greater enforcement of asset documentation and monthly reviews of ledgers to ensure all assets are properly recorded. Management has also implemented quarterly reporting with department heads managing capital projects to ensure more timely reconciliations. Management has signed up for a training webinar with the fixed asset software provider.

CITY OF LAUREL, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Financial Statements	Summary of Auditor's Results
1. Type of auditor's report issued:	Unqualified
2. Internal controls over financial reporting:	
a. Material weaknesses identified?	Yes
b. Signficant deficiencies identified not considered to be material weaknesses?	None reported
3. Noncompliance material to financial statements noted?	No

Federal Awards

1. Internal controls over financial reporting:	
a. Material weaknesses identified?	No
b. Signficant deficiencies identified not considered to be material weaknesses?	None reported
2. Type of auditor's report issued on compliance for major programs:	Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)?	No
4. Identification of major programs:	

CFDA Number	Name of Federal Program
16.710	Public Safety Partnership and Community Policing - ARRA
16.803	Edward Byrne Memorial JAG Program - ARRA
16.804	Edward Byrne Memorial JAG Program - ARRA

5. Dollar threshold used to distinguish between Type A and Type B programs?	$ 300,000
6. Auditeee qualified as low-risk auditee?	No
7. Questioned Costs	None

CITY OF LAUREL, MARYLAND
SCHEDULE OF PRIOR YEARS' FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

NONE

CITY OF LAUREL, MARYLAND
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010

Name of contact person:	Michele Saylor Director of Budget and Personnel Services
Contact Information:	301-725-5300 ext 236
Corrective action planned and anticipated completion date:	See schedule of findings and responses.

Description and location:		St. Mary's County, Maryland's first County, straddles the mouth of the Potomac and Patuxent Rivers. It consists of 367 square miles with approximately 400 miles of shoreline. The population has increased nearly 13.5% since 1990.
Population:	102,999 (current estimate)	

The following General Fund Information is as of June 30, of the applicable fiscal year. All amounts shown below are in dollars.

Revenues:

	Total Local Taxes	Total Licenses & Permits	Total Intergov-ernmental Revenues	Total Service Charges	Total Fines & For-feitures	Total Misc.	Long Term Debt Proceeds	Total Revenues
2010	$166,405,624	$1,375,944	$10,421,672	$5,384,687	$354,628	$375,945	$230	$184,318,730
2009	$155,911,354	$1,324,802	$19,053,734	$5,450,165	$299,214	$925,311	$1,778,443	$184,743,023
2008	$151,437,550	$1,438,858	$13,946,559	$5,712,489	$287,181	$3,343,598	$1,376,541	$177,542,776
2007	$140,354,183	$1,556,009	$13,700,019	$5,977,161	$373,000	$8,618,612	$2,505,138	$173,084,122
2006	$134,820,620	$1,267,425	$14,000,126	$5,258,972	$350,397	$7,522,082	$2,048,467	$165,268,089

Expenditures:

	Total General Govt.	Total Public Safety	Total Public Works	Total Parks, Recreation and Culture	Total Com. Dev. & Public Housing	Total Economic Dev. & Opportunity	Total Debt Service	Total Miscel-laneous	Total Expendi-tures
2010	$19,168,114	$32,023,300	$8,551,095	$3,877,155	$981,314	$2,375,984	$0	$4,697,565	$168,864,966
2009	$20,030,382	$34,008,339	$8,215,494	$3,835,443	$1,366,689	$2,574,452	$0	$10,529,571	$179,158,063
2008	$19,655,375	$31,222,327	$7,048,420	$3,818,176	$1,210,838	$2,518,020	$0	$11,249,693	$165,067,380
2007	$19,069,536	$28,481,278	$10,522,716	$3,249,667	$1,140,623	$2,428,487	$0	$4,785,410	$149,194,897
2006	$21,327,794	$24,514,116	$9,354,171	$3,006,349	$902,306	$2,866,549	$0	$1,038,067	$136,439,690
2005	$15,545,119	$21,836,826	$8,076,202	$2,606,795	$811,271	$2,595,244	$0	$809,481	$121,249,753

Assets & Liabilities:

	2010	2009	2008	2007	2006
Cash and Investments	$88,635,975	$91,486,230	$81,772,634	$82,159,988	$85,855,071
Total Assets	$501,244,093	$482,386,888	$479,765,282	$469,936,311	$451,814,461
Total Liabilities & Investment in Fixed Assets	$412,461,670	$397,374,246	$389,102,133	$378,822,065	$364,880,524
Total Fund Balance		$85,012,642	$90,663,149	$91,114,246	$86,933,937
Unreserved / Undesignated Fund Balances	$12,654,647	$8,989,564	$11,088,383	$11,472,561	$14,479,802

Property Taxes and Taxes Receivable: Real Property

	Total assessed Value of Real Property	General tax rate/$100	Actual Tax Levy	Amount Collected	Current Year Balance of Taxes Receivable
2010	$10,409,986,115	0.857	$88,735,661	$84,899,175	$3,836,486
2009	$9,519,657,176	0.857	$81,127,162	$78,397,442	$2,729,720
2008	$8,939,652,042	0.857	$71,903,000	$69,969,850	$1,933,150
2007	$7,514,028,938	0.875	$63,879,525	$62,318,733	$1,560,792
2006	$6,665,206,193	0.872	$57,672,799	$56,461,159	$1,211,640

St. Mary's County cont.

Property Taxes and Taxes Receivable: Personal Property

	Total assessed Value of Personal Property	General tax rate/$100	Actual Tax Levy	Amount Collected	Current Year Balance of Taxes Receivable
2010	$6,013,816	2.1425	$128,846	$107,514	$21,332
2009	$6,595,846	2.1425	$141,316	$124,555	$16,761
2008	$8,117,200	2.1425	$173,911	$151,379	$22,532
2007	$7,365,648	2.1425	$157,809	$135,277	$22,532
2006	$7,749,771	2.18	$168,945	$146,413	$22,532

Property Taxes and Taxes Receivable: Railroads & Public Utilities Property

	Total assessed Value of Railroads & Public Utilities Property	General tax rate/$100	Actual Tax Levy	Amount Collected	Current Year Balance of Taxes Receivable
2010	$111,526,908	2.1425	$2,389,464	$2,389,464	$0
2009	$120,431,832	2.1425	$2,580,252	$2,580,252	$0
2008	$123,341,470	2.1425	$2,642,591	$2,642,591	$0
2007	$74,715,193	2.1425	$1,600,773	$1,600,773	$0
2006	$122,892,156	2.18	$2,679,049	$2,679,049	$0

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

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2010

Murphy & Murphy, CPA, LLC

The County Commissioners for St. Mary's County

June 30, 2010

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The County Commissioners for St. Mary's County

June 30, 2010

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Murphy & Murphy, CPA, LLC
Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2010, which collectively comprise the County Commissioners for St. Mary's County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's Commissioners for St. Mary's County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the St. Mary's County Public Schools, which represent 36% and 47%, respectively, of the assets and revenues of the total reporting entity. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as they relate to the amounts included for the St. Mary's County Public Schools, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2010, on our consideration of the County Commissioners for St. Mary's County, Maryland'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedules of employer contributions and funding progress for the Sheriff's Office Retirement Plan and the Retiree Health Benefit Plan on pages 3 through 15 and 109 through 111, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County Commissioners for St. Mary's County, Maryland's financial statements as a whole. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, and information schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements, and the schedules on pages 114-122 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
November 9, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Financial Report of St. Mary's County, Maryland presents a narrative overview and analysis of the financial activities of St. Mary's County Government for the fiscal year ended June 30, 2010. We encourage readers to use the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets of St. Mary's County Government exceeded its liabilities at the close of the most recent fiscal year by \$204 million (*net assets*). Approximately \$15 million, or 7.5%, is attributable to the County's enterprise funds, which include business-type activities for Solid Waste and Recycling (SW&R), Recreation and Parks recreation activities, and the Wicomico Golf Course. Approximately 26.8% of the total net assets, or \$54.6 million (*unrestricted net assets*), may be used to meet ongoing obligations to citizens and creditors. Unrestricted net assets related to governmental activities are \$54.8 million. The unrestricted net assets for the enterprise funds (*business-type activities*) reflect a deficit of \$185,555; the SW&R enterprise fund had a shortfall of \$186,852 as of June 30, 2010, compared to the shortfall as of June 30, 2009 of \$340,962. Other components of the net assets are \$36.8 million of restricted net assets and approximately \$112.5 million of net investment in capital assets. The net investment in capital assets represents the capitalized assets, net of accumulated depreciation and outstanding debt.

- The Government's overall net asset position reflects an increase of \$3.9 million over the prior year.

- As of June 30, 2010, the County's governmental funds reported combined fund balances of \$70.3 million, an increase of \$22 million over the prior year. The general fund and the capital projects fund reflected increases of \$3.8 and \$17.6 million, respectively. The fund balance for the non-major funds increased \$473,042. The County's governmental fund balances at June 30, 2010 include \$36.9 million for capital projects, \$32.5 million in general funds, and \$872,257 for the other non-major funds. The general fund balance includes \$1.5 million that is reserved, the largest components of which are encumbrances, inventory, and County funds held as required matching funds for specific grants. In addition, the general fund reflects designations of approximately \$18.4 million, including a bond rating reserve of \$11.9 million and a Rainy Day Fund of \$1.625 million. Also designated are \$3.5 million as revenue replacement to balance the operating needs of the FY2011 budget. There is also \$955,000 designated for the FY2011 Department of Public Safety budget to fund the potential replacement of equipment for the 911 system, in order to maintain functionality until the County implements a comprehensive 800MHz system upgrade, which is budgeted in future years as a capital project. The County's undesignated fund balance is approximately \$12.7 million, including both the FY2010 results as well as the prior accumulated fund balance. The County did not utilize all of its fund balance when it adopted the FY2010 budget or the FY2011 budget in order to retain resources to address State cuts in allocations to the County, and uncertainty as to the State's distributions of the County income tax revenues and the local economic environment. During FY2011, it is likely that the State will signal its long-term intentions with respect to highway user allocations, teacher pension, and other State funding allocations that might be cut or State costs that may be shifted to the County. As a part of the FY2012 budget process, the County will re-examine the longer-term prospects for revenues and allocations and may utilize the fund balance retained to soften its impact. The non-major funds are special purpose funds that correspond to special assessments, the Emergency Services Support Fund, and a revolving loan fund set up to assist volunteer fire and rescue squads in their acquisition of capital assets. The special assessments fund reflects a deficit because expenditures are incurred by the County and then are reimbursed by various entities pursuant to written agreements over varying periods of time, which correspond to the underlying asset. The increase of \$17.7 million in the capital projects fund reflects the sale of \$30 million in general obligation bonds, net of other funding sources and expenditures for capital projects.

- The business-type operating activities reflect a net increase in net assets of $338,517. Fee-based recreation activities posted an increase of $114,857. This fund is an accumulation of a large number of recreation activities, and fees will be adjusted so that the fund, over the long term, breaks even, with no significant net assets being accumulated. Fee-based solid waste and recycling activities posted an increase of $198,464, which included a general fund subsidy of $1,194,317. The intention was that, at the time that the transfer station was constructed and operational, the County would implement fee changes to better match the operational costs. As a part of the FY2011 budget process, the transfer station project was removed from the capital plan because the expanded operation could not be self-sustaining. The SW&R enterprise fund will likely continue with a significant general fund subsidy. The Wicomico Golf Course reflects a decrease of $213,560. The net assets of the Medical Adult Daycare Services Fund (MADS) increased $238,756, entirely due to the $586,396 subsidy from the General fund. This increase was planned as it was the County's intention to eliminate the accumulated deficit. Beginning in FY2011, the County terminated its operation of the MADS as a County program, and successfully transitioned it to a non-profit entity.

- At June 30, 2010, the unreserved fund balance for the general fund (primary operating fund) was $31 million, or 17.3% of general fund expenditures, excluding pass-throughs. Designated fund balance of the general fund was $18.4 million, or 59.2% of unreserved fund balance.

- Governmental activities' total general obligation indebtedness, including general obligation bonds and Water Quality loans, increased by $21.2 million during the fiscal year ended June 30, 2010. Additions were the sale of $45.6 million in General Obligation Bonds for capital projects. Payments on the debt totaled $24.4 million, of which $15.1 million was a partial refunding of the 1997 General Obligation Consolidated Public Improvement and Refund Bonds. A reduction in the amount of $400,000 was made, representing the revision of estimated post-closure costs of the landfill, and there was a net increase in the accrual for compensated absences of $5,413.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of St. Mary's County Government that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of St. Mary's County Government include general government, public safety, public works, health, social services, economic development, agricultural land preservation and recreation and parks, community services, planning and zoning, and permits and inspections. The business-type activities of St. Mary's County Government in FY2010 include the Medical Adult Daycare Services, Wicomico Golf Course, Solid Waste and Recycling Activities and the Recreation Activities, including an indoor swimming pool. Effective at the start of FY2011, the County ceased operation of the MADS. The fund's activities in FY2011 will be limited to the collection of accounts receivable that were outstanding as of June 30, 2010 as well as the payment of accounts and compensation payable, also as of June 30, 2010.

The government-wide financial statements include not only St. Mary's County Government itself (known as the *primary government*), but also legally separate component units. St. Mary's County Government has the following component units: St. Mary's County Public Schools, St. Mary's County Board of Library Trustees, the Metropolitan Commission, and the Building Authority. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 16 to 19 of this report.

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

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

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

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

St. Mary's County Government adopts an annual appropriated budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, the County's primary fund. The basic governmental fund financial statements can be found on pages 20 to 21 of this report.

Proprietary funds: Proprietary funds, also known as *Enterprise funds*, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. St. Mary's County Government uses enterprise funds to account for its Medical Adult Daycare Services, the Wicomico Golf Course, and fee-based Solid Waste and Recycling Activities and Recreation Activities. The proprietary fund financial statements can be found on pages 23 to 25 of this report.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support St. Mary's County Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary Funds are established for retiree benefit trusts, specifically the Sheriff's Office Retirement plan and the Retiree Benefit Trust of St. Mary's County, Maryland, which addresses the County's retiree health benefits. The basic fiduciary fund financial statements can be found on pages 26 to 29 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 30 to 108 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning St. Mary's County Government's progress in funding its obligations to retiree benefits. Required supplementary information can be found on pages 109 to 111 of this report. Other supplementary information can be found on pages 112 to 122.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's overall financial condition and position. In the case of St. Mary's County, assets exceeded liabilities by $204 million at the close of the current fiscal year. St. Mary's County Government's net assets are divided into three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Approximately 55.1% of the County's net assets reflect its investment in capital assets net of depreciation (e.g., land and easements, buildings, machinery, equipment, infrastructure and improvements), less any outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent 18.1% of total net assets. Restricted net assets are resources that are subject to external restrictions on how they may be used. Unrestricted net assets of the government have a balance of $54.6 million (26.8% of total net assets) which may be used to meet the government's ongoing obligations to citizens and creditors.

ST. MARY'S COUNTY GOVERNMENT'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
Current Assets	$121,001,374	$104,051,832	$ 1,758,114	$ 1,122,811	$122,759,488	$105,174,643
Other Non-Current Assets	19,096,407	20,222,377	0	0	19,096,407	20,222,377
Capital Assets, net of accumulated depreciation	209,980,936	208,027,170	17,015,781	17,309,849	226,996,717	225,337,019
Total Assets	$350,078,717	$332,301,379	$18,773,895	$18,432,660	$368,852,612	$350,734,039
LIABILITIES						
Current Liabilities	$ 28,294,185	$ 33,544,209	$ 1,783,484	$ 1,478,386	$ 30,077,669	$ 35,022,595
Non-current Liabilities	132,981,526	113,555,162	1,700,815	2,003,195	134,682,341	115,558,357
Total Liabilities	$161,275,711	$147,099,371	$ 3,484,299	$ 3,481,581	$164,760,010	$150,580,952
NET ASSETS						
Invested in Capital Assets, net of related debt	$ 97,053,622	$115,400,807	$15,475,151	$15,494,552	$112,528,773	$130,895,359
Restricted	36,888,125	19,548,718	0	0	36,888,125	19,548,718
Unrestricted	54,861,259	50,252,483	(185,555)	(543,473)	54,675,704	49,709,010
Total Net Assets	$188,803,006	$185,202,008	$15,289,596	$14,951,079	$204,092,602	$200,153,087
Total Liabilities and Net Assets	$350,078,717	$332,301,379	$18,773,895	$18,432,660	$368,852,612	$350,734,039

At June 30, 2010, St. Mary's County Government reports positive balances in all three categories of net assets as a whole.

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

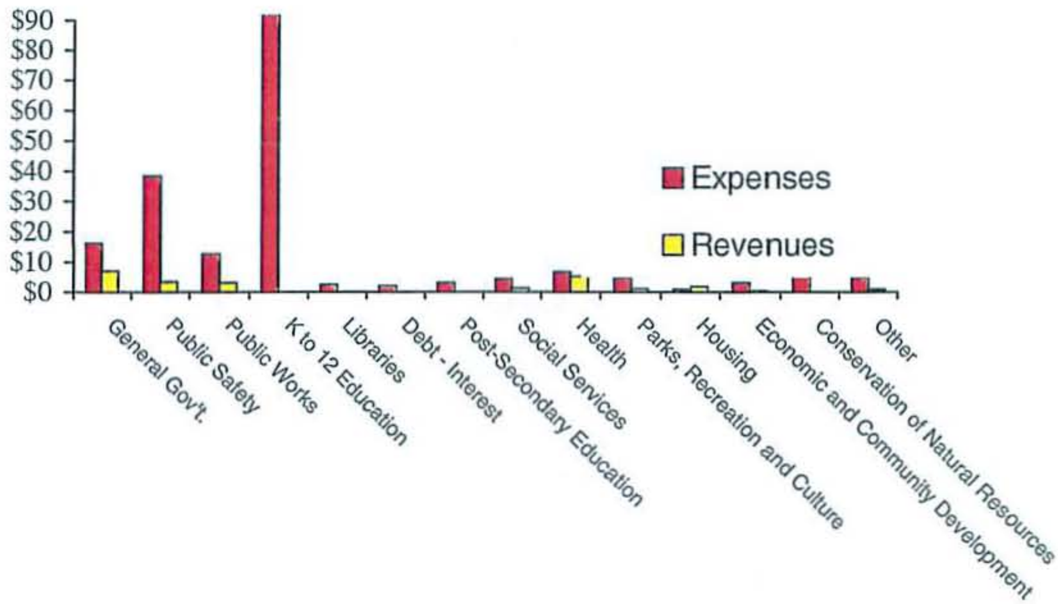
ST. MARY'S COUNTY GOVERNMENT'S CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program Revenues:						
Charges for Services	$ 10,502,278	$ 8,592,477	$ 3,810,573	$ 3,900,654	$ 14,312,851	$ 12,493,131
Environment/Solid Waste Fees	0	0	2,296,740	2,272,980	2,296,740	2,272,980
Operating Grants and Contributions	12,476,275	21,644,726	415,679	381,871	12,891,954	22,026,597
Capital Grants and Dedicated Fees or Taxes	7,552,366	2,833,220	0	0	7,552,366	2,833,220
General Revenues:						
Property Taxes	94,282,830	87,183,424	0	0	94,282,830	87,183,424
Income Taxes	65,115,901	61,471,674	0	0	65,115,901	61,471,674
Other Taxes	13,299,726	13,309,660	0	0	13,299,726	13,309,660
Investment Earnings	157,854	628,327	2,561	9,062	160,415	637,389
Subsidies to Enterprise Funds	(1,830,713)	(1,402,910)	1,830,713	1,402,910	0	0
Roads Developed by Third Parties	5,351,370	5,140,269	0	0	5,351,370	5,140,269
Exempt Financing Proceeds - Vehicles	230	1,778,443	0	0	230	1,778,443
Capital Projects Funding	0	2,624,064	0	0	0	2,624,064
Miscellaneous	203,433	146,119	46	30	203,479	146,149
Total Revenues	$207,111,550	$203,949,493	$ 8,356,312	$ 7,967,507	$215,467,862	$211,917,000
Program Expenses:						
General Government	16,115,527	15,847,731	0	0	16,115,527	15,847,731
Public Safety	38,388,910	38,256,966	0	0	38,388,910	38,256,966
Public Works	12,661,324	14,428,668	3,673,972	3,811,523	16,335,296	18,240,191
Health	6,560,335	6,991,219	0	0	6,560,335	6,991,219
Social Services	4,393,469	5,132,079	0	0	4,393,469	5,132,079
Primary and Secondary Education	92,079,469	90,733,752	0	0	92,079,469	90,733,752
Post-Secondary Education	3,094,870	2,791,419	0	0	3,094,870	2,791,419
Parks, Recreation, and Culture	4,770,725	7,858,709	4,343,823	4,599,177	9,114,548	12,457,886
Housing	981,314	1,366,689	0	0	981,314	1,366,689
Libraries	2,469,826	2,417,419	0	0	2,469,826	2,417,419
Conservation of Natural Resources	12,272,259	365,678	0	0	12,272,259	365,678
Economic Development and Opportunity	3,078,413	3,110,950	0	0	3,078,413	3,110,950
Interest on Debt	1,882,123	2,372,161	0	0	1,882,123	2,372,161
Other, principally Retirees' Health	4,761,988	10,585,404	0	0	4,761,988	10,585,404
Total Expenses	$203,510,552	$202,258,844	$ 8,017,795	$ 8,410,700	$211,528,347	$210,669,544
Increase/(Decrease) in Net Assets	3,600,998	1,690,649	338,517	(443,193)	3,939,515	1,247,456
Net Assets - Beginning	185,202,008	183,140,331	14,951,079	15,765,300	200,153,087	198,905,631
Prior Period Adjustment	0	371,028	0	(371,028)	0	0
Net Assets - Ending	$188,803,006	$185,202,008	$15,289,596	$14,951,079	$204,092,602	$200,153,087

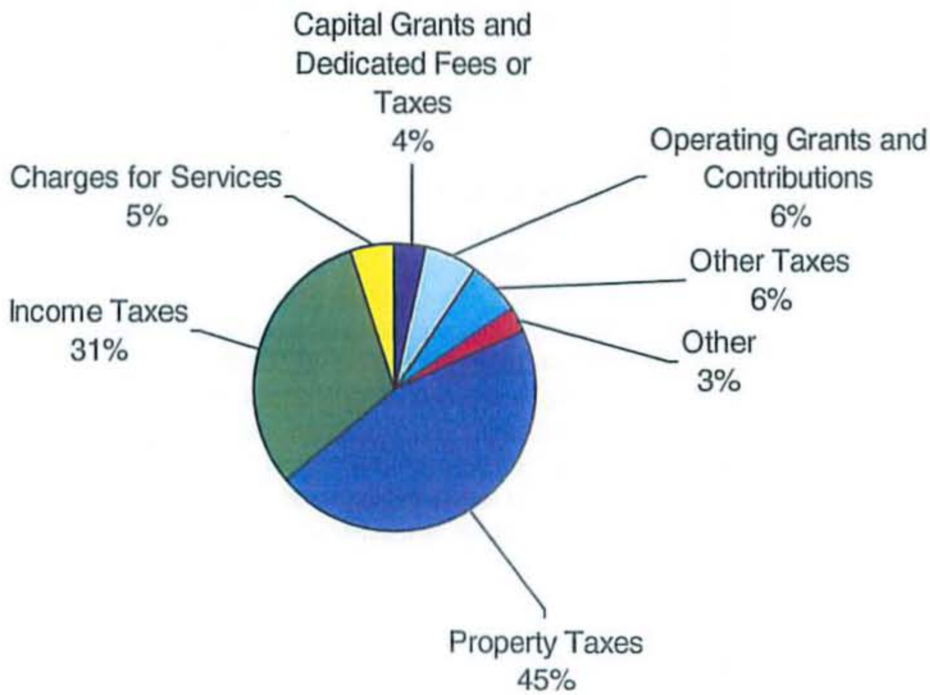
Governmental activities: Governmental activities reflected an increase in net assets of $3.6 million. The governmental funds reflected a net increase of $21.9 million, principally due to the net effect of selling $30 million in General Obligation Bonds to fund capital project costs.

Business-type activities: Business-type activities reflected an increase in net assets of $.3 million. Wicomico Golf Course fee-based activities posted a decrease while Recreation and Parks, and Solid Waste and Recycling fee-based activities posted increases. As discussed elsewhere, the Medical Adult Daycare posted an increase of $238,756, which reflects the impact of the General Fund transfer made to cover the MADS accumulated deficit through June 30, 2010, also the date that MADS ceased operating as a County-funded program.

Expenses and Program Revenues – Governmental Activities
(in millions)



Revenues By Source – Governmental Activities



Financial Analysis of the Government's Funds

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

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

As of June 30, 2010, St. Mary's County Government's governmental funds reported combined ending fund balances of $70.3 million, an increase of $22 million over the prior year. The Capital Projects fund accounts for $36.9 million of the balance and $17.7 million of the net increase. As discussed previously, this reflects the impact of selling $30 million in General Obligation Bonds to fund capital projects, all of which was consistent with the capital budget. This higher than normal level also reflects the fact that the County intended to sell bonds during FY2009, but deferred the sale due to the uncertain capital markets situation. Approximately $33.1 million, or 47.1% of this total, constitutes *unreserved fund balance*, which is available for spending at the government's discretion. Of this $33.1 million, the Board of County Commissioners has designated $4.455 million for the 2011 budget, $11.9 million for the Bond Rating reserve, and $1.625 million for the Rainy Day fund. Additionally, $1.41 million is in the Emergency Services Support Fund and the Fire and Rescue Revolving Loan Fund, both of which are identified for specific uses related to the County's volunteer fire and rescue related services. The application of fund balance to the subsequent year's budget and these designations are discussed elsewhere in this section. Reserved fund balance includes $36.2 million for capital projects as well as approximately $1.5 million committed to liquidate encumbrances, for inventories, or dedicated for a variety of restricted purposes. The reserved fund balance does not significantly affect the availability of fund resources for future use.

The general fund is the chief operating fund of St. Mary's County Government and is central to the budget process and management of current resources. At June 30, 2010, unreserved fund balance of the general fund was $31 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 17.4% of total general fund expenditures, excluding pass-throughs, while total fund balance represents 18.1% of that same amount.

In addressing the budget to actual variances, this section focuses generally on comparisons to the original approved budget. However, given the almost $4 million in State funding cuts that occurred early in FY2010, some descriptions will necessarily refer to both the original and the revised budgets. The "other supplementary information" on pages 114 through 120 reflects the original and revised budgets as well as the actual results, in more detail. During FY2010, the County also made several significant reductions to its "local revenue" estimates. The most significant was to reduce the estimate for income taxes, based on the fact that distributions made by the State were running approximately 8% behind what was needed to make the FY2010 budget, based on the collections pattern of the prior years, prompting a mid-year write-down of $5.3 million. Subsequently, the June 2010 through August 2010 distributions from the State increased by more than 30% over the prior year for the same 3-month period, which resulted in the County closing its FY2010 books having met its original income tax revenue budget for FY2010. The determination of whether this is a correction of the amount distributed by the State to St. Mary's County for prior years, due to the State's settlement process, or is the trend for FY2011 and beyond remains uncertain, and will be assessed as a part of the FY2012 budget process, since reports form the State generally received toward the end of the calendar year provide more information about the components of the income taxes. The County's property tax revenue was very close to both the original and revised budgets. Highway user revenues were cut by 95% by the State during its budget-balancing efforts in August 2009, well after the County's budget had been approved, and already into the 2010 fiscal year. This revenue source has declined significantly from almost $7 million in FY2009 to what is now an expected allocation from the State closer to $300,000. At the time that these revenue revisions were made, we also reduced the estimate for the investment income from $1.5 million down to just over $102,000, a reflection of the reduced revenues and balances on hand as well as drastically reduced rates. The County took corresponding efforts to reduce the expenses. These included delays in hiring as well as a hiring freeze, elimination of the vehicle replacement program for FY2010, and numerous other smaller reductions to department budgets. Since the allocation to the Board of Education for FY2010 exceeded the State-mandated maintenance of effort requirement by almost $6 million, the County allocation was reduced by $750,000 as well. State funding cuts included State police aid of just over $300,000; a corresponding reduction was made to the Sheriff's budget, recognizing turn-over savings due to his unfilled positions. Planned additions to the bond rating reserve were not necessary to retain the reserve at 6%, since the overall budget declined from FY2010 to FY2011. The budgeted transfer of pay-go funds was eliminated to balance the budget to the reduced revenue level.

As to the final results for FY2010, the cost-saving efforts did not end when the mid-year budget reductions were approved. In the final analysis, the County's cost-saving efforts yielded savings in personal services totaling $3 million, excluding grants (which would have a corresponding decrease in revenues). These personal services cost savings were generated by the freezing of positions, as noted previously, turn-over, which can achieve savings through lower-step placement as well as by allowing a period of time to elapse before re-filling the position, savings in health benefits due to an experience-based refund under our rating arrangement of almost $600,000, and reduced costs of workers compensation totaling almost $375,000, attributable to self-insurance and County monitoring and containment efforts started in FY2008. Actual debt service was $2.3 million less than originally budgeted, reflecting the later timing of the bond sale as well as our garnering of the lowest effective interest rates that we have had.

In addition, throughout all departments, there is an accumulation of individually smaller positive expense variances, which is a reflection of on-going efforts to save costs whenever and wherever possible. Costs associated with major weather issues were covered through internal re-alignment, cuts in other areas, and recovery from FEMA. Vehicle fuel costs were $200,000 below the original budget. Contracted services were $1.1 million less than the original budget, with the largest variances being in Elections, Animal Control, LUGM, Non-Public School Bus Transportation, and Corrections. This reflects the County's disciplined approach to budgeting, including adherence to budgeted activities, judicious review of supplemental budget requests, use of an encumbrance-based approach, continued focus on efficiency and effectiveness, and prudent fiscal management at all levels. If savings can be identified, they are not used to implement other non-budgeted items. Instead, they accrue to the County's general fund balance.

Historically, the County's philosophy is to build a budget based on sustainable levels of revenues, and use any excess generated in one year to fund non-recurring items in a subsequent budget. Given the State's budget situation as well as the general economic conditions, the FY2010 budget did not apply all of the undesignated fund balance from prior years to non-recurring costs. The same is true of the FY2011 budget. The uncertain climate and the apparent need for the State to shift more costs in order to balance its budget prompted the County to retain such reserves for a period of the next several years in order to use them to bridge the gap in revenues which are deemed temporary – what we refer to as "revenue replacement." The County is limiting its reliance on fund balance as revenue replacement to approximately $3.5 million annually. As the State budget intentions further develop and as a "new" longer-term economic pattern becomes clearer, the County will re-assess its use of fund balance for this purpose. It is expected that in the next several years, the County will return to funding recurring costs only with recurring revenues. However, maintaining the higher undesignated reserves at this time will enable us to soften the impact of further cuts or cost shifts, such as teacher pensions, allowing some additional time to implement longer-term cost reduction measures, as might be appropriate. With the low property tax rate and an income tax rate that is less than the maximum allowed by the State, the County has maintained ample capacity for revenue enhancement, should future needs arise and the circumstances warrant it. The use and application of fund balance as well as long-term additional permanent changes to expenses will be major discussion and decision items for the FY2012 and FY2013 budgets.

The fund balance of St. Mary's County Government's general fund increased by $3.8 million during the fiscal year ended June 30, 2010. The single largest component of this was the reversion of $955,000 from the capital projects fund to the general fund – pay-go funding budgeted in a land acquisition capital project that was determined to no longer be needed. The other variances are discussed previously and could generally be described as savings generated by continued belt-tightening efforts on the part of all aspects of County Government.

The capital projects fund has a total fund balance of $36.8 million, including $662,112 which has been designated in reserve, available at the direction of the Board of County Commissioners, to cover unanticipated costs, through a supplemental budgetary process. The balance of $36.2 million, which reflects the accumulated unspent balances of impact fees, recordation taxes, transfer taxes, and pay-go, has been appropriated for specific projects, but remains unspent as of June 30, 2010. These funds have been budgeted and the capital projects are in progress.

Proprietary funds: St. Mary's County Government's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, unrestricted net assets of the Wicomico Golf Course Fund reflected a deficit of $5,852. The Recreation Activities Fund reflected unrestricted net assets of $7,149, and the Solid Waste and Recycling Fund reflected a deficit of $186,852. On a combined basis, there was a $.34 million increase in unrestricted net assets. Factors concerning these funds' finances are addressed in the discussion of St. Mary's County Government's business-type activities.

General fund Budgetary Highlights

The final budget for the General fund was approximately $10.5 million less than the original budget. State cuts through in August accounted for $3.8 million of the reduction. Additionally, write-downs of income tax revenue net of the write-up of property tax revenues, as well as the write-down of recordation taxes and investment income due to lowered revenue expectations accounted for another $6.8 million. Expenditures were generally below budget, as the County managed its way through the deteriorating revenue picture through a variety of expense control measures described previously.

Capital Asset and Debt Administration

- **Capital assets:** St. Mary's County Government's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to $227 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure and land development rights. The net increase in St. Mary's County Government's investment in capital assets for the fiscal year ended June 30, 2010 was $1.7 million. It should be noted that the capital asset balances include the County's infrastructure (i.e., roads), as the County has fully implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	$31,602,570	$31,061,709	$1,078,666	$1,078,666	$32,681,236	$32,140,375
Building and Improvements	61,748,685	61,692,793	3,074,185	3,166,849	64,822,870	64,859,642
Facilities Under Construction	5,310,769	4,796,374	0	0	5,310,769	4,796,374
Solid Waste Facilities	0	0	11,522,871	11,522,871	11,522,871	11,522,871
Infrastructure	99,474,374	97,590,641	247,777	264,471	99,722,151	97,855,112
Vehicles	3,864,390	4,548,881	1,070,507	1,256,421	4,934,897	5,805,302
Equipment	7,980,148	8,336,772	21,775	20,570	8,001,923	8,357,342
	$209,980,936	$208,027,170	$17,015,781	$17,309,848	$226,996,717	$225,337,018

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

- The Emergency Equipment Shelter.
- Approximately $5.3 million in roads were added to the County system, including roads developed/constructed by third parties.
- Several park improvements were completed and capitalized in FY2010, including additional phases of Three Notch Trail, and Chancellor's Run Park improvements, totaling approximately $.644 million.
- Land purchases principally relating to future road developments were added to our capital asset base in FY2010, including the purchase of the Turner property.

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

Long-term debt: At June 30, 2010, St. Mary's County Government had the following total general obligation bonded debt, and other similar obligations outstanding, as set forth in the table below. The full faith and credit and unlimited taxing power of the County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the bonds.

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

Primary Government

	June 30, 2009	June 30, 2010	Amounts due within one year
General Obligation Bonds(GOB) – County	$ 82,200,000	$ 105,500,000	$ 8,730,000
Less: Amount Deferred on Refunding	(1,747,217)	(2,294,327)	(140,897)
Water Quality Loan	4,644,158	4,116,609	536,299
State Loans	1,905,283	1,824,278	98,749
Surplus Property Transfer of Debt	196,389	148,982	49,639
Exempt Financing (Equipment & Vehicles)	3,627,750	2,231,772	1,185,947
	$ 90,826,363	$ 111,527,314	$ 10,459,737
GOB sold on behalf of St. Mary's Hospital	$ 16,785,000	$ 15,905,000	$ 920,000

Business-Type Activities

	June 30, 2009	June 30, 2010	Amounts due within one year
Exempt Financing (Equipment)	$1,815,294	$1,540,630	$215,231

St. Mary's County Government's total general obligation bonded debt increased by a net $22.8 million, due to the issuance of $30 million new general obligation bonds in FY2010. Repayments include $880,000 for the Hospital loans; the Hospital fully reimburses the County for costs and debt service payments related thereto; the debt service is not funded by general funds of the County.

St. Mary's County Government has an "AA" rating from Fitch Ratings, an "AA" from Standard and Poors and an "Aa3" rating from Moody's Investors Service, Inc. The debt affordability guidelines for St. Mary's County Government were previously set by the Board of County Commissioners, on the advice of the County's financial advisor. The policy adopted by the Board provides that the ratio of debt to assessed value not exceed 2%, and debt service as a percent of current general fund revenue not exceed 10%. The County is well within these parameters, and monitors capital budgets and 5-year plans to ensure it remains within the limitations.

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

Economic Factors and Next Year's Budgets and Rates

- The FY2011 budget is $189.7 million, and incorporates the various State cuts and write-downs mentioned as a part of the FY2010 discussion. The property tax income is based on information provided by the State as to estimated taxable assessed value of $11.264 billion, which is 7% higher than the FY2010 estimate provided by the State. Initial billings for FY2011 are comparable to the estimates. The income taxes were written down to $60 million, based on the reduced level of the tax distributions that had been made through May 2010, when we adopted the budget, and other information then provided as to reduced numbers of filers, etc.
- Though the County may be impacted by the general and State economic situation, the activities and operations of the Patuxent Naval Air Base have a stabilizing effect. The number of jobs and related services are relatively stable, and the number and diversity of technology companies increases each year. This stability, and even modest growth for Base-related jobs, is projected to continue.
- The population growth for the County continues to be one of the highest in the State. Census 2010 figures are not yet finalized, but indicate the County exceeds 100,000 in population.
- The County ranks first in the State for growth in the labor force, 2nd in the State for average weekly wages, and consistently posts unemployment rates that are well below State averages. County median household income is 5% above the State average. These factors indicate a solid economy.
- Department of Defense capital investment within St. Mary's County continues to occur, providing a sound foundation for the County's economy.
- Tourism continues to grow and diversify, with increases in the number of visitors and hotel rooms. This reflects promotion of the County's assets through the Welcome Center and media campaigns such as Maryland's 375th. The County's accommodations tax continues to reflect strong growth.
- New mixed use development is proceeding, helping to diversify the County's tax base.

Each budget cycle includes reviews of both the operating and capital spending plans for sustainability and affordability. The County's debt policy is conservative and is a significant consideration in budget deliberations. The County has used its fund balance in the previous years to pay for capital projects, rather than borrow, and also to pre-pay its retiree health obligations. Each of these actions served to reduce future annual expenditures. While the FY2011 budget did not use fund balance for these purposes, but retained it instead to bridge the revenue gap, it is expected that after the FY2012 and FY2013 budget cycles, as the State's intentions with respect to several major funding items becomes known and as the local economic picture becomes clearer, the County will reduce its reliance on fund balance for revenue replacement and return to the use of fund balance for pre-payment of capital projects or OPEB costs.

The Board intends to continue its use of multi-year outlooks and sustainability reviews as a part of the budget process, accompanied by interim reviews of selected revenues and expenditures. It is expected that cost-saving measures will continue, including the hiring freeze. These reviews are not focused simply on the operating budget, but include the review of capital projects that can often have significant operational impacts beyond the debt service needed to repay any related borrowings. Given the State's budget situation and the economy, the Board recognizes that its plan must be scalable to accommodate the economic conditions of the near term. With conservative financial practices, continued focus on cost-saving measures during regular financial reviews, and tight expenditure controls, the County retains the flexibility and capacity to manage through these challenging times. Tax rates for FY2011 remained unchanged, and property tax rates are among the lowest in the State. Additionally, given the historical application of a 5% cap on primary residential property assessment increases, the County retains flexibility and capacity for the future, even given the potential declines in the full value assessments. However, it is the goal to manage our way through these tough times through a variety of measures. The continued focus will be to assure that adequate and sustainable resources are identified to address prioritized needs – both capital and operating – now and for the future.

Requests for Information

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
ASSETS							
Cash and cash equivalents	$78,351,142	$183,718	$78,534,860	$29,019,305	$349,280	$6,754,013	$377
Internal balances	(1,323,232)	1,323,232	0	0	0	0	0
Restricted cash and investments	0	0	0	0	138,363	0	3,346,725
Taxes receivable	4,879,092	0	4,879,092	0	0	0	0
Income tax reserve, funds held by the State	9,886,070	0	9,886,070	0	0	0	0
Due from other governments	0	0	0	6,319,944	319,140	0	220,099
Notes receivable, Fire and Rescue loans	415,479	0	415,479	0	0	0	0
Accounts receivable	11,708,315	194,551	11,902,866	2,200,046	94,177	3,509,774	619,621
Inventory	758,849	56,613	815,462	228,847	0	144,503	0
Prepaid, post-retirement benefit (OPEB)	16,171,623	0	16,171,623	0	77,944	283,984	0
Other prepaid expenses	154,036	0	154,036	25,720	0	19,051	0
Mortgages receivable from St. Mary's Hospital	15,905,000	0	15,905,000	0	0	0	0
Deferred and unamortized bond issuance costs	0	0	0	0	0	475,073	237,981
Fire and Rescue loans receivable, net of short-term portion	1,847,173	0	1,847,173	0	0	0	0
Special tax assessments receivable, net of short-term portion	1,344,234	0	1,344,234	0	0	0	0
Capital assets	333,560,444	20,894,559	354,455,003	333,624,402	4,735,453	129,443,776	8,686,544
Accumulated depreciation	(123,579,508)	(3,878,778)	(127,458,286)	(97,680,752)	(3,462,402)	(39,501,369)	(4,428,007)
Capital assets, net of accumulated depreciation	$209,980,936	$17,015,781	$226,996,717	$235,943,650	$1,273,051	$89,942,407	$4,258,537
Total Assets	$350,078,717	$18,773,895	$368,852,612	$273,737,512	$2,251,955	$101,128,805	$8,683,340

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
LIABILITIES							
Current liabilities							
Accounts payable	$3,399,170	$407,099	$3,806,269	$4,153,368	$107,838	$2,843,349	$20,000
Compensation-related liabilities	5,440,932	1,069,836	6,510,768	15,300,198	58,454	0	0
Deferred income tax distribution	9,886,070	0	9,886,070	0	0	0	0
Deferred revenue	4,174,726	297,517	4,472,243	556,631	524	253,929	0
Other liabilities	4,854,048	9,032	4,863,080	0	0	1,023,800	126,371
Due to other governments	539,239	0	539,239	39,856	0	0	0
Non-current liabilities							
Due within one year	11,417,157	215,231	11,632,388	512,732	0	1,794,780	1,190,000
Due in more than one year	121,564,369	1,485,584	123,049,953	13,532,328	118,932	20,299,694	3,965,000
Total Liabilities	$161,275,711	$3,484,299	$164,760,010	$34,095,113	$285,748	$26,215,552	$5,301,371
NET ASSETS							
Invested in capital assets, net of related debt	$97,053,622	$15,475,151	$112,528,773	$235,943,650	$1,273,051	$67,847,933	($896,463)
Restricted	36,888,125	0	36,888,125	86,126	140,420	3,765,804	3,567,201
Unrestricted	54,861,259	(185,555)	54,675,704	3,612,623	552,736	3,299,516	711,231
Total Net Assets	$188,803,006	$15,289,596	$204,092,602	$239,642,399	$1,966,207	$74,913,253	$3,381,969
Total Liabilities and Net Assets	$350,078,717	$18,773,895	$368,852,612	$273,737,512	$2,251,955	$101,128,805	$8,683,340

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

		Program Revenues			
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes	Total Revenues
General Government	$16,115,527	$5,782,227	$924,787	$0	$6,707,014
Public Safety	38,388,910	1,330,159	1,869,947	204,865	3,404,971
Public Works	12,661,324	1,227,950	2,082,308	0	3,310,258
Health	6,560,335	0	5,187,742	0	5,187,742
Social Services	4,393,469	53,970	1,175,099	0	1,229,069
Primary and Secondary Education	92,079,469	0	0	0	0
Post -Secondary Education	3,094,870	0	0	0	0
Parks, Recreation, and Culture	4,770,725	283,067	165,694	668,613	1,117,374
Libraries	2,469,826	0	0	0	0
Conservation of Natural Resources	12,272,259	0	0	6,483,450	6,483,450
Housing	981,314	967,308	812,504	0	1,779,812
Economic Development and Opportunity	3,078,413	61,562	258,194	0	319,756
Debt Interest	1,882,123	0	0	0	0
Other, principally OPEB	4,761,988	796,035	0	195,438	991,473
TOTAL GOVERNMENTAL ACTIVITIES	$203,510,552	$10,502,278	$12,476,275	$7,552,366	$30,530,919
Business - Type Activities					
Recreation Activity	$2,012,353	$2,043,518	$33,646	$0	$2,077,164
Wicomico	1,516,035	1,299,914	0	0	1,299,914
Medical Adult Daycare	815,435	85,762	382,033	0	467,795
Solid Waste/Recycling	3,673,972	2,678,119	0	0	2,678,119
TOTAL BUSINESS-TYPE ACTIVITIES	$8,017,795	$6,107,313	$415,679	$0	$6,522,992
TOTAL PRIMARY GOVERNMENT	$211,528,347	$16,609,591	$12,891,954	$7,552,366	$37,053,911
Component Units:					
Public Schools	$226,905,404	$3,721,791	$48,164,416	$8,317,221	$60,203,428
Library	3,341,044	248,026	879,477	0	1,127,503
MetCom	13,870,842	15,582,259	0	0	15,582,259
Building Authority	1,695,548	1,404,938	0	0	1,404,938
	$245,812,838	$20,957,014	$49,043,893	$8,317,221	$78,318,128

General Revenues:

Property Taxes
Income Taxes
Other - including energy, recordation and transfer taxes
Investment Earnings
Grants and Contributions Not Restricted to Specific Purposes
Subsidies to enterprise funds
Miscellaneous, principally capital projects funding
Total General Revenues

Increase/(Decrease) in Net Assets

Net Assets - Beginning
Net Assets - Ending

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Public Schools	Library	MetCom	Building Authority
($9,408,513)	$0	($9,408,513)				
(34,983,939)	0	(34,983,939)				
(9,351,066)	0	(9,351,066)				
(1,372,593)	0	(1,372,593)				
(3,164,400)	0	(3,164,400)				
(92,079,469)	0	(92,079,469)				
(3,094,870)	0	(3,094,870)				
(3,653,351)	0	(3,653,351)				
(2,469,826)	0	(2,469,826)				
(5,788,809)	0	(5,788,809)				
798,498	0	798,498				
(2,758,657)	0	(2,758,657)				
(1,882,123)	0	(1,882,123)				
(3,770,515)	0	(3,770,515)				
($172,979,633)	$0	($172,979,633)				
$0	$64,811	$64,811				
0	(216,121)	(216,121)				
0	(347,640)	(347,640)				
0	(995,853)	(995,853)				
$0	($1,494,803)	($1,494,803)	$0	$0	$0	$0
($172,979,633)	($1,494,803)	($174,474,436)				
$0	$0	$0	($166,701,976)	$0	$0	$0
0	0	0	0	(2,213,541)	0	0
0	0	0	0	0	1,711,417	0
0	0	0	0	0	0	(290,610)
$0	$0	$0	($166,701,976)	($2,213,541)	$1,711,417	($290,610)
$94,282,830	$0	$94,282,830	$0	$0	$0	$0
65,115,901	0	65,115,901	0	0	0	0
13,299,726	0	13,299,726	0	0	0	0
157,854	2,561	160,415	41,475	6,324	28,790	0
0	0	0	155,689,292	2,276,038	0	0
(1,830,713)	1,830,713	0	0	0	0	0
5,555,033	46	5,555,079	821,302	51,200	7,096,185	0
$176,580,631	$1,833,320	$178,413,951	$156,552,069	$2,333,562	$7,124,975	$0
$3,600,998	$338,517	$3,939,515	($10,149,907)	$120,021	$8,836,392	($290,610)
$185,202,008	$14,951,079	$200,153,087	$249,792,306	$1,846,186	$66,076,861	$3,672,579
$188,803,006	$15,289,596	$204,092,602	$239,642,399	$1,966,207	$74,913,253	$3,381,969

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$68,464,443	$0	$0	$68,464,443
Due from other funds	0	36,388,422	1,324,587	37,713,009
Taxes receivable	4,766,470	0	110,578	4,877,048
Income tax reserve, funds held by the State	9,886,070	0	0	9,886,070
Special tax assessments receivable	0	0	2,044	2,044
Notes receivable, Fire and Rescue loans	0	0	415,479	415,479
Accounts receivable	10,335,677	1,372,637	0	11,708,314
Inventory	758,849	0	0	758,849
Other	614,703	0	0	614,703
Fire and Rescue loans receivable, net of short-term portion	0	0	1,847,173	1,847,173
Special tax assessments receivable, net of short-term portion	0	0	1,344,234	1,344,234
Total Assets	$94,826,212	$37,761,059	$5,044,095	$137,631,366
LIABILITIES				
Accounts payable	$2,744,451	$641,532	$13,187	$3,399,170
Compensation-related liabilities	5,440,932	0	0	5,440,932
Deferred income tax distribution	9,886,070	0	0	9,886,070
Deferred revenue	322,624	244,038	3,608,064	4,174,726
Other liabilities	4,854,048	0	0	4,854,048
Due to other funds	38,485,654	0	550,587	39,036,241
Due to other governments	539,239	0	0	539,239
Total Liabilities	$62,273,018	$885,570	$4,171,838	$67,330,426
FUND BALANCES				
Reserved	$1,492,665	$36,213,377	($545,780)	$37,160,262
Unreserved, designated	18,405,882	662,112	1,418,037	20,486,031
Unreserved, undesignated	12,654,647	0	0	12,654,647
Total Fund Balances	$32,553,194	$36,875,489	$872,257	$70,300,940
Total Liabilities and Fund Balances	$94,826,212	$37,761,059	$5,044,095	$137,631,366

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Projects	Non-Major	Total
REVENUES				
Property Taxes	$94,282,830	$0	$0	$94,282,830
Income Taxes	65,115,901	0	0	65,115,901
Energy Taxes	1,392,707	0	0	1,392,707
Recordation Taxes	4,539,647	435,309	0	4,974,956
Transfer Taxes	0	4,483,543	0	4,483,543
Agricultural/Development Taxes	0	46,244	0	46,244
Impact Fees	0	3,449,344	0	3,449,344
Other Local Taxes	1,074,539	0	0	1,074,539
Highway User Revenues	356,019	0	0	356,019
Licenses and Permits	1,375,944	0	0	1,375,944
Intergovernmental	10,065,653	7,765,477	520,081	18,351,211
Charges for Services	5,384,687	0	0	5,384,687
Fines and Forfeitures	354,628	0	0	354,628
Special Assessments	0	0	195,438	195,438
Other Revenues	375,945	585,949	1,774,664	2,736,558
Sub-total	184,318,500	16,765,866	2,490,183	203,574,549
Pass-Throughs	1,052,739	0	0	1,052,739
TOTAL GENERAL FUND REVENUES	$185,371,239	$16,765,866	$2,490,183	$204,627,288
EXPENDITURES				
General Government	$19,168,114	$1,235,647	$0	$20,403,761
Public Safety	32,023,300	973,309	1,788,057	34,784,666
Public Works	8,551,095	1,649,517	0	10,200,612
Health	6,405,099	0	0	6,405,099
Social Services	4,284,540	0	0	4,284,540
Primary and Secondary Education	81,154,519	10,912,560	0	92,067,079
Post -Secondary Education	3,052,585	0	0	3,052,585
Parks, Recreation, and Culture	3,832,155	1,233,746	0	5,065,901
Libraries	2,276,038	0	0	2,276,038
Conservation of Natural Resources	382,542	11,889,717	0	12,272,259
Housing	981,314	0	0	981,314
Economic Development and Opportunity	1,991,675	0	0	1,991,675
Debt Service - Principal and Interest	10,769,086	130,000	229,084	11,128,170
Other	4,761,990	0	0	4,761,990
Sub-total	179,634,052	28,024,496	2,017,141	209,675,689
Pass-Throughs	1,052,739	0	0	1,052,739
TOTAL GENERAL FUND EXPENDITURES	$180,686,791	$28,024,496	$2,017,141	$210,728,428
Excess of Revenues Over (Under) Expenditures	$4,684,448	($11,258,630)	$473,042	($6,101,140)
OTHER FINANCING SOURCES AND USES				
Exempt financing proceeds	$230	$0	$0	$230
Proceeds from issuance of bonds	$0	$30,000,000	$0	$30,000,000
State Loans	0	35,495	0	35,495
Capital Projects - General Fund Reversion	955,000	(955,000)	0	0
Subsidies to Enterprise Funds	(1,830,713)	0	0	(1,830,713)
Other/Private Funding Sources	0	(150,061)	0	(150,061)
Total Other Financing Sources / Uses	($875,483)	$28,930,434	$0	$28,054,951
Net Increase/(Decrease) in Fund Balances	$3,808,965	$17,671,804	$473,042	$21,953,811
FUND BALANCE				
Beginning of the Year	$28,744,229	$19,203,685	$399,215	$48,347,129
End of Year	$32,553,194	$36,875,489	$872,257	$70,300,940

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

The County Commissioners for St. Mary's County
Reconciliations of the Governmental Funds to the Governmental Activities
For the Year Ended June 30, 2010

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

Fund Balance - Governmental Funds	$70,300,940
Capital assets, net of accumulated depreciation, are not reported in the Balance Sheet for Governmental Funds	209,980,936
Assets of interfunds are included in governmental activites in the statement of net assets	9,425,033
Prepaid OPEB is not reported in the Balance Sheet for governmental funds	16,172,623
Debt, including bonds, loans, capital leases and the long-term portion of compensated absences, is not reported in the Balance Sheet for Governmental Funds. The amount reflected here is net of mortgages receivable from St. Mary's Hospital of $15,905,000, but does include debt applicable to assets reported in the component unit for the Board of Education	(117,076,526)
Net Assets - Governmental Activities	$188,803,006

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

Net increase/(decrease) in fund balances - total governmental funds	$21,953,811
Depreciation expense which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(7,887,337)
Disposal of capital assets which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(32,946)
Issuance of long-term debt, excluding amounts which are offset by mortgages receivable from St. Mary's Hospital, and effect of refunding. This does include debt applicable to assets reported in the component unit for the Board of Education	(45,663,518)
Repayment of debt	25,356,939
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	9,874,049
Increase/(decrease) in net assets of governmental activities	$3,600,998

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2010

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
ASSETS					
Current assets					
Cash and cash equivalents	$0	$0	$183,718	$0	$183,718
Due from other funds	266,243	336,590	289,042	431,357	1,323,232
Accounts receivable	114,075	8,962	16,262	55,252	194,551
Inventory	0	0	56,613	0	56,613
Total Current Assets	$380,318	$345,552	$545,635	$486,609	$1,758,114
Non-current assets					
Capital assets (including capital assets transferred)	$0	$132,748	$6,417,723	$14,344,088	$20,894,559
Accumulated depreciation	0	(126,929)	(1,986,628)	(1,765,221)	(3,878,778)
Capital assets, net of accumulated depreciation	$0	$5,819	$4,431,095	$12,578,867	$17,015,781
Total Assets	$380,318	$351,371	$4,976,730	$13,065,476	$18,773,895
LIABILITIES					
Current liabilities					
Due to other funds	$0	$0	$0	$0	$0
Accounts payable	30,396	71,566	40,251	273,918	416,131
Compensation-related liabilities	349,922	83,881	321,917	314,116	1,069,836
Deferred revenue	0	182,956	114,561	0	297,517
Noncurrent Liabilities					
Due within one year	0	0	44,313	170,918	215,231
Due in more than one year	0	0	1,264,525	221,059	1,485,584
Total Liabilities	$380,318	$338,403	$1,785,567	$980,011	$3,484,299
NET ASSETS					
Invested in capital assets, net of related debt	$0	$5,819	$3,197,015	$12,272,317	$15,475,151
Unrestricted	0	7,149	(5,852)	(186,852)	(185,555)
Total Net Assets	$0	$12,968	$3,191,163	$12,085,465	$15,289,596
Total Liabilities and Net Assets	$380,318	$351,371	$4,976,730	$13,065,476	$18,773,895

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
OPERATING REVENUES					
Charges for Services	$85,762	$2,043,518	$1,299,914	$381,379	$3,810,573
Environmental/Solid Waste Fees	0	0	0	2,296,740	2,296,740
	$85,762	$2,043,518	$1,299,914	$2,678,119	$6,107,313
OPERATING EXPENSES					
Personal Services	$484,424	$1,144,916	$733,935	$969,683	$3,332,958
Operating Supplies	59,230	193,922	273,008	41,459	567,619
Professional Services	27,145	253,406	82,106	1,153,883	1,516,540
Communications	0	21,091	3,395	5,615	30,101
Transportation	166,298	3,400	32,986	62,916	265,600
Rentals	0	141,651	8,543	30,994	181,188
Public Utilities	8,521	238,685	70,286	13,747	331,239
Other Operating Costs	1,215	6,417	28,302	0	35,934
Tipping Fees	0	0	0	1,142,987	1,142,987
Retirees' Health Benefits	67,834	0	70,265	50,524	188,623
Interest Expense	0	0	70,642	13,750	84,392
Equipment	768	8,565	3,759	0	13,092
Depreciation	0	300	138,808	188,414	327,522
Total operating expenses	$815,435	$2,012,353	$1,516,035	$3,673,972	$8,017,795
Operating Income (Loss)	($729,673)	$31,165	($216,121)	($995,853)	($1,910,482)
Non-Operating Revenue					
Other, principally interest income	$0	$46	$2,561	$0	$2,607
Grants revenue	382,033	33,646	0	0	415,679
General fund subsidy	586,396	50,000	0	1,194,317	1,830,713
Increase/(Decrease) in net assets	$238,756	$114,857	($213,560)	$198,464	$338,517
NET ASSETS					
Beginning of the Year	($238,756)	($101,889)	$3,404,723	$11,887,001	$14,951,079
End of Year	$0	$12,968	$3,191,163	$12,085,465	$15,289,596

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Charges for Services	$58,076	$2,075,066	$1,293,482	$2,679,729	$6,106,353
Personal Services	(394,934)	(1,149,812)	(689,348)	(884,247)	(3,118,341)
Other Expenses	(342,804)	(849,403)	(665,472)	(2,455,111)	(4,312,790)
Net Cash Provided (Used) By Operating Activities	($679,662)	$75,851	($61,338)	($659,629)	($1,324,778)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES					
Net change in interfund loans	($288,767)	($153,543)	$128,481	($301,921)	($615,750)
Grant revenue	382,033	33,646	0	0	415,679
General Operating Subsidy	586,396	50,000	0	1,194,317	1,830,713
Net Cash Provided (Used) By Non-Capital and Related Financing Activities	$679,662	($69,897)	$128,481	$892,396	$1,630,642
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Construction / purchase of capital assets	$0	($6,000)	($27,454)	$0	($33,454)
Principal payments on long-term debt	0	0	(41,897)	(232,767)	(274,664)
Net Cash Used by Capital and Related Financing Activities	$0	($6,000)	($69,351)	($232,767)	($308,118)
CASH FLOWS FROM INVESTING ACTIVITIES					
Other, principally interest income	$0	$46	$2,561	$0	$2,607
Net Increase/(Decrease) in Cash	$0	$0	$353	$0	$353
CASH					
Beginning of Year	0	0	183,365	0	183,365
End of Year	$0	$0	$183,718	$0	$183,718

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	($729,673)	$31,165	($216,121)	($995,853)	($1,910,482)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Depreciation	$0	$300	$138,808	$188,414	$327,522
(Increase) decrease in accounts receivable	(26,294)	6,450	(575)	1,610	(18,809)
(Increase) decrease in inventory	0	0	(391)	0	(391)
Increase (decrease) in accounts payable	12,915	17,734	(14,762)	56,745	72,632
Increase (decrease) in compensation-related liabilities	64,782	(4,896)	37,560	89,455	186,901
Increase (decrease) in deferred revenue	(1,392)	25,098	(5,857)	0	17,849
Net Cash Provided (Used) By Operating Activities	($679,662)	$75,851	($61,338)	($659,629)	($1,324,778)

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES					
Total capital asset additions	$0	($6,000)	($27,454)	$0	($33,454)
Less transfer of assets from other funds	0	0	0	0	0
Net cash used for purchase of capital assets	$0	($6,000)	($27,454)	$0	($33,454)

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - SHERIFF'S OFFICE RETIREMENT PLAN
JUNE 30, 2010

	Sheriff's Office Retirement Plan
ASSETS	
Cash and cash equivalents	$3,294,629
Restricted cash and investments	31,534,373
Total Assets	$34,829,002
NET ASSETS	
Held in trust for pension benefits	$34,829,002
Total Net Assets	$34,829,002

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - SHERIFF'S OFFICE RETIREMENT PLAN
FOR THE YEAR ENDED JUNE 30, 2010

	Sheriff's Office Retirement Plan
ADDITIONS	
Contributions - Employer	$4,203,131
Contributions - Employee	919,780
	$5,122,911
Interest and Dividends	$843,477
Realized Loss	(370,517)
Net Unrealized Gain on Investments	2,451,025
	$2,923,985
Net Additions	$8,046,896
DEDUCTIONS	
Benefits	($2,089,092)
Administrative	(235,540)
Total Deductions	($2,324,632)
Increase/(Decrease) in Net Assets	$5,722,264
NET ASSETS	
Beginning of Year	29,106,738
End of Year	$34,829,002

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY, MARYLAND
JUNE 30, 2010

	Retiree Benefit Trust of St. Mary's County, Maryland
ASSETS	
Restricted cash and investments	$26,638,506
Total Assets	$26,638,506
NET ASSETS	
Held in trust for other post-employment benefits	$26,638,506
Total Net Assets	$26,638,506

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY, MARYLAND

YEAR ENDED JUNE 30, 2010

	Retiree Benefit Trust of St. Mary's County, Maryland
ADDITIONS	
Contributions to the Trust Account - Employer	$3,271,666
Payments to Retirees - Employer	1,612,124
Interest and Dividends	48,709
Net Additions	$4,932,499
DEDUCTIONS	
Benefits Paid Directly to Retirees	$1,612,124
Total Deductions	$1,612,124
Increase/(Decrease) in Net Assets	$3,320,375
NET ASSETS	
Beginning of Year	23,318,131
End of Year	$26,638,506

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

The County Commissioners for St. Mary's County

Index - Notes to Financial Statements

June 30, 2010

1. Reporting entity and summary of significant accounting policies

Reporting entity

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

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

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

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

Discretely presented component units

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

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

Discretely presented component units (continued)

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

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

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

St. Mary's County Building Authority Commission was created by the Maryland General Assembly as an instrumentality of the County to acquire title to property within St. Mary's County for construction, renovation, or rehabilitation. The Building Authority Commission currently owns and leases property to the State of Maryland. Until June 2010, they also owned and leased property to the St. Mary's Nursing Center, Inc.

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

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

St. Mary's County Public Schools
23160 Moakley Street
Leonardtown, Maryland 20650

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

St. Mary's County Building Authority Commission
41770 Baldridge Street
P.O. Box 653, Chesapeake Building
Leonardtown, Maryland 20650

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

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

Financial Statements

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

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

Government-wide Statements

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

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

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

Fund Financial Statements

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

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

Governmental Funds

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

1. General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund.

2. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds of the County are non-major funds.

3. Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The Capital Projects Fund is a major fund.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those applicable to businesses in the private sector. Proprietary (Enterprise) Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to cover similar costs.

Fiduciary Funds

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

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

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

Fiduciary Funds (continued)

statements. Additionally, the County's pension trust fund accounts for the retirement benefits for the Retiree Health Benefit Plan. Since, by definition, these assets are held for the benefit of eligible retirees and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Both are presented in the fiduciary fund financial statements.

Basis of Accounting and Measurement Focus

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

Basis of Accounting

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

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

Measurement Focus

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

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

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. The fund financial statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

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

Accounting policies

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

Fund accounting

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

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

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

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

The amount of grant funds passed through the County to Walden Sierra, Inc., Three Oaks Homeless Shelter, So. MD Tri-County Community Action Committee, and St. Mary's County Housing Authority for the fiscal year ended June 30, 2010 totaled \$1,052,739. These pass-through grants are recorded as pass-through revenues and expenditures in the amount of \$1,052,739 on the Statement of Revenues and Expenditures.

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

Budget and budgetary accounting

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

a. Prior to April 1 of each year, The County Commissioners for St. Mary's County shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

b. Public hearings are conducted to obtain taxpayer comments.

c. The budget is legally enacted through passage of an ordinance by June 1.

d. All revisions that alter the expenditures of each fund must be approved by The County Commissioners for St. Mary's County or the Chief Financial Officer.

e. Formal budgetary integration is employed as a management control device during the year for the general fund, special assessment fund and enterprise funds.

f. The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America, except that appropriations of fund balance are treated as other financing sources. Budget comparisons presented for the general fund in this report are on a non-GAAP basis. The capital projects funds' budgets are prepared on a project-length basis, and accordingly, annual budgetary comparisons are not presented in the financial statements. The enterprise funds' budgets are flexible annual operating budgets. Budgetary comparisons are not presented in the financial statements for the enterprise funds.

g. The budgeted amounts are as adopted, including amendments, by The County Commissioners for St. Mary's County.

Encumbrances

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

Cash, cash equivalents and investments

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

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

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

Cash, cash equivalents and investments (continued)

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

Long-term receivables

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

Full-time employees can earn annual leave at a rate of from 80 hours per year (one through five years of service) up to a maximum of 200 hours per year (if over twenty years of service). Leave for permanent part-time employees is prorated according to the number of hours worked.

There are no requirements that annual leave be taken; however, the maximum permissible accumulation to be carried into the new calendar year is 360 hours for full-time employees and 180 hours for permanent part-time employees. At calendar year end, any hours in excess of 360 for full-time employees and 180 hours for permanent part-time employees are deducted from the employees' annual leave balance and credited to their sick leave balance. At termination, employees are paid for any accumulated annual leave.

Full-time and permanent part-time employees earn sick leave based upon the number of hours worked, with a maximum of 120 hours earned per year. There is no limit to the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave, nor is credit provided for employees that retire on early retirements. However, at regular retirement, employees who have been employed by the County for five years are eligible to receive service credit at a rate of one month for every 160 hours of unused sick leave. Persons that are reinstated in the County service within one year from the time of their separation shall receive full credit for all sick leave accumulated at time of separation.

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

Use of estimates

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

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

Budget basis of accounting

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

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

	Net Change in Fund Balance	End of Year Fund Balance
Budgetary Basis – General Fund	$11,400,525	$30,728,818
Minor revolving funds and general financing that relate to activities resulting from fees, fines, and other revenue sources that are not an element of the budget basis reporting	77,799	734,083
Beginning of year encumbrances, rolled into FY2010	(656,776)	0
Appropriation from prior year rolled to FY2010 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2010	656,776	656,776
Budgeted use of fund balance	(8,102,876)	0
End of year encumbrances included in budget basis expenditures, not included for GAAP	433,517	433,517
GAAP Basis	$ 3,808,965	$32,553,194

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

Basis of presentation

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

Capital assets

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

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

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

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

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

Primary Government

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

Component Units

St. Mary's County Public Schools

Buildings and improvements	20-50 years
Furniture and equipment	5-15 years

Board of Library Trustees for St. Mary's County

Furnishings and equipment	5 years
Vehicles	5 years
Books	7 years

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

Capital assets (continued)

Component Units (continued)

St. Mary's County Metropolitan Commission

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

St. Mary's County Building Authority Commission

Buildings	40 years
Furniture and equipment	10 years

Inventory and prepaid expenditures

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

Long-term obligations

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

2. Deficit fund equity

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

Proprietary funds – As has been the case in prior fiscal years, the deficit in the Medical Adult Daycare Fund was again significantly reduced in FY2010 by a budget transfer from the general fund. As part of the transition of the Medical Adult Daycare program to an independent non-profit, the subsidy from the general fund was adjusted to an amount needed to bring net assets at June 30, 2010, to zero.

3. Cash, cash equivalents and investments

Primary Government

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term securities and certificates of deposit with an original maturity of three months or less.

Investments held by the County, including the pension and retiree health benefit funds, are stated at fair value. Fair value is based on quoted market prices at year end or best available estimate. All investments not required to be reported at fair value are stated at cost or amortized cost.

Article 95, Section 22 of the Annotated Code of Maryland states that local governments are authorized to invest in the instruments specified in the State Finance and Procurement Article, Section 6-222 of the Code. In addition, Article 95, Section 22 requires that local government deposits with financial institutions be fully collateralized and that the collateral be of types specified in the State Finance and Procurement Article, Section 6-202. The County is charged with the responsibility for selecting depositories and investing the idle funds as directed by the State and County Codes. The County is further restricted as to the types of deposits and investments in accordance with the County's investment policy. Depository institutions must be Maryland banks and must be approved for use by the County Commissioners.

Cash Deposits

At year end, the carrying amount of the County's deposits was $51,372,204 and the collected bank balance was $52,865,855. Of the collected bank balance, $539,762 was covered by Federal Deposit Insurance Corporation (FDIC), and $52,324,261 was covered by collateral held either in the pledging bank's trust department or by the pledging bank's agent.

Investments

Statutes authorize the County to invest in short-term United States government securities or repurchase agreements fully secured by the United States government if the funds are not needed for immediate disbursement. The stated maturities of the investments may not exceed 270 days. Statutes also authorize the County to invest in the Local Government Investment Pool established by state law. Investments are subject to approval of the County Commissioners as to the amount available for investment and the acceptable securities or financial institutions used.

3. Cash, cash equivalents and investments (continued)

Primary Government (continued)

Investments (continued)

At year end, the County's investment balances were as follows:

Investment Type		Fair Value
U.S. government securities – Cash Deposits and Treasuries		$51,382,654
Maryland Local Government Investment Pool (MLGIP)		17,265,507
Retiree Benefit Trust (OPEB) – (MLGIP)		26,638,506
Pension investments – Sheriff's Office Retirement Plan		
Cash	$3,294,629	
Fixed income		
Government and agencies	4,520,174	
Bond Funds	8,130,322	
Corporate bonds and notes	314,099	
Equity mutual funds	2,369,010	
Common stock	10,278,640	
Venture/Limited Partnership/Closely Held	5,922,128	
Subtotal – Sheriff's Office Retirement Plan		$ 34,829,002
Total investments		$130,115,669

Investments in the Maryland Local Government Investment Pool (MLGIP) are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments.

The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares.

None of the County's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

3. Cash, cash equivalents and investments (continued)

Investments (continued)

Component Units

St. Mary's County Public Schools

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of bank failure, the School System's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the School System must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2010, all of the School System's deposits were either covered by federal depository insurance or were covered by collateral held by the School System's agent in the School System's name.

Investments

Maryland *State Law* authorizes the School System to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations, or the State's sponsored investment pool.

At June 30, 2010 short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value were $21,363,889, $404,252, and $825,898 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

Board of Library Trustees for St. Mary's County

Cash deposits and investments

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

At June 30, 2010, the carrying amount of the Library's deposits was $3,331, and the bank balances totaled $2,581. The total bank balance was covered by federal deposit insurance.

Investments in the Maryland Local Government Investment Pool (MLGIP), an external investment pool, are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk.

	Carrying Amount	Market Value
Unrestricted:		
Investment in Maryland Local Government Investment Pool	$345,949	$345,949
Restricted:		
The Vanguard Group	$138,363	$138,363

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

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

None of the Library's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

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

St. Mary's County Metropolitan Commission

Deposits and investments

Deposits

The carrying amount of MetCom's deposits was $2,825,435 at June 30, 2010, and the bank balance was $2,429,954. Of the bank balances, $250,000 was covered by federal depository insurance at June 30, 2010, with the remaining $2,179,954 adequately covered by collateral. State statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Cash and cash equivalents consisted of the following:

Investments	$ 3,928,128
Cash	2,825,435
Petty cash	450
	$ 6,754,013

Investments

State statutes authorize MetCom to invest in obligations of the United States government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligations. All of the funds were invested in the Maryland Local Government Investment Pool (MLGIP) which qualifies under the statutes. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating).

Investments in the Maryland Local Government Investment Pool, an external investment pool, are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk.

None of MetCom's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

	Carrying Amount	Market Value
MLGIP	$ 3,928,128	$ 3,928,128

4. Changes in capital assets

Primary Government

A summary of changes in capital assets is as follows:

	Balance June 30, 2009	Additions	Transfers	Disposals	Balance June 30, 2010
Governmental Activities					
Capital assets not being depreciated:					
Land	$31,061,709	$540,861	$0	$0	$31,602,570
Construction In Progress	4,796,374	514,395	0	0	5,310,769
911 system & equipment	1,423,733	0	0	0	1,423,733
Total capital assets not being depreciated	$37,281,816	$1,055,256	$0	$0	$38,337,072
Capital assets being depreciated:					
Buildings & improvements	$94,155,786	$1,702,749	$0	$0	$95,858,535
Computer equipment	1,985,475	0	0	0	1,985,475
Other equipment	251,481	0	0	0	251,481
Vehicles - licensed	11,372,498	335,212	0	(786,205)	10,921,505
Off-road vehicles	1,804,022	0	10,215	0	1,814,237
Miscellaneous equipment	3,200,697	484,291	(10,215)	0	3,674,773
Roads	131,687,302	5,293,132	0	0	136,980,434
Curbing	946,791	0	0	0	946,791
Sidewalks	917,168	65,805	0	0	982,973
Guardrails	987,884	25,990	0	0	1,013,874
Airport infrastructure	4,588,593	0	0	0	4,588,593
Airport equipment	514,808	0	0	0	514,808
Baseball fields	707,680	94,990	0	0	802,670
Bridges	5,066,591	140,000	0	0	5,206,591
Parks & recreation	12,309,116	644,616	0	0	12,953,732
Marinas & docks	7,956,153	0	0	0	7,956,153
Irrigation systems	179,714	0	0	0	179,714
Signage	475,433	0	0	0	475,433
Parking lots	234,644	32,008	0	0	266,652
911 system & equipment	7,848,948	0	0	0	7,848,948
Total capital assets being depreciated	$287,190,784	$8,818,793	$0	($786,205)	$295,223,372
Accumulated depreciation for:					
Buildings & improvements	($32,462,993)	($1,646,857)	$0	$0	($34,109,850)
Computer equipment	(1,764,854)	(101,972)	0	0	(1,866,826)
Other equipment	(93,492)	(14,331)	0	0	(107,823)
Vehicles - licensed	(7,365,296)	(867,733)	0	753,259	(7,479,770)
Off-road vehicles	(1,262,343)	(119,920)	(9,319)	0	(1,391,582)
Miscellaneous equipment	(1,830,860)	(303,593)	9,319	0	(2,125,134)
Roads	(53,874,354)	(3,534,126)	0	0	(57,408,480)

4. Changes in capital assets (continued)

Primary Government (continued)

	Balance June 30, 2009	Additions	Transfers	Disposals	Balance June 30, 2010
Accumulated depreciation for: (continued)					
Curbing	($611,179)	($19,524)	$0	$0	($630,703)
Sidewalks	(385,769)	(20,589)	0	0	(406,358)
Guardrails	(370,430)	(23,181)	0	0	(393,611)
Airport infrastructure	(4,414,901)	(22,447)	0	0	(4,437,348)
Airport equipment	(514,808)	0	0	0	(514,808)
Baseball fields	(356,918)	(14,976)	0	0	(371,894)
Bridges	(2,042,236)	(103,266)	0	0	(2,145,502)
Parks & recreation	(2,311,552)	(397,381)	0	0	(2,708,933)
Marinas & docks	(3,498,811)	(255,920)	0	0	(3,754,731)
Irrigation systems	(101,317)	(3,716)	0	0	(105,033)
Signage	(372,315)	(7,975)	0	0	(380,290)
Parking lots	(126,646)	(9,707)	0	0	(136,353)
911 equipment	(2,684,356)	(420,123)	0	0	(3,104,479)
Total accumulated depreciation	($116,445,430)	($7,887,337)	$0	$753,259	($123,579,508)
Total capital assets being depreciated, net	$170,745,354	$931,456	$0	($32,946)	$171,643,864
Governmental activities capital assets, net	$208,027,170	$1,986,712	$0	($32,946)	$209,980,936
Business-type Activities:					
Capital assets not being depreciated:					
Land	$1,078,666	$0	$0	$0	$1,078,666
Construction in progress	0	0	0	0	0
Solid waste facilities	11,522,871	0	0	0	11,522,871
Total capital assets not being depreciated	$12,601,537	$0	$0	$0	$12,601,537
Capital assets being depreciated:					
Buildings & improvements	$4,324,284	$0	$0	$0	$4,324,284
Computer equipment	57,188	0	0	0	57,188
Other equipment	39,359	0	0	0	39,359
Vehicles - Licensed	1,950,623	0	0	0	1,950,623
Off-road vehicles	1,044,997	27,454	0	0	1,072,451
Miscellaneous equipment	352,106	6,000	0	(18,975)	339,131
Irrigation systems	509,986	0	0	0	509,986
Total capital assets being depreciated	$8,278,543	$33,454	$0	($18,975)	$8,293,022
Accumulated depreciation for:					
Buildings & improvements	($1,157,435)	($92,664)	$0	$0	($1,250,099)
Computer equipment	(45,949)	(2,497)	0	0	(48,446)
Other equipment	(37,856)	(130)	0	0	(37,986)
Vehicles - Licensed	(1,236,789)	(127,344)	0	0	(1,364,133)
Off-road vehicles	(502,409)	(86,025)	0	0	(588,434)
Miscellaneous equipment	(344,278)	(2,168)	0	18,975	(327,471)
Irrigation systems	(245,515)	(16,694)	0	0	(262,209)
Total accumulated depreciation	($3,570,231)	($327,522)	$0	$18,975	($3,878,778)
Total capital assets being depreciated, net	$4,708,312	($294,068)	$0	$0	$4,414,244
Business-type activities capital assets, net	$17,309,849	($294,068)	$0	$0	$17,015,781

4. Changes in capital assets (continued)

Primary Government (continued)

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

Governmental Activities	
General Government	$ 985,887
Public Safety	1,455,814
Public Works	4,443,487
Social Services	111,002
Primary and Secondary Education	6,939
Post -Secondary Education	42,285
Parks, Recreation, and Culture	644,631
Libraries	193,788
Economic Development and Opportunity	3,504
Total Depreciation - Governmental Activities	$7,887,337

Business-Type Activities	
Recreation Activity Fund	$ 300
Wicomico	138,808
Solid Waste/Recycling	188,414
Total Depreciation - Business-Type Activities	$327,522

4. Changes in capital assets (continued)

Component Units

St. Mary's County Public Schools

Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

	Balance June 30, 2009	Additions/Transfers	Deletions/Transfers	Balance June 30, 2010
Governmental activities				
Capital assets not being depreciated:				
Land	$ 2,215,095	$ 0	$ 330,198	$ 2,545,293
Land under financing agreement	330,198	0	(330,198)	0
Facilities under construction	23,457,747	4,791,060	(25,878,703)	2,370,104
	26,003,040	4,791,060	(25,878,703)	4,915,397
Capital assets being depreciated:				
Buildings and improvements	290,010,913	1,572,417	28,596,298	320,179,628
Furniture and equipment	5,651,187	873,615	473,307	6,998,109
Furniture and equipment under financing agreements	3,291,122	0	(3,291,122)	0
	298,953,222	2,446,032	25,778,483	327,177,737
Accumulated depreciation for:				
Buildings and improvements, including facilities under capital lease	(85,851,043)	(6,989,689)	0	(92,840,732)
Furniture and equipment, including equipment under financing agreements	(3,509,685)	(602,341)	97,884	(4,014,142)
	(89,360,728)	(7,592,030)	97,884	(96,854,874)
Governmental activities capital assets, net	$235,595,534	$ (354,938)	$ (2,336)	$235,238,260
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	$ 1,353,255	$ 189,793	$ (11,780)	$ 1,531,268
Accumulated depreciation for:				
Furniture and equipment	(735,764)	(101,894)	11,780	(825,878)
Business-type activities capital Assets, net	$ 617,491	$ 87,899	$ 0	$ 705,390

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Assets (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2010, as follows:

Governmental activities:	
Administration	$ 86,901
Mid-Level Administration	36,713
Other Instructional Costs	160,296
Special Education	9,621
Student Personnel Services	683
Student Transportation Services	141,119
Operation of Plant	7,152,928
Maintenance of Plant	3,769
Total governmental activities depreciation expense	$ 7,592,030
Business-type activities:	
Food Services	$ 101,894

Board of Library Trustees for St. Mary's County

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets:				
Furnishings and Equipment	$ 1,017,221	$ 25,658	$ 9,000	$ 1,033,879
Vehicles	33,102	0	0	33,102
Books	3,252,138	416,334	0	3,668,472
	$ 4,302,461	$ 441,992	$ 9,000	$ 4,735,453

4. Changes in capital assets (continued)

Component Units (continued)

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

Capital assets and depreciation (continued)

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Accumulated depreciation:				
Furnishings and Equipment	$ 888,756	$ 52,277	$ 9,000	$ 932,033
Vehicles	28,331	3,181	0	31,512
Books	2,167,099	331,758	0	2,498,857
	3,084,186	387,216	9,000	3,462,402
Net capital assets	$ 1,218,275	$ 54,776	$ 0	$ 1,273,051

Governmental activities depreciation expense of $387,216 was charged to Library services.

St. Mary's County Building Authority Commission

Capital assets

Capital assets at June 30, 2010 consisted of the following:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets:				
Nursing Home building	$ 8,846,238	$ 0	($8,846,238)	$ 0
State Office building	8,673,157	0	0	8,673,157
Furniture and equipment	13,387	0	0	13,387
	$ 17,532,782	$ 0	($8,846,238)	$ 8,686,544
Accumulated depreciation:				
Nursing Home building	4,291,916	221,156	(4,513,072)	0
State Office building	4,197,791	216,829	0	4,414,620
Furniture and equipment	13,387	0	0	13,387
	$ 8,503,094	$ 437,985	($4,513,072)	$ 4,428,007
Net capital assets	$ 9,029,688	$ 437,985	($4,333,166)	$ 4,258,537

Depreciation expense of $437,985 was charged to activities for the fiscal year ended June 30, 2010. There were no additions of capital assets during the fiscal year ended June 30, 2010.

4. Changes in capital assets (continued)

St. Mary's County Metropolitan Commission

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets:				
Utility plants	$ 79,798,675	$ 7,350,475	$ 0	$ 87,149,150
Water plant systems	19,789,857	3,719,800	0	23,509,657
Equipment	6,245,871	359,249	22,968	6,582,152
Capitalized interest	818,201	0	0	818,201
Buildings	1,461,505	0	0	1,461,505
Subtotal	108,114,109	11,429,524	22,968	119,520,665
Not being depreciated:				
Utility plant construction in process	3,581,440	5,890,053	4,581,684	4,889,809
Water plant construction in process	2,947,728	3,159,666	1,673,129	4,434,265
Land/land rights	598,037	1,000	0	599,037
	115,241,314	20,480,243	6,277,781	129,443,776
Accumulated depreciation:				
Utility plants	27,131,379	1,878,294	0	29,009,673
Water plant systems	5,136,032	593,052	0	5,729,084
Equipment	3,278,280	527,262	22,968	3,782,574
Capitalized interest	237,278	16,364	0	253,642
Buildings	671,088	55,308	0	726,396
	36,454,057	3,070,280	22,968	39,501,369
Net capital assets	$ 78,787,257	$ 17,409,963	$ 6,254,813	$ 89,942,407

Depreciation expense of $3,070,280 was charged to activities as follows:

Sewer activities	$ 2,137,343
Water activities	780,828
Engineering activities	62,965
Administrative	89,144
Total	$ 3,070,280

5. Property tax

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied each July 1, and the taxpayer has the option to pay in full without interest by September 30 or elect a semiannual payment option. If a semiannual payment option is elected, the first payment is payable without interest by September 30 and the second payment, including a service charge, is payable without interest by December 31. Interest is charged for each month or fraction thereof that taxes remain unpaid beginning October 1 on accounts under the annual payment option or January 1 for accounts under the semiannual payment option. Maryland law grants the Treasurer of St. Mary's County the power to immediately advertise and sell any real property after the taxes are delinquent for a period of one year. Property taxes are levied at rates enacted by the Commissioners in the annual budget based on the assessed value of the property as determined by the Maryland State Department of Assessments and Taxation, an agency of the government of the State of Maryland. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice and, then only after public hearings. The real property tax rate during the year ended June 30, 2010, was $.857 per $100 of assessed value based on the full valuation method. The personal property tax rate during the year ended June 30, 2010 was $2.1425 per $100 of assessed value. The County Treasurer bills and collects all property taxes.

A 100% allowance for uncollectibles is established for prior year taxes receivable. County property tax receivable as of June 30, 2010, net of the allowance for uncollectibles of $462,972, is $4,162,911 (this amount does not include state and emergency services taxes receivable). On October 1, a 3% penalty is assessed, and interest begins accruing at a rate of 1% for each month that real and personal property taxes are delinquent (unless taxpayer has elected semiannual payment option as described above).

6. Special tax assessment receivable and deferred revenue

Primary Government

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

As of June 30, 2010, the amount of delinquent special assessment receivables due from taxpayers was $600.

Component Units

St. Mary's County Public Schools

General Fund

Deferred revenue consists primarily of the retrospective insurance premium refund totaling $1,219,539 which will be collected subsequent to June 30, 2010, but is not available soon enough to pay for the current period's expenditures, and therefore is deferred. The remaining deferred revenue consists of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2010 of $341,269, and summer school tuition of $20,704 which is collected in advance of the corresponding expenditures which do not occur until the following fiscal year.

6. Special tax assessment receivable and deferred revenue (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Enterprise Fund

Deferred revenue of $89,733 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2011.

Capital Projects Fund

Deferred revenue consists of revenue received in advance from the County for expenditures associated with relocatable classrooms of $104,925.

7. Long-term obligations

Primary Government

Governmental Activities

	June 30, 2009	Additions	Deductions	Principal Repayment	June 30, 2010	Amounts due within one year
General Obligation Bonds - County	$82,200,000	$45,645,000	$15,085,000	($7,260,000)	105,500,000	$8,730,000
Water Quality Loans	4,644,158	0	0	(527,549)	4,116,609	536,299
State Loans	1,905,283	0	0	(81,005)	1,824,278	98,749
Surplus Property Transfer of Debt	196,389	0	0	(47,407)	148,982	49,639
Exempt Financing	3,627,750	0	0	(1,395,978)	2,231,772	1,185,947
	$92,573,580	$45,645,000	$15,085,000	($9,311,939)	$113,821,641	$10,600,634
General Obligation Bonds, sold on behalf of St. Mary's Hospital	$16,785,000	$0	$0	($880,000)	$15,905,000	$920,000
Landfill Post-Closure Costs	$1,800,000	$0	$400,000	$0	$1,400,000	$0
Compensated Absences (Long-Term)	4,143,799	5,413	0	0	4,149,212	37,420
	$5,943,799	$5,413	$400,000	$0	$5,549,212	$37,420
Total	$115,302,379	$45,650,413	$15,485,000	($10,191,939)	$135,275,853	$11,558,054
Less: Amount Deferred on Refunding 2002	($1,747,217)	$12,890	$0	$0	($1,734,327)	($140,897)
Less: Amount Deferred on Refunding 2009	0	0	560,000	0	(560,000)	0
Amount Reported in Statement of Net Assets	$113,555,162	$45,663,303	$16,045,000	($10,191,939)	$132,981,526	$11,417,157

Business-Type Activities

	June 30, 2009	Additions	Deductions	Principal Repayment	June 30, 2010	Amounts due within one year
Exempt Financing	$1,815,294	$0	$0	($274,664)	$1,540,630	$215,231
Compensated Absences (Long-Term)	187,901	0	(27,716)	0	160,185	0
Amount Reported in Statement of Net Assets	$2,003,195	$0	($27,716)	($274,664)	$1,700,815	$215,231

For governmental activities, compensated absences are generally liquidated by the governmental fund to which the liability relates.

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities

General obligation bonds

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

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

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

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

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

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

The bonds may be prepaid at the following premiums:

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

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

General obligation bonds (continued)

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

On March 8, 2005, the County issued General Obligation Bonds ($16,260,000 Consolidated Public Improvement Bonds). The Consolidated Public Improvement Bonds will mature on March 1, in 20 annual serial installments, beginning in the year 2006 and ending with the year 2025. Interest on the Bonds is payable semiannually on each March 1 and September 1 to maturity with an average interest rate of 3.80%.

The County has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase United States government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government-wide financial statements. As of June 30, 2010, the amount of debt outstanding removed from long-term debt amounted to $15,085,000.

On February 28, 2008, the County did a current refunding of part of the 1997 General Obligation Consolidated Public Improvement and Refunding Bonds with the same maturity date ending in fiscal year 2012 with an annual interest rate of 2.4%. The estimated savings of principal and interest are $399,579. The final payment was paid in 2010 on the 1997 General Obligation Consolidated Public Improvement and Refunding Bonds.

On November 17, 2009, the County issued General Obligation Bonds of $13,055,000 Series A Tax Exempt Bonds, $16,945,000 Series B Build America Bonds, and a $15,645,000 Series C Refunding Bond. The Bonds will mature on July 15, in 20 annual serial installments, beginning in the year 2010 and ending in the year 2030. Interest on the Bonds is payable semiannually on each January 15 and July 15 to maturity with an average interest rate of 3.09%.

The Series B, Build America Bonds, are taxable with a bi-annual credit of 35% of the interest from the Internal Revenue Service.

The Series C Refunding Bond of $15,645,000 is an advanced refunding on the 2001 General Obligation Bond, on principal payments of $15,085,000. The last payment for the un-refunded portion of the 2001 General Obligation Bond is in 2012.

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

2001 Maryland Water Quality Loan

On September 29, 2000, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed $3,338,383 for landfill post-closure costs, St. Andrews Landfill area B, cells 1, 2 and 4. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears interest at a rate of 2.4% per annum payable semiannually. Principal payments are due annually through 2016 starting February 1, 2002. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2010, based on the final loan amount of $3,225,318, are as follows:

Year Ending June 30,	Principal	Interest	Administrative Fee	Total
2011	$ 232,149	$ 32,787	$ 12,753	$ 277,689
2012	237,721	27,215	12,753	277,689
2013	243,426	0	12,753	277,689
2014	249,268	15,668	12,753	277,689
2015	255,251	9,686	12,753	277,690
2016	148,312	3,559	12,753	164,624
	$ 1,366,127	$ 110,425	$ 76,518	$ 1,553,070

2004 Maryland Water Quality Loan

On May 26, 2004, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed $4,332,759 for landfill post-closure costs, St. Andrews Landfill area B, cells 3 and 5. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears an interest rate of 1.10% per annum, payable semiannually. Principal payments are due annually through 2019 beginning February 1, 2006. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2010, based on the final loan amount of $4,222,304, are as follows:

Year Ending June 30,	Principal	Interest	Administrative Fee	Total
2011	$ 304,150	$ 30,255	$ 11,448	$ 345,853
2012	307,495	26,910	11,448	345,853
2013	310,878	23,527	11,448	345,853
2014	314,298	20,107	11,488	345,853
2015	317,755	16,650	11,448	345,853
2016-2019	1,195,906	31,262	45,792	1,272,960
	$ 2,750,482	$ 148,711	$ 103,032	$ 3,002,225

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

2006 Exempt Financing Equipment Lease

On May 25, 2006, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow $1,627,500 for the purchase of vehicles. The lease bears interest at a rate of 4.12% per annum, payable monthly through 2011. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2006 Equipment Lease (governmental activities portion only) as of June 30, 2010, based on the final lease amount of $1,627,500, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 293,350	$ 9,098	$ 302,448
	$ 293,350	$ 9,098	$ 302,448

2006 Surplus Property, Transfer of Net Debt

On June 6, 2006, The County Commissioners for St. Mary's County entered into a public school property transfer agreement with St. Mary's County Public Schools for the transfer of George Washington Carver Elementary School. With this property transfer, the County agreed to assume the total outstanding State bond debt of $368,769. As of June 30, 2010, the principal and interest payments through 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 49,639	$ 6,975	$ 56,614
2012	51,977	4,637	56,614
2013	46,159	2,189	48,348
2014	628	49	677
2015	137	21	158
2016-2018	442	33	475
	$ 148,982	$ 13,904	$ 162,886

2007 Exempt Financing Equipment Lease

On September 5, 2006, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow $1,727,000 for the purchase of vehicles and technology equipment. The lease bears interest at a rate of 4.05% per annum, payable bi-annually through 2010. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2007 Equipment Lease as of June 30, 2010, based on the final lease amount of $1,720,000, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 328,263	$ 16,854	$ 345,117
2012	169,134	3,425	172,559
	$ 497,397	$ 20,279	$ 517,676

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

2008 Exempt Financing Equipment Lease

On April 10, 2008, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow $3,155,000 for the purchase of vehicles. The lease bears interest at a rate of 2.82% per annum, payable bi-annually through 2013. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2008 Equipment Lease as of June 30, 2010, based on the final lease amount of $3,155,000, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 564,333	$ 36,686	$ 601,019
2012	580,360	20,660	601,020
2013	296,332	4,178	300,510
	$ 1,441,025	$ 61,524	$ 1,502,549

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

Long-term obligations at June 30, 2010 consist of the following:

Description	Due	Rate	Amount
MD Water Quality Loans and Other State Loans:			
Maryland Department of Natural Resources:			
Point Breeze	1993-2017	None	$ 65,136
Sandgates Road	1994-2015	None	31,160
Jefferson Island #2 and #3 Erosion Projects	1985-2015	None	12,997
Tall Timbers #2 Erosion Project	1986-2012	None	7,547
Tall Timbers #3 Erosion Project	1991-2016	None	39,493
Jefferson Island Club, Inc.	1991-2016	None	68,693
Hollywood Shores	1998-2012	None	15,693
Holly Point Shores	2008-2032	None	220,628
Maryland Water Quality Loan	2003-2016	2.4%	1,366,127
Murray Road Revetment	2004-2028	None	65,376
Maryland Water Quality Loan	2005-2019	None	2,750,482
Piney Point Lighthouse	2009-2024	None	489,555
Villas on Water Edge	2009-2029	None	390,000
North Patuxent Beach	2009-2024	None	418,000
Total state loans			$ 5,940,887
General obligation bonds:			
2001 General Obligation Bonds	2004-2012	4-5.5%	$ 2,285,000
2002 Refunding Bonds	2004-2020	3.25-5%	19,510,000
2002 St. Mary's Hospital Bonds	2006-2023	3.5-5.125%	15,905,000
2003 Public Facilities and Refunding Bonds	2006-2023	2.75-4.75%	18,700,000
Consolidated Public Improvement Bonds of 2005	2006-2025	3.75-4.25%	13,120,000
2008 Refunding Bonds	2008-2013	2.4%	6,240,000
2009 Refunding Bonds, Series A	2010-2019	2.5-4.0%	13,055,000
2009 Bonds, BAB, Series B	2020-2029	4.519%-5.7%*	16,945,000
*Rate shown does not reflect 35% rebate			
2009 Refunding Bonds, Series C	2010-2021	2-5%	15,645,000
Total general obligation bonds			$ 121,405,000
Total state loans and bonds			$ 127,345,887
Surplus property transfer of debt			148,982
Accrued landfill closure and postclosure costs			1,400,000
Exempt Financing			2,231,772
Accumulated unpaid annual leave			4,149,212
Sub-total			$ 135,275,853
Less: Amount deferred on refunding			(2,294,327)
Net			$ 132,981,526

7. Long-term obligations (continued)

Primary Government (*continued*)

Business-Type Activities

2006 Exempt Financing Equipment Lease

On May 25, 2006, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow $1,627,500 for the purchase of vehicles. The lease bears interest at a rate of 4.12% per annum, payable monthly through 2011. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2006 Equipment Lease (Business-Type portion only) as of June 30, 2010, based on the final lease amount of $1,627,500, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 59,234	$ 1,837	$ 61,071
	$ 59,234	$ 1,837	$ 61,071

2007 Exempt Financing Equipment Lease

On September 5, 2006, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow $1,720,000 for the purchase of vehicles and technology equipment. The lease bears interest at a rate of 4.05% per annum, payable bi-annually through 2012. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2007 Equipment Lease (Business-Type portion only) as of June 30, 2010, based on the final lease amount of $1,720,000 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 36,474	$ 1,873	$ 38,347
2012	18,793	381	19,174
	$ 55,267	$ 2,254	$ 57,521

2008 Exempt Financing Equipment Lease

On April 10, 2008, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow $3,155,000 for the purchase of vehicles. The lease bears interest at a rate of 2.82% per annum, payable bi-annually through 2013. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2008 Equipment Lease (Business-Type portion only) as of June 30, 2010, based on the final lease amount of $3,155,000, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 75,210	$ 4,889	$ 80,099
2012	77,346	2,753	80,099
2013	39,493	557	40,050
	$ 192,049	$ 8,199	$ 200,248

7. Long-term obligations (continued)

Primary Government (continued)

Business-Type Activities (continued)

Wicomico Shores Improvement Bond of 2007

On June 29, 2007, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow $1,350,000 for the renovation of the Wicomico Shores Clubhouse. The loan bears interest at a rate of 5.62% per annum, payable monthly through 2028. The annual requirements to amortize the Wicomico Shores Improvement Bond of 2007 as of June 30, 2010, based on the final loan amount of $1,350,000, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 44,313	$ 68,225	$ 112,538
2012	46,871	65,668	112,539
2013	49,572	62,967	112,539
2014	52,451	60,088	112,539
2015	55,454	57,085	112,539
2016-2020	329,072	233,621	562,693
2021-2025	435,584	127,109	562,693
2026-2028	220,763	13,692	234,455
	$ 1,234,080	$ 688,455	$ 1,922,535

7. Long-term obligations (continued)

Primary Government (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2010 is composed of the following loans payable to the Maryland Department of Natural Resources:

Hollywood Shores, Shore Erosion Control Project, payable in fifteen annual installments of $7,846, without interest, guaranteed by the full faith and credit of the County.	$ 15,693
Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of $7,547, without interest, guaranteed by the full faith and credit of the County.	7,547
Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of $6,582, without interest, guaranteed by the full faith and credit of the County.	39,493
Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of $10,109, without interest, modified during fiscal year 1993 to eighteen varying annual payments without interest, guaranteed by the full faith and credit of the County.	12,997
Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of $11,040, without interest, modified during fiscal year 1993 to twenty-two varying annual payments without interest, guaranteed by the full faith and credit of the County.	68,693
Holly Point Shore Erosion Control, originally payable in twenty-five annual installments of $10,029 without interest, guaranteed by the full faith and credit of the County.	220,628
	$365,051

7. Long-term obligations (continued)

Primary Government (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2010, including interest of $37,737,765, except for the accrued landfill closure and postclosure costs, accumulated unpaid leave benefits, exempt financing, surplus property debt and Maryland Water Quality Loans, are as follows:

	Governmental Activities		
Years Ending June 30,	Principal	Interest	Total
2011	$9,748,749	$4,840,162	$14,588,911
2012	8,899,189	4,330,156	13,229,345
2013	9,206,221	4,010,857	13,217,078
2014	7,450,348	3,713,001	11,163,349
2015	7,705,225	3,437,351	11,142,576
2016-2020	42,989,889	12,329,324	55,319,213
2021-2025	27,843,881	4,218,597	32,062,478
2026-2030	9,345,553	858,317	10,203,870
2031-2032	40,223	0	40,223
Total	$123,229,278	$37,737,765	$160,967,043

A summary of the totals above by debt type is as follows:

	General Obligation Bonds	Hospital Bonds	State Loans	Special Assessment Fund	Total
Principal	$ 105,500,000	$ 15,905,000	$ 1,459,227	$ 365,051	$ 123,229,278
Interest	31,799,319	5,938,446	-	0	37,737,765
	$ 137,299,319	$ 21,843,446	$ 1,459,227	$ 365,051	$ 160,967,043

7. Long-term obligations (continued)

Component Units

St. Mary's County Public Schools

Long-term Liabilities

During the year ended June 30, 2010, the School System used previous years accumulated fund balance to pay off all of its financing agreement obligations. General long-term debt at June 30, 2010, consists of accumulated compensated absences payable and net OPEB obligation. The following is a summary of changes in the School System's general long-term liabilities for the year ended June 30, 2010.

	Balance June 30, 2009	Additions	Deductions/ Maturities	Balance June 30, 2010	Amounts due Within one year
Governmental activities:					
Financing agreements					
Office facility construction	$ 3,421,250	$ 0	($3,421,250)	$ 0	$ 0
School buses and related equipment	184,090	0	(184,090)	0	0
Computer equipment	704,340	0	(704,340)	0	0
Vehicles	126,225	0	(126,225)	0	0
	$ 4,435,905	$ 0	($4,435,905)	$ 0	$ 0
Other long-term liabilities:					
Compensated absences	$ 3,591,221	$ 710,519	($ 353,181)	$ 3,948,559	$ 504,636
Net OPEB obligation	2,625,870	7,368,770	0	9,994,640	0
Governmental activities:					
Long-term liabilities	$10,652,996	$ 8,079,289	($4,789,086)	$13,943,199	$ 504,636
Business-type activities:					
Other long-term liabilities:					
Compensated absences	$ 91,847	$ 17,431	($ 7,417)	$ 101,861	$ 8,096

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

7. Long-term obligations (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County

Long-term debt

Long-term debt consists of accrued compensated absences. The following is a summary of the changes in long-term debt for the year ended June 30, 2010:

Balance July 1, 2009	Increase	Balance June 30, 2010	Amounts due within one year
$101,118	$17,814	$118,932	$ 0

Metropolitan Commission

Long-term debt

Long-term bonds payable as of June 30, 2010 are as follows:

Bonds payable Description	Due	Rate	Principal	Interest
Twelfth Issue	1996-2013	3.9 - 5.25%	$ 665,000	$ 70,919
Fourteenth Issue	2001-2029	4.125 - 5.0%	1,426,400	814,176
Seventeenth Issue	2006-2019	2.75 - 4.40%	4,273,862	877,601
Twenty-first Issue	2007-2021	3.65 - 4.275%	899,700	228,799
Twenty-third Issue	2008-2027	3.5 - 4.25%	4,744,712	1,916,550
			12,009,674	3,908,045
Less current portion			918,166	499,143
Total			$11,091,508	$3,408,902

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Long-term debt (continued)

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2010 are as follows:

Year ending June 30,	Principal	Interest
2011 (current)	$ 918,166	$ 499,143
2012	966,623	461,271
2013	1,008,347	420,206
2014	807,548	376,256
2015	837,249	343,351
2016-2020	4,219,480	1,170,178
2021-2025	2,085,712	535,558
2026-2030	1,166,549	102,082
	$ 12,009,674	$ 3,908,045

Redemption – Twelfth Issue

Optional redemption

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

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

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Fourteenth Issue

On May 18, 1999, the Commission issued $1,830,900 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA).

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

The bonds may be prepaid at the following premiums:

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

Seventeenth Issue

On September 4, 2003, MetCom issued Refunding Bonds of 2003 in the principal amount of $6,105,000. The bonds mature on November 1, in 14 annual installments, beginning in 2005 and ending in 2018. Interest rates on the bonds range from 2.75% to 4.4%. Interest is payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1, to maturity.

The bonds may be prepaid at the following premiums:

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

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

The outstanding amount of refunding bond issue number seventeen is shown net of a deferred loss on the advance refunding of $71,138.

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Twenty-first Issue

In fiscal year 2006, the Commission issued Refunding Bonds of 2006 on April 5, 2006 in the principal amount of $1,158,700. The bonds mature on May 1, in 15 annual installments, beginning in 2007 and ending in 2021. Interest is payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

This bond is not subject to prepayment by the Issuer prior to May 1, 2016. On or after May 1, 2017, this bond is subject to prepayment by the Issuer at 100%.

The bonds were issued to refund all the outstanding maturities of the Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). The Thirteenth Issue was fully refunded and $500,000 of the Tenth Issue was fully refunded.

These bonds were issued with a true interest cost ranging from 3.65% to 4.275% to refund certain maturities of $620,000 in outstanding 1996 series A bonds with a coupon rate of 5.579% and $500,000 in outstanding 1995 series A bonds with an average interest rate of 6.24%. These bonds were issued to take advantage of a favorable interest rate environment. The net proceeds (including interest and premium) of $1,131,200 were deposited with an escrow agent to provide for all future debt service payments of the refunded bonds.

MetCom refunded these bonds at a premium to reduce its total debt service payments by $152,325 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $110,445.

Twenty-third Issue

On November 14, 2007, the Commission issued $10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2010, MetCom had drawn only $5,887,712 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2008 and ending in 2027. Interest rates on the bonds range from 3.5% to 4.25%. Interest is payable on May 1, 2008 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2017. Any partial prepayment shall not be less than the outstanding balance or $50,000, whichever is less.

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable

Notes, leases and loans payable as of June 30, 2010 are as follows:

Description	Due	Rate	Principal	Interest
Leonardtown	2010-2020	6.10 - 10%	$ 99,400	$ 73,163
Sixth Issue	2017	6.682%	97,942	27,865
MD Water Quality Loan #8	2012	3.45%	195,616	10,180
MD Water Quality Loan #11	2017	4.26%	1,859,957	330,139
MD Water Quality Loan #15	2020	2.70%	472,789	73,011
MD Water Quality Loan #16	2023	1.20%	366,971	27,663
MD Water Quality Loan #18	2025	1.10%	3,628,976	327,498
MD Water Quality Loan #19	2024	1.10%	738,264	62,350
MD Water Quality Loan #20	2024	1.10%	971,119	65,305
MD Water Quality Loan #22	2027	1.10%	992,026	93,080
MD Water Quality Loan #25	2029	1.00%	191,593	19,433
MD Water Quality Loan #26	2030	1.00%	470,147	50,272
			10,084,800	1,159,959
Less current portion			876,614	195,861
Total			$ 9,208,186	$ 964,098

As of June 30, 2010, MetCom has ten loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eight amounting to $1,326,045 were used to finance the Marley-Taylor WRF Interim Expansion. Proceeds from loan number eleven of $4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for $835,000 was drawn during the year ended June 30, 2000 for the purposes of financing an office building for the administrative use of MetCom. Loan number sixteen for $567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for $4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for $976,700 was used to replace the Lexington Park Wastewater Pumping Station. Proceeds drawn at June 30, 2010 were $976,700. Loan number twenty was for water meter installations. As of June 30, 2010 amounts drawn on the loan were $1,466,576. Loan number twenty-two for $1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for $191,593 was used for the Hollywood Water Extension to provide arsenic remediation. This loan has been fully drawn. Loan number twenty-six for $582,547 is to be used for Patuxent Park Sewer Line Repair and the Marley-Taylor Powered CoGeneration Project. Proceeds drawn at June 30, 2010 were $470,147.

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2010, are as follows:

Year ending June 30,	Principal	Interest
2011 (current)	$ 876,614	$ 195,861
2012	888,488	173,654
2013	807,272	151,984
2014	826,148	133,109
2015	845,688	113,570
2016-2020	3,477,289	298,361
2021-2025	2,149,101	87,919
2026-2030	214,200	5,501
	$10,084,800	$1,159,959

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amounts due Within one year
Bonds payable	$10,462,343	$2,642,039	$1,094,708	$12,009,674	$ 918,166
Notes, leases and loans payable	10,062,061	872,463	849,724	10,084,800	876,614
Total long-term debt	$20,524,404	$3,514,502	$1,944,432	$22,094,474	$1,794,780

Building Authority Commission

Long-term Debt

Changes in Long-term Debt

The changes in long-term debt for the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amounts due within one year
Bonds payable	$6,295,000	$0	$1,140,000	$5,155,000	$1,190,000

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

Nursing Home Refunding Bonds

General

The refunding bonds are dated December 2, 2003 and were issued in the aggregate principal amount of $6,230,000.

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

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

Optional redemption

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

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

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

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

As part of the transfer of the Nursing Center building to the St. Mary's County Nursing Home, Inc., an escrow account was established in order to implement the optional redemption on July 15, 2013. The intent is to complete the optional redemption on July 15, 2013. The proceeds of the property transfer were determined to be the amount needed to defease the bonds as of that date.

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds

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

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

Redemption provisions

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

Optional redemption

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

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

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Mandatory extraordinary redemption

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

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

Date	Sinking Fund Installment
June 1, 2012	$ 340,000
December 1, 2012	$ 355,000
June 1, 2013	$ 360,000

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

Selection of certificate to be redeemed

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

Notice of redemption

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

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Security and sources of payment for the certificates

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

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

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

The annual requirements to amortize the principal of all bonds outstanding as of June 30, 2010 are as follows:

Years	State Office Building	Nursing Home	Total
2011	$ 635,000	$ 555,000	$ 1,190,000
2012	670,000	570,000	1,240,000
2013	715,000	580,000	1,295,000
2014	0	1,430,000	1,430,000
	$ 2,020,000	$ 3,135,000	$ 5,155,000

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

The annual requirements to amortize the interest of all bonds outstanding as of June 30, 2010 are as follows:

Years	State Office Building	Nursing Home	Total
2011	$ 105,518	$ 98,241	$ 203,759
2012	69,417	80,298	149,715
2013	30,638	60,891	91,529
2014	0	25,552	25,552
	$ 205,573	$ 264,982	$ 470,555

As part of the transfer of the asset to the St. Mary's County Nursing Center, Inc., the Nursing Center deposited funds into restricted investment accounts in an amount adequate to defease the bonds on July 15, 2013.

Type of Security	SLGS Maturity Date	Par Amount	Interest	Rate	Net Escrow Receipts	Present Value to 06/28/10 @ 0.9954321%
SLGS - Certificate	7/15/10	$ 608,283	$ 0	0.000%	$ 608,283	$ 607,998
SLGS - Certificate	1/15/11	31,985	12,974	0.160%	44,959	44,715
SLGS - Note	7/15/11	603,123	11,834	0.280%	614,957	608,596
SLGS - Note	1/15/12	24,350	10,990	0.490%	35,340	34,801
SLGS - Note	7/15/12	604,409	10,930	0.720%	615,339	602,957
SLGS - Note	1/15/13	16,797	8,755	0.960%	25,552	24,913
SLGS - Note	7/15/13	1,457,778	8,674	1.190%	1,466,452	1,422,745
		$ 3,347,825	$ 64,157		$ 3,410,882	$ 3,346,725

The Building Authority retained financial advisors to assist in the determination of amounts and rates required to equate to the debt service payments required on the bonds. The intent is to complete the optional redemption on July 15, 2013.

8. Fund balances

A summary of the reserved and unreserved - designated and undesignated fund balances as of June 30, 2010 is as follows:

		Special Revenue Funds					Fiduciary Funds		
	General Fund	Special Assessments	Fire & Rescue Revolving	Emergency Support	Total	Capital Projects Fund	Sheriff's Office Retirement Plan	Retiree Benefit Trust Fund	Total
Reserved									
Encumbrances	$433,517			$3,941	$3,941	$5,051,926			
Inventory	758,849								
Retirement of Long-Term Obligations		($549,721)			(549,721)				
Domestic Violence Programs	1,065								
County Matching Funds for Approved Grants	261,814								
Revenues Specified for Capital Projects									
Agricultural Preservation						194,329			
Transfer Tax						9,548,726			
County Paygo						3,471,439			
Roads- Impact Fees						601,432			
Roads- Mitigation						420,287			
Parks- Impact fees						555,381			
Parks- Mitigation						26,617			
Schools- Impact Fees						3,626,192			
Schools- Mitigation						34,125			
Critical Area- Mitigation						167,957			
Forest Planting- Mitigation						358,582			
Other, Net, Including Bonds and Grants	37,420					12,156,384			
Total Reserved Fund Balances	$1,492,665	($549,721)	$0	$3,941	($545,780)	$36,213,377	$0	$0	$0
Unreserved									
Designated	$18,405,882	$0	$327,845	$1,090,192	$1,418,037	$662,112	$34,829,002	$26,638,506	$61,467,508
Undesignated	12,654,647	0	0	0	0	0	0	0	0
Total Unreserved Fund Balances	$31,060,529	$0	$327,845	$1,090,192	$1,418,037	$662,112	$34,829,002	$26,638,506	$61,467,508
Total Fund Balances (deficit)	$32,553,194	($549,721)	$327,845	$1,094,133	$872,257	$36,875,489	$34,829,002	$26,638,506	$61,467,508

8. Fund balances (continued)

The reserved fund balance includes:

Encumbrances - The amount of outstanding purchase orders at June 30, 2010.

Inventory - The amount of inventory at June 30, 2010, carried as an asset.

Retirement of long-term obligations - The amount of future revenue (collections) of Special Assessments that is legally restricted to expenditures for specified purposes. This future revenue will be used for the retirement of long-term obligations.

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

County matching funds for approved grants – The amount of county funding that is committed as a match to grants that were budgeted in FY2010, but for which the period extends beyond June 30, 2010. These funds will be needed to meet the obligations of the grant.

Revenues appropriated for capital projects - The amount of revenue collected to date, but which has been obligated through the budget process for specific capital projects, and which will be used for future capital project expenses.

Other – The principal component corresponds to capital project expenditures already incurred which were budgeted to be funded through the sale of bonds. The sale of these bonds occurred in November 2009. To a lesser extent, this also reflects grants that have been reflected as a source of funding but which have not yet been spent.

The general fund unreserved designated fund balance is composed of:

Appropriation for FY 2011 operating budget, revenue replacement	$ 3,500,000
Appropriation for FY 2011 – Public Safety and 911 equipment replacement	955,000
Bond rating reserve (6%)	11,892,240
Rainy day fund	1,625,000
	$17,972,240
Miscellaneous revolving fund	433,642
	$18,405,882

As a part of the FY2011 budget process, the Board of County Commissioners appropriated $3.5 million of fund balance to be applied to the FY2011 budget. Due to the decrease in general fund revenues from the State and the slowing of the economy, this $3.5 million will be used as revenue replacement. Additionally, the Commissioners budgeted fund balance of $955,000 to be used to fund the proposed interim solution for the 800 MHz emergency communications system, if needed, to bridge the transition to the next generation system that is in the capital plan. The $955,000 reverted back to the general fund from the capital projects fund in FY2010, as a reduction to the land acquisition project.

The unreserved undesignated fund balance includes unallocated FY2009 unreserved undesignated fund balance that was intentionally not appropriated for the FY2011 budget by the Board, in anticipation of using it to offset State revenue reductions in FY2011 and beyond. The disposition of the balance will be considered as a part of the FY2012 budget process.

9. Retirement plans

Primary Government

Plan description

The employees of the County are covered by the State Retirement and Pension System of Maryland (the System), the administrator of an agent multiple-employer public employee retirement system established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators and employees of participating governmental units. Responsibility for the administration and operation of the System is vested in a 14-member Board of Trustees. The State of Maryland is obligated for the payment of all pension annuities, retirement allowances, refunds, reserves and other benefits of the System. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. The System is a component unit of the State of Maryland's financial reporting entity and is included in the State's financial statements as a pension trust fund. The County's total payroll for the year ended June 30, 2010 was $39,851,487, of which $22,675,054 was covered under the System.

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

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

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

Plan benefits

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

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

9. Retirement plans (continued)

Primary Government (continued)

Plan benefits (continued)

The Teachers' and Employees' Pension Systems' members are eligible for full retirement benefits upon attaining at least age 62 with specified years of eligibility service, or upon accumulating 30 years of eligibility service regardless of age. The annual pension allowance is equal to 1.2% times AFS times years of credit to June 30, 1998 plus 1.8% times AFS times years of credit after July 1, 1998. The service credit earned as of June 30, 1998 is multiplied by 1.2% unless the former non-contributory formula (0.8%/1.5%) produces a higher benefit.

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

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

Funding status and progress

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

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 2009. The significant actuarial assumptions used in the actuarial valuations include (a) rate of return on the investment of 7.75% compounded annually (adopted June 30, 2003), (b) projected salary increases of 3.5% per year compounded annually, attributable to inflation (adopted June 30, 2007), (c) additional projected salary increases ranging from 0.00% to 8.5% per year, attributable to seniority and merit (adopted June 30, 2007), (d) post-retirement benefit increases ranging from 2.75% to 3.5% per year depending on the system (adopted June 30, 2009), (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 2003 through 2006 (adopted June 30, 2007), and (f) an increase in the aggregate active member payroll of 3.5% annually (adopted June 30, 2007).

9. Retirement plans (continued)

Primary Government (continued)

Funding status and progress (continued)

At June 30, 2009, the System's unfunded pension benefit obligation (i.e., pension benefit obligation less net assets available for benefits) in accordance with GASB No. 25 was as follows:

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$28,914,824,184
Current employees	23,814,347,146
Total pension benefit obligation	$52,729,171,330
Net actuarial assets available for benefits	34,284,568,617
Unfunded actuarial pension benefit obligation	$18,444,602,713

The schedule below (expressed in thousands) presents the actuarial value of the System's assets and the actuarial accrued liability as of June 30, 2009 and the preceding two years. The schedule is intended to help the users assess the funding status of the System. Due to an actuarial error, the Schedule of Funding Progress presented in the June 30, 2007 Comprehensive Annual Financial Report overstated the Actuarial Accrued Liability. The 2007 funding results have been restated to reflect the corrected actuarial valuation results.

	2009	2008	2007
Actuarial value of assets	$34,284,569	$39,504,284	$37,886,936
Actuarial accrued liability (AAL)	52,729,171	50,244,047	47,144,354
Unfunded AAL	$18,444,603	$10,739,763	$9,257,418
Funded ratio	65.02%	78.62%	80.36%
Covered payroll	$10,714,241	$10,542,806	$9,971,012
Unfunded AAL as a % of payroll	172%	102%	93%
Annual required contributions	$1,313,560	$1,183,765	$1,025,972
Percentage contributed	84%	89%	81%
Net pension obligation	$0	$0	$0

9. Retirement plans (continued)

Primary Government (continued)

Contributions required and made

The State Personnel and Pensions Article of the Annotated Code of Maryland requires contributions by active members and their employers. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% (or 5% depending upon the retirement option selected) of earnable compensation. Members of the Pension Systems are required to contribute 5% of earnable compensation in excess of the social security wage base. Members of the Teachers' Pension System and State employees who are members of the Employees' Pension System are required to contribute 3% of earnable compensation.

Employer contributions totaling $443,524,000 for fiscal year 2009 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2009. Employer contributions consisted of normal cost and amortization of the unfunded actuarial accrued liability over a 40-year period from July 1, 1980. Employee contributions, which are applied to normal cost, for fiscal year 2009 totaled approximately $532,101,000. The County's contributions to the System for the year ended June 30, 2010 were $1,325,467.

Historical trend information

Historical trend information which provides data about the Systems' progress made in accumulating sufficient assets to pay pension benefits when due is presented immediately following the notes to the financial statements in the System's comprehensive annual financial report for the fiscal year ended June 30, 2009.

Sheriff's Department plan

Effective date

The effective date of the plan is July 1, 1986, with amendments effective October 2000, September 2006, June 2007 and July 2008.

Participation

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

Participants are required to make mandatory contributions to the plan equal to 8% of annual compensation. Employee contributions are credited with interest at the rate of 4% per annum. The County pays the entire remaining cost of the plan.

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Credited service

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

a. Service subsequent to June 30, 1986, while a participant of the plan.

b. Military service, not in excess of five years.

c. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Retirement System.

d. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Pension System and/or Maryland Employees' Retirement System which the employee elects to buy back by paying into the plan an amount equal to employee contributions for such service, accumulated with interest. Such service is reduced by 25% for the purpose of calculating benefits if participants elect not to buy back such service.

e. Service not with the Sheriff's Department, but while participating in the Maryland Systems stated above. Such service shall count only in eligibility and not in the benefit determination.

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

a. Service while a participant of the plan; plus

b. Military service, not in excess of five years is on an incremental basis, with up to one year of service each time the participant completes four years of eligibility service, and

c. Any approved leave of absence up to 12 months.

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

Final average earnings

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

Normal retirement

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

The amount of the annual retirement income shall be equal to the lesser of: (1) 80% of the Participant's average compensation, plus the Participant's unused sick leave, or (2) the sum of:

(i) 2.5% of the Participant's average compensation multiplied by the number of years (and fractional years) of credited service earned by, or credited to, the Participant on and after July 1, 2008, plus
(ii) 2.0% multiplied by all years (and fractional years) of credited service earned by, or credited to, the Participant prior to July 1, 2008.

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Early retirement

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

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

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

Late retirement

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

Amount - The amount of the postponed retirement benefit is determined in the same manner as the normal benefit, based on final average earnings and credited service at the time of actual retirement subject to a maximum benefit of 80% of the Participant's average compensation.

Disability benefit

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

Amount - The annual benefit is equal to 1.6% of the participant's final average earnings for each year of credited service not in excess of 35 years. For line of duty disability, the annual benefit is equal to 66% of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions, if the disability qualifies as a catastrophic disability pursuant to the Plan. For a line of duty disability which is non-catastrophic, the annual benefit is equal to 1/2 of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions pursuant to the Plan.

Pre-retirement death benefit

Lump sum benefit

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

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

Survivor's pension

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

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Survivor's pension (continued)

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

Deferred vested benefit

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

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

Withdrawal benefit

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

Form of benefit

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

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

a. Joint and Survivor - a reduced pension during the lifetime of the pensioner, starting at his actual retirement date and continuing to the pensioner's spouse at an amount which may be the same as the reduced amount payable to the participant or one-half of the reduced amount paid to the participant.

b. Other - A participant may elect a pension payable in accordance with any other option approved by the Board of Trustees (except an "interest only" option) which is the actuarial equivalent of the normal retirement pension to which the participant was entitled at normal retirement date.

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Post-retirement pension increases

Each July 1, a 3% cost of living increase will be granted to retired participants or spouses whose benefit has been in pay status at least one year. The cost of living increase also applies to deferred benefits.

Actuarial methods and assumptions

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

Employee data - The employee data used in the determination of cost estimates consists of pertinent information with respect to participants as of July 1, 2008.

Valuation Date - July 1, 2008. The Board of Trustees elected to have the actuarial valuation period as of July 1, as opposed to the January 1 date formerly used. This is more timely for contribution budget considerations.

Actuarial Funding Method - The actuarial valuation has been completed using the projected unit credit method.

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

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

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

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

Development of plan costs

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

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Development of plan costs (continued)

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

Recommended contribution level

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

Key results:	July 1, 2008
Number of Participants:	
Active	189
Retired	32
Terminated vested	3
Disabled	30
Total	254
Total annual compensation of active participants	$10,254,031
Actuarial accrued liability:	
Actives	$31,711,164
Nonactives	28,338,146
Total	$60,049,310
Assets	$31,714,844
Unfunded actuarial liability	$28,334,466
Normal cost with adjustments:	
Dollar amount	$ 2,183,986
Percent of payroll	21.30%

The amount of the Sheriff's Department's current year covered payroll is $12,887,886, and the Sheriff's Department's total payroll for all employees is $13,871,770. The following employer contributions were made during the fiscal year ended June 30, 2010:

	Contributions	% of Covered Payroll
Retirement plan	$4,203,131	32.61%

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit

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

Eligibility and benefits

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

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

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

b. Beginning July 1, 1994, active volunteer fire and rescue squads and advanced life support unit personnel may select from two Length of Service program benefit options. Selection of a benefit option by the individual is irrevocable. The options, with rates reflected effective July 1, 2006, are:

1) Any person who has reached the age of sixty (60) and who has completed a minimum of twenty (20) years of certified active volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit, or combination thereof, shall receive two hundred dollars ($200) per month, for life. Payments will begin in the month following eligibility.

An additional payment of eight dollars ($8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

2) Any person who has reached the age of fifty-five (55) and who has completed a minimum of twenty (20) years of certified volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit or combination thereof, shall receive one hundred fifty ($150) per month for life.

An additional payment of eight dollars ($8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

9. Retirement plans (continued)

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

Eligibility and benefits (continued)

c. In the event that any active volunteer becomes disabled during the course of his or her service while actively engaged in providing such services and in the event that the disability prevents the volunteer from pursuing his or her normal occupation and in the event that the disability is of a permanent nature as certified by the Maryland Workmen's Compensation Commission or other competent medical authority as designated by The County Commissioners for St. Mary's County, then the volunteer is entitled to receive the minimum benefits prescribed above and any such benefits as he or she may be entitled to regardless of his or her age or length of service. These benefits will begin on the first day of the month following the establishment of the permanency of his or her disability.

d. In the event that any qualified volunteer shall die while receiving benefits, then his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's benefits. These benefits terminate upon death or remarriage of the spouse.

e. In the event that a qualified volunteer dies prior to receiving any benefits under this section, his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's earned benefits. These benefits terminate upon death or remarriage of the spouse.

f. In the event that an active volunteer dies in the line of duty, a burial benefit up to two thousand five hundred dollars ($2,500) is payable.

g. In the event that any active volunteer (herein defined as one who has at least two (2) years of qualifying service in the five (5) preceding years) attains the age of seventy (70) years and fails to achieve the required twenty (20) years of service, then the volunteer is entitled to a monthly benefit of the number of years of credited service completed, multiplied by eight dollars ($8).

Point system

a. In order to qualify for benefits, points are credited to each volunteer as follows:

1) One (1) point is credited for each hour of attendance in a recognized training course, provided that not more than twenty (20) points may be credited for all training courses attended per year.

2) One (1) point is credited for each company or county drill that is a minimum of two (2) hours in duration attended in its entirety, provided that not more than twenty-five (25) points may be credited for all drills attended per year.

3) One (1) point is credited for each official company or county meeting pertaining to St. Mary's County fire services or rescue services attended, provided that not more than fifteen (15) points may be credited for all meetings attended per year.

4) One (1) point is credited for each call to which a volunteer responds, provided that not more than forty (40) points may be credited for all calls responded to per year.

9. Retirement plans (continued)

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

Point system (continued)

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

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

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

This length of service program is funded by The County Commissioners by annual appropriations. The total contribution for the fiscal year ended June 30, 2010 was $628,019.

Component Units

St. Mary's County Public Schools

Pension Plans

Plan description

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

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

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Plan description (continued)

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

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

Funding policy

Both the "Retirement System" and the "Pension System" for teachers and classified employees are jointly contributory. Under the "Retirement System" employees contribute 5 percent or 7 percent of their earnable compensation and under the "Pension System" employees contribute 2 percent of their earnable compensation. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Annual pension cost

St. Mary's County School System contributions totaling $911,235 or 0.8 percent of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling $13,031,237 or 11.3 percent of covered payroll for fiscal year 2010, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2009. Significant actuarial assumptions used, include (a) a rate of return on the investment of present and future assets of 7.75 percent per year compounded annually, (b) projected salary increases of 3.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00 percent to 8.5 percent per year, attributable to seniority/merit, (d) post-retirement benefit increases ranging from 3 percent to 4 percent per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from June 30, 2003 through June 30, 2006, and (f) an increase in the aggregate active member payroll is assumed to increase by 3.5 percent annually.

The actuarial value of assets is measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method explicitly recognizes each year's investment gain or loss over a 5-year period with the final actuarial value not less than 80 percent or more than 120 percent of the market value of assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 11-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate layers over a 25-year period. A three-year trend of the School System's annual pension cost is as follows:

Fiscal Year Ended June 30,	Total Annual Pension Cost (APC)	APC Contributed By School System	APC Contributed By State	Percentage of APC Contributed	Net Pension Obligation
2008	$11,007,358	$948,618	$10,058,740	100%	$0
2009	11,710,668	874,571	10,836,097	100%	0
2010	13,942,472	911,235	13,031,237	100%	0

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

9. Retirement plans (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County

Retirement and pension plan

Description

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

Maryland State Pension Systems

Participants in the Pension Plans contribute 5% of their earnings. Pensions normally start at age 62 or after 30 years of service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three years' pay. Cost of living increases are limited to 3% per annum.

Maryland State Retirement Systems

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

Funding Policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute from 5% to 7% of compensation. Members of the pension systems are required to contribute 5% of compensation for the year ended June 30, 2010.

Contribution rates are established by annual actuarial valuations. The unfunded actuarial liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as the June 30, 2000 actuarial valuation is being amortized over the remaining 11-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. The equivalent single amortization period is 30 years. The State of Maryland, the Maryland Automobile Insurance Fund and Injured Workers' Insurance Fund and more than 100 participating governmental units make all of the employer and other contributions to the System.

9. Retirement plans (continued)

Component Units (continued)

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

Retirement and pension plan (continued)

Funding Policy (continued)

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2010, the Library's total payroll and payroll for covered employees were $1,903,810 and $1,714,008, respectively. No contributions were made by the Library for the year ended June 30, 2010.

For fiscal year 2010, the State contributed $232,603 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement Number 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 13.57% of covered payroll.

Actuarial Assumptions

a. Return on investment of 7.75% compounded annually (adopted June 30, 2003)

b. Projected salary increases of 3.5% compounded annually due to inflation (adopted June 30, 2007)

c. Salary increases due to seniority and merit are projected at 0.00-8.5% per annum (adopted June 30, 2007)

d. Postretirement benefit increases are projected at 2.75-3.5% per annum depending on the system (adopted June 30, 2009)

e. Rates of mortality, termination, disablement and retirement are based on actual experience from 2003 through 2006 (adopted June 30, 2007)

f. Member payroll assumed to increase 3.5% annually (adopted June 30, 2007)

Trend information

	June 30		
	2009	2008	2007
Annual required contribution (in thousands)	$1,313,560	$1,183,765	$1,025,972
Percentage contributed	84%	89%	81%

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission

Retirement and pension plan

On March 18, 2004, MetCom adopted a Section 457 plan. Under the terms of the plan, employees may contribute up to 25% of their salary, up to the contribution limits, to the plan. No employer contributions are made to this plan.

Effective July 1, 2004, MetCom joined the Maryland State Retirement and Pension System. Under the terms of entry into the system, MetCom will grant 100% credit for prior service of eligible employees. The actuarial cost of entry into the Maryland State Retirement and Pension System for service prior to June 30, 2004, was $3,392,774.

Description

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

Maryland State Pension Systems

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

On July 13, 2006, MetCom passed a resolution to join the Alternate Contributory Pension Selection Plan (ACPS). The plan increases the employee multiplier from 1.4% to 1.8% for service credits earned after July 1, 1998. Employee contributions are 3% for FY07, 4% for FY08 and 5% thereafter. The ACPS surcharge for FY10 is 1.11% of salaries.

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission (continued)

Funding policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the Retirement Systems are required to contribute 5% of earnable compensation for the year ended June 30, 2010.

Contribution rates are established by annual actuarial valuations. The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 12-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000, is being amortized in separate annual layers over a 25-year period. The equivalent single amortization period is 30 years. The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and 135 participating governmental units make all of the employer and other contributions to the System.

MetCom provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2010, MetCom's total payroll and payroll for covered employees were $4,786,691 and $3,829,598, respectively. MetCom's contribution to the System for the year ended June 30, 2010, was $282,327.

Actuarial assumptions

a. Return on investment of 7.75% compounded annually (adopted June 30, 2003).

b. Projected salary increases of 3.5% compounded annually due to inflation (adopted June 30, 2007).

c. Salary increases due to seniority and merit are projected at 0.00-8.5% per annum (adopted June 30, 2007).

d. Postretirement benefit increases are projected at 2.75-3.5% per annum depending on the system (adopted June 30, 2009).

e. Rates of mortality, termination, disablement and retirement are based on actual experience from 2003 through 2006 (adopted June 30, 2007).

f. Member payroll assumed to increase 3.5% annually (adopted June 30, 2007).

Trend information

	June 30		
	2009	2008	2007
Annual required contributions (in thousands)	$1,313,560	$1,183,765	$1,025,972
Percentage contributed	84%	89%	81%

10. Segment information for enterprise funds

The County maintains four enterprise funds. Recreation services are accounted for in the recreation revolving fund, while the Wicomico Municipal Golf Course receives user service charges for the use of facilities, which include a golf course and a restaurant. The Medical Adult Daycare Center provides a wide range of supportive health and social services during the day to the mentally or physically handicapped adults of St. Mary's County in order to prevent or postpone institutionalization. The Solid Waste and Recycling Divisions are responsible for solid waste management, convenience center/landfill operations and recycling. Segment information for the year ended June 30, 2010 is as follows:

	Medical Adult Daycare	Wicomico Municipal Golf Course	Recreation Activity Fund	Solid Waste/ Recycling Fund	Total Enterprise Funds
Operating revenue	$ 85,762	$ 1,299,914	$ 2,043,518	$ 2,678,119	$ 6,107,313
Depreciation	$ 0	$ 138,808	$ 300	$ 188,414	$ 327,522
Operating income (loss)	($729,673)	($ 216,121)	$ 31,165	($ 995,853)	($1,910,482)
Change in net assets	$ 238,756	($ 213,560)	$ 114,857	$ 198,464	$ 338,517
Plant, property and equipment additions	$ 0	$ 27,454	$ 6,000	$ 0	$ 33,454
Net working capital	$ 0	$ 68,906	$ 7,149	($ 101,425)	($ 25,370)
Total assets	$ 380,318	$ 4,976,730	$ 351,371	$13,065,476	$18,773,895
Total equity	$ 0	$ 3,191,163	$ 12,968	$12,085,465	$15,289,596

11. Interfund balances

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2010:

	Interfund Receivables	Interfund Payables
Primary Government		
General Fund		
Special Revenue Fund		$ 774,000
Capital Projects Fund		36,388,422
Enterprise Fund	$ 1,323,232	
Special Revenue Funds		
General Fund	774,000	
Capital Projects Funds		
General Fund	36,388,422	
Enterprise Funds		
General Fund		1,323,232
Total due from/to other funds	$38,485,654	$38,485,654

11. Interfund balances (continued)

Component Units

	Interfund Receivables	Interfund Payables
Component Unit-St. Mary's County Building Authority Commission	$220,099	
Component Unit-Board of Library Trustees for St. Mary's County	319,140	
Primary Government-General Fund	______	$539,239
Total due to/from Primary Government to Component Unit	$539,239	$539,239

12. Mortgage receivable

The mortgage receivable amount reported represents the amount owed to the County by St. Mary's Hospital for the payment of the St. Mary's County Hospital Bonds of 2003 in the amount of $15,905,000. Interest on the bonds is payable semiannually on each April 1 and October 1 until the year 2023 with an average interest rate of 4.17%.

13. Commitments and contingencies

Primary Government

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

The County participates in a number of federally assisted grant programs, principal of which are the Departments of Education, Health and Human Services and Health and Mental Hygiene grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for the year ended June 30, 2010 have not yet been completed. Accordingly, the County's compliance with applicable grant requirements will be verified in connection with performing the County's Single Audit. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

Component Units

St. Mary's County Public Schools

Legal Proceedings

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

13. Commitments and contingencies (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

School Construction

As of June 30, 2010, the School System had entered into various school construction commitments which are not reflected in the Statement of Net Assets or Balance Sheet – Governmental Funds, since they will be funded by the State of Maryland or County bond issues, totaling approximately $449,848.

Grant Program

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

Board of Library Trustees for St. Mary's County

Grant Audit

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

Support

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

14. Other post-employment benefits

Primary Government

The County adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, the County recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the County's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

14. Other post-employment benefits (continued)

Primary Government (continued)

Plan description

The County provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of five years of eligible County service entering an immediate retirement, family members of retirees and family members of deceased employees. The County pays a percentage of premiums based on the date of hire and number of years of service. For employees retiring prior to July 1, 2010, the percentage ranges from 26.6% with ten years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after July 1, 2010, range from 21.25% with 15 years of service to 85% with 30 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by the Board of County Commissioners.

Membership

At June 30, membership consisted of:

	2010	2009	2008
Retirees and Their Beneficiaries Currently Receiving Benefits	329	307	201
Active Employees	682	684	681
Total	1,011	991	882

The County's annual other post-employment benefit (OPEB) cost 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) was calculated as follows:

	2010	2009	2008
Annual Required Contribution	$ 4,888,000	$ 4,617,000	$ 4,617,000
Annual OPEB Cost	4,888,000	4,617,000	4,617,000
Contributions Made	3,271,666	9,108,152	13,439,139
Payments to Retirees	1,612,124	1,649,723	1,349,484
Net OPEB Obligation (Prepaid), Beginning of Year	(16,171,623)	(10,171,623)	0
Net OPEB Obligation (Prepaid), End of Year	($16,171,623)	($16,171,623)	($10,171,623)

The funded status of the plan was as follows:

	2010	2009	2008
Actuarial Accrued Liability (AAL)	$73,285,000	$60,135,000	$60,135,000
Value of Plan Assets	26,638,506	23,318,131	14,003,796
Unfunded Actuarial Accrued Liability	$46,646,494	$36,816,869	$46,131,204
Funded Ratio (Value of Plan Assets/AAL)	36.35%	38.78%	23.29%
Covered Payroll (Active Plan Members)	$35,562,940	$35,716,358	$34,115,335
UAAL as a percentage of covered payroll	131.17%	103.08%	135.22%

14. Other post-employment benefits (continued)

Primary Government (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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, 2009 actuarial valuation, the liabilities were computed using the project unit credit method, with proration to benefit eligibility method. The actuarial assumptions included a 6.0% annual rate of return and an initial annual healthcare cost trend rate of 8.0%, decreasing 1% per year to an ultimate rate of 5.2%. The UAAL is being amortized as a level percentage of projected payroll over 30 years.

Component Units

Board of Library Trustees for St. Mary's Library

The Library provides post-employment health benefits to eligible retirees. The Library paid for these benefits on a pay-as-you-go basis prior to July 1, 2007. For the year ended June 30, 2010, the cost of these post-employment benefits was $54,223.

The Library adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, the Library recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the Library's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan description

The Library provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of five years of eligible Library service entering an immediate retirement, family members of retirees and family members of deceased employees. The Library pays a percentage of premiums based on the date of hire and number of years of service. For employees retiring prior to May 1, 2010, or hired before July 1, 1991, regardless of retirement date, the percentage ranges from 26.6% with five years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after May 1, 2010, range from 21.25% with 15 years of service to 85% with 30 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by The Library Board of Trustees.

Membership

At June 30, membership consisted of:

	2010	2009	2008
Retirees and Beneficiaries Currently Receiving Benefits	8	9	8
Active Employees	17	15	17
Total	25	24	25

14. Other post-employment benefits (continued)

Component Units (continued)

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

Funding Policy

During FY08, the Library established a trust fund, the Retiree Health Benefit Trust of St. Mary's County Library, to fund certain retiree health benefits. The Library contributed $227,975 in FY09. The Net OPEB Obligation is overpaid by $77,944 as of June 30, 2010.

Annual OPEB Costs and Net OPEB Obligation

The Library's annual other post-employment benefit (OPEB) cost 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) was calculated as follows:

	2010	2009	2008
Annual Required Contribution	$ 87,000	$ 113,000	$ 113,000
Interest on Net OPEB	(10,000)	0	0
Adjustment to ARC	9,000	0	0
Annual OPEB Cost	86,000	113,000	113,000
Contributions Made	0	0	224,908
Payments to Retirees	(54,223)	(58,277)	(52,536)
Net OPEB Obligation (Prepaid), Beginning of Year	(109,721)	(164,444)	0
Net OPEB Obligation (Prepaid), End of Year	($77,944)	($109,721)	($164,444)

The funded status of the plan was as follows:

	2010	2009	2008
Actuarial Accrued Liability (AAL)	$1,371,000	$1,519,000	$1,519,000
Value of Plan Assets	283,000	227,975	224,908
Unfunded Actuarial Accrued Liability	$1,088,000	$1,291,025	$1,294,092
Funded Ratio (Value of Plan Assets/AAL)	20.64%	15.01%	14.81%
Covered Payroll (Active Plan Members)	$1,714,008	$1,701,672	$1,676,627
UAAL as a percentage of covered payroll	63.48%	75.87%	77.18%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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, 2009 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 6% annual rate of return and an initial annual healthcare cost trend rate

14. Other post-employment benefits (continued)

Component Units (continued)

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

Actuarial Methods and Assumptions (continued)

of 9%, decreasing .10% to .50% per year to an ultimate rate of 5%. The UAAL is being amortized as a level percentage of projected payroll over 30 years, closed basis, with 28 years remaining.

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 and healthcare cost trends.

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial value of assets was based on the estimated July 1, 2009 asset figure of $283,000.

Metropolitan Commission

MetCom adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, MetCom recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on MetCom's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

During FY08, MetCom established a trust fund, the Retiree Benefit Trust of St. Mary's County Metropolitan Commission, to fund certain retiree health benefits.

Plan description

MetCom provides health, prescription, dental and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of ten years of eligible MetCom service entering an immediate retirement, family members of retirees and family members of deceased employees. MetCom pays a percentage of premiums based on the date of hire and number of years of service. For employees hired prior to May 10, 2007, the percentage ranges from 53.13% with ten years of service to 85% with 16 or more years of service. The percentages for employees hired on or after May 10, 2007, range from 21.25% with 15 years of service to 85% with 30 years of service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by MetCom's Board of Commissioners.

Membership

At June 30, membership consisted of:

	2010	2009	2008
Retirees and Beneficiaries Currently Receiving Benefits	9	6	8
Active Employees	60	62	61
Total	69	68	69

14. Other post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission (continued)

Funding Policy

During FY08 MetCom established a trust fund, the Retiree Benefit Trust of St. Mary's County Metropolitan Commission, to fund certain retiree health benefits. MetCom contributed $405,000 to the trust in FY10. The net OPEB obligation is overpaid by $284,984 as of June 30, 2010. MetCom's Board determines show much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY11 operating budget includes fully funding the OPEB cost.

Annual OPEB Costs and Net OPEB Obligation

MetCom's annual other post-employment benefit (OPEB) cost 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) was calculated as follows:

	2010	2009	2008
Annual Required Contribution	$ 409,000	$ 519,000	$ 518,000
Interest on Net OPEB	16,000	17,000	0
Adjustment to ARC	(20,000)	(22,000)	0
Annual OPEB Cost	405,000	514,000	518,000
Contributions Made	405,000	514,000	757,828
Payments to Retirees	0	0	(44,156)
Net OPEB Obligation (Prepaid), Beginning of Year	(283,984)	(283,984)	0
Net OPEB Obligation (Prepaid), End of Year	($283,984)	($283,984)	($283,984)

The funded status of the plan was as follows:

	2010	2009	2008
Actuarial Accrued Liability (AAL)	$3,989,000	$5,462,000	$4,873,000
Value of Plan Assets	1,219,000	1,222,517	757,828
Unfunded Actuarial Accrued Liability	$2,770,000	$4,239,483	$4,115,172
Funded Ratio (Value of Plan Assets/AAL)	30.56%	22.38%	15.55%
Covered Payroll (Active Plan Members)	$3,670,430	$3,724,636	$3,400,838
UAAL as a percentage of covered payroll	75.47%	113.82%	121%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

14. Other post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission (continued)

Actuarial Methods and Assumptions (continued)

In the July 1, 2009 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 8.5% and 5.2% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 3.2% rate of inflation assumption. The UAAL is being amortized as a 30-year level percentage of projected payroll, closed basis, with 28 years remaining.

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 and healthcare cost trends.

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial value of assets was based on the estimated July 1, 2009 asset figure of $1,219,000.

St. Mary's County Public Schools

Plan description

The School System provides post-employment health care and life insurance benefits (OPEB) to employees, former employees, or beneficiaries who meet retirement eligibility requirements of the pension plans. Effective July 1, 2007, by terms of a negotiated contract with employee associations, the School System partially supports the group insurance plan for retired employees who have been employed by the School System for ten (10) or more years. These negotiated agreements provide that the School System will contribute from 45 percent to 65 percent of a retirees' group health insurance premium for years of experience ranging from 10 years to 30 or more years, respectively. In addition, the School System pays 100 percent of life insurance premiums based upon 50 percent of final salary coverage.

In March 2009, the School System established the Retiree Benefit Trust of the Board of Education of St. Mary's County (Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Trust is administered by the Maryland Association of Boards of Education Pooled OPEB Investment Trust. The School System reserves the right to establish and amend the provisions of the trust with respect to participants, any benefit provided thereunder, or its participation therein, in whole or in part at any time, by resolution of its governing body and upon advance written notice to the Trustees.

Funding policy

The School System is required to contribute 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 7.15 percent of annual covered payroll. The ARC consisted of the normal cost of $6,519,000 and the amortization of unfunded accrued liability of $6,657,000. The School System contributed $5,828,230 for the year ended June 30, 2010, including $3,540,830 towards current healthcare and life insurance premiums and an additional $2,287,400 to prefund future benefits.

14. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed as of July 1, 2006 to determine the funded status of the plan as of that date as well as the School System's ARC for the fiscal year ended June 30, 2009. The annual OPEB cost (expense) for the year ended June 30, 2010 was $13,197,000 which was comprised of the ARC of $13,176,000 discussed above plus net interest on the net OPEB obligation. A historical trend of the School System's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 8,649,000	79.93%	$1,735,862
2009	10,333,000	91.12%	2,625,870
2010	13,197,000	44.16%	9,994,640

Funded Status and Funding Progress

The funded status of the plan was as follows:

	2010	2009	2008
Actuarial Accrued Liability (AAL)	$153,381,000	$110,233,686	$ 90,851,000
Value of Plan Assets	11,607,000	4,238,000	0
Unfunded Actuarial Accrued Liability	$141,774,000	$105,995,686	$ 90,851,000
Funded Ratio (Value of Plan Assets/AAL)	7.57%	3.84%	0.00%
Covered Payroll (Active Plan Members)	$114,877,552	$111,916,732	$111,968,457
UAAL as a percentage of covered payroll	123.41%	94.71%	81.14%

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 School System are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

14. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Actuarial Methods and Assumptions (continued)

In the July 1, 2006 actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used, include (a) a rate of return on the investment of 5.5 percent per year compounded annually, (b) projected salary increases of 3.5 percent compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 4.31 percent to 10.76 percent per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 8.02 percent initially, reduced annually to arrive at an ultimate healthcare cost trend of 4.1 percent, (e) rates of mortality based upon RP-2000 Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.0 to 15.0 percent, (g) disablement rates based on age, ranging from 0.03 percent to 0.54 percent, (h) retirement rates based on age and length of service, ranging from 1.0 percent to 24.0 percent, and (i) medical claims including prescription drugs are based on actual experience during the period from April 1, 2008 through March 31, 2010, and were projected with annual increases of 9 percent for medical claims. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 29 years for year ended June 30, 2010.

15. Landfill closure and postclosure cost

State and federal laws and regulations require The County Commissioners for St. Mary's County to place a final cover on landfill sites when the site stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Commissioners for St. Mary's County report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $1,400,000 reported as landfill closure and postclosure care liability at June 30, 2010, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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

16. Pass-through proceeds

The amount of grant funds passed through the County to Walden Sierra, Inc., Three Oaks Homeless Shelter, So. MD. Tri-County Community Action Committee, and St. Mary's County Housing Authority for the fiscal year ended June 30, 2010 totaled $1,052,739. These pass-through grants are recorded as pass-through revenue in the amount of $1,052,739 and expenditures in the amount of $1,052,739 on the Statement of Revenues and Expenditures.

17. Risk management

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

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

Annual premiums are assessed for the various policy coverages. During fiscal year 2010, the County paid premiums of $735,287 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $1,000,000 for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

18. Self-insurance (Worker's Compensation)

The County self-insures its worker's compensation costs and liabilities. The County establishes its funding of claims liabilities as they occur. This funding level includes provisions for legal, medical and lost wages expenses which are all classified as incremental claim adjustment expenses. Unpaid claims in the self-insurance funds include liabilities for unpaid claims based upon individual case estimates for claims reported at June 30, 2010. The unpaid claims also include liabilities for incurred but not reported (IBNR) claims as of June 30, 2010.

19. Subsequent Event

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through November 9, 2010, the date the financial statements were to be available to be issued. No events occurred during the subsequent period requiring recognition or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES
AND OTHER FINANCING SOURCES AND USES
BUDGET (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
REVENUES				
Property Taxes	$93,266,022	$94,266,022	$94,282,830	$16,808
Income Taxes	65,300,000	60,000,000	65,115,901	5,115,901
Energy Taxes	1,500,000	1,500,000	1,392,707	(107,293)
Recordation Taxes	5,500,000	4,400,000	4,539,647	139,647
Other Local Taxes	1,010,000	1,010,000	1,074,539	64,539
Highway User Revenues	3,751,037	326,053	356,019	29,966
Licenses and Permits	1,469,100	1,469,100	1,375,944	(93,156)
State/Federal Grants	14,760,211	10,455,709	10,065,653	(390,056)
Charges for Services	5,783,089	5,745,118	5,359,140	(385,978)
Fines and Forfeitures	278,386	278,386	251,985	(26,401)
Investment and Other Revenues	2,586,150	1,242,667	257,542	(985,125)
Sub-total	$195,203,995	$180,693,055	$184,071,907	$3,378,852
Pass-Throughs	0	0	1,052,739	1,052,739
TOTAL GENERAL FUND REVENUES	$195,203,995	$180,693,055	$185,124,646	$4,431,591
EXPENDITURES				
General Government	$21,946,423	$20,996,417	$19,288,515	$1,707,902
Public Safety	37,995,007	34,771,963	32,193,255	2,578,708
Public Works	8,779,732	8,610,523	8,559,945	50,578
Health	7,818,963	6,510,948	6,405,099	105,849
Social Services	4,883,138	4,860,529	4,818,230	42,299
Primary and Secondary Education	82,099,951	81,376,116	81,154,519	221,597
Post-Secondary Education	3,052,585	3,052,585	3,052,585	0
Parks, Recreation, and Culture	3,993,717	3,730,669	3,883,433	(152,764)
Libraries	2,286,038	2,276,038	2,276,038	0
Conservation of Natural Resources	401,682	387,626	382,542	5,084
Housing	1,368,624	1,358,624	981,314	377,310
Economic Development and Opportunity	2,115,682	1,857,644	2,008,392	(150,748)
Debt Service	13,214,897	10,925,897	10,769,086	156,811
Inter-governmental	64,425	64,425	64,425	0
Other	4,739,402	4,639,402	4,697,563	(58,161)
Sub-total	$194,760,266	$185,419,406	$180,534,941	$4,884,465
Pass-Throughs	0	0	1,052,739	(1,052,739)
TOTAL GENERAL FUND EXPENDITURES	$194,760,266	$185,419,406	$181,587,680	$3,831,726
OTHER FINANCING SOURCES AND USES				
Reserves - Use of Fund Balance	4,100,000	8,102,876	8,102,876	0
Reserves - Grants	(1,000,000)	(1,094,940)	0	1,094,940
Reserves - Bond Rating	(725,000)	0	0	0
Reserves - Budget Stabilization	(376,381)	(1,000,000)	0	1,000,000
Reserves - Emergency Appropriations	(500,000)	(87,268)	0	87,268
Capital Projects - General Fund Transfer/Pay-Go	(500,000)	0	0	0
Capital Projects - Reversion of Pay-Go Funds	0	0	955,000	955,000
Solid Waste/Recycling - General Fund Transfer	(1,442,348)	(1,194,317)	(1,194,317)	0
TOTAL OTHER FINANCING SOURCES AND USES	($443,729)	$4,726,351	$7,863,559	$3,137,208
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	$0	$0	$11,400,525	$11,400,525

See Independent Auditor's Report

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SHERIFF'S OFFICE RETIREMENT PLAN
FOR THE YEAR ENDED JUNE 30, 2010

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

Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
06/30/08	2,921,354	100%	0
06/30/09	3,823,341	100%	0
06/30/10	4,203,131	100%	0

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Before Assumption Change						
07/01/04	21,635,590	34,171,854	12,536,264	63.3%	7,881,721	159.1%
After Assumption Change						
07/01/04	21,635,590	35,481,603	13,846,013	61.0%	7,881,721	175.7%
07/01/06	25,046,412	45,025,479	19,979,067	55.6%	8,596,367	232.4%
07/01/08	31,714,844	60,049,310	28,334,466	52.8%	10,254,031	276.3%

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
RETIREE BENEFIT TRUST
FOR THE YEAR ENDED JUNE 30, 2010

Schedules of employer contributions and funding progress for the Retiree Benefit Trust are presented below:

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Required Contribution	Percentage Contributed
06/30/08	$14,788,623	$4,617,000	320.3%
06/30/09	10,757,875	4,617,000	233.0%
06/30/10	4,883,790	4,888,000	99.96%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/07	$23,318,131	$60,135,000	$36,816,869	38.78%	$35,716,358	103.08%
07/01/09	26,638,506	73,285,000	46,646,494	36.35%	35,562,940	131.17%

OTHER SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
ASSETS				
Due from other funds	$0	$327,845	$996,742	$1,324,587
Special tax assessments receivable, current portion	2,044	0	0	2,044
Notes receivable, Fire and Rescue loans, current portion	0	415,479	0	415,479
Emergency Support Services taxes receivable	0	0	110,578	110,578
Notes receivable, Fire and Rescue loans (net of current portion)	0	1,847,173	0	1,847,173
Special tax assessments receivable (net of current portion)	1,344,234	0	0	1,344,234
Total Assets	$1,346,278	$2,590,497	$1,107,320	$5,044,095
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$0	$0	$13,187	$13,187
Deferred revenue	1,345,412	2,262,652	0	3,608,064
Due to other funds	550,587	0	0	550,587
Total Liabilities	$1,895,999	$2,262,652	$13,187	$4,171,838
FUND BALANCES				
Reserved	($549,721)	$0	$3,941	($545,780)
Unreserved, designated	0	327,845	1,090,192	1,418,037
Total Fund Balances	($549,721)	$327,845	$1,094,133	$872,257
Total Liabilities and Fund Balances	$1,346,278	$2,590,497	$1,107,320	$5,044,095

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
REVENUES				
Fire and Rescue Loan Repayments	$0	$491,548	$0	$491,548
Special Assessments	195,438	0	0	195,438
Emergency Services Support Tax	0	0	1,763,046	1,763,046
Other	0	11,618	28,533	40,151
	$195,438	$503,166	$1,791,579	$2,490,183
EXPENDITURES				
Loans to Fire and Rescue	$0	$392,686	$0	$392,686
Debt Service	59,252	0	169,832	229,084
LOSAP	0	0	624,660	624,660
Operating Allocations	0	0	340,000	340,000
Advanced Life Support	0	0	351,107	351,107
Emergency Services Committee	0	0	39,636	39,636
Grants	0	0	39,968	39,968
	$59,252	$392,686	$1,565,203	$2,017,141
Net Increase/(Decrease) in Fund Balances	$136,186	$110,480	$226,376	$473,042
FUND BALANCES				
Beginning of Year	($685,907)	$217,365	$867,757	$399,215
End of Year	($549,721)	$327,845	$1,094,133	$872,257

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
PROPERTY TAXES				
Real and personal property				
Real Property Taxes	$87,583,245	$88,583,245	$88,735,661	$152,416
Payments in Lieu of Taxes	222,451	222,451	270,300	$47,849
Personal Property	318,384	318,384	128,846	(189,538)
Public Utilities	2,611,077	2,611,077	2,389,464	(221,613)
Ordinary Business Corporations	2,864,788	2,864,788	3,144,450	279,662
Additions and Abatements	(600,000)	(600,000)	(655,081)	(55,081)
Penalties and Interest	850,000	850,000	892,072	42,072
State Homeowners Credit (Circuit Breaker)	600,000	600,000	679,454	79,454
Homeowners Tax Credit (County)	(600,000)	(600,000)	(679,454)	(79,454)
Other Tax Credits	(583,923)	(583,923)	(622,882)	(38,959)
Total Property Taxes	$93,266,022	$94,266,022	$94,282,830	$16,808
Income Tax				
Local Income Tax	$65,300,000	$60,000,000	$65,115,901	$5,115,901
Other Local Taxes				
Recordation Taxes	$5,500,000	$4,400,000	$4,539,647	$139,647
Energy Taxes	1,500,000	1,500,000	1,392,707	(107,293)
Public Accommodations Tax	650,000	650,000	730,992	80,992
Trailer Park Tax	240,000	240,000	258,911	18,911
Admissions and Amusement	120,000	120,000	84,636	(35,364)
Total Other Local Taxes	$8,010,000	$6,910,000	$7,006,893	$96,893
State-Shared Taxes - Highway Users	$3,751,037	$326,053	$356,019	$29,966
TOTAL TAXES	$170,327,059	$161,502,075	$166,761,643	$5,259,568
LICENSES AND PERMITS				
Business	$259,100	$259,100	$260,417	$1,317
Marriage/Animal Licenses	12,000	12,000	12,580	580
Other	473,000	473,000	306,912	(166,088)
CATV Franchise Fees	725,000	725,000	796,035	71,035
TOTAL LICENSES AND PERMITS	$1,469,100	$1,469,100	$1,375,944	($93,156)
INTER-GOVERNMENTAL				
General Government	$826,020	$726,977	$632,432	($94,545)
Public Safety	4,575,369	2,444,204	1,760,202	(684,002)
Public Works	1,707,826	1,140,805	1,438,290	297,485
Social Services	1,039,425	1,112,612	1,004,721	(107,891)
Parks, Recreation and Culture	85,000	(48,200)	165,694	213,894
Economic Development & Opportunity	6,526,571	5,079,311	5,064,314	(14,997)
TOTAL INTER-GOVERNMENTAL	$14,760,211	$10,455,709	$10,065,653	($390,056)

See Independent Auditor's Report

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
CHARGES FOR SERVICES				
General Government	$1,693,382	$1,696,614	$1,887,425	$190,811
Public Safety	1,462,486	1,466,886	1,304,592	(162,294)
Public Works	644,562	598,959	534,962	(63,997)
Social Services	328,576	328,576	365,500	36,924
Parks, Recreation and Culture	233,970	233,970	243,605	9,635
Reimbursement - Housing Authority	1,420,113	1,420,113	1,023,056	(397,057)
TOTAL CHARGES FOR SERVICES	$5,783,089	$5,745,118	$5,359,140	($385,978)
FINES AND FORFEITURES				
General Government	$274,386	$274,386	$249,787	($24,599)
Public Safety	4,000	4,000	2,198	(1,802)
TOTAL FINES AND FORFEITURES	$278,386	$278,386	$251,985	($26,401)
OTHER REVENUES				
General Government				
Interest	$1,502,200	$102,200	$146,514	$44,314
Other	0	0	27,633	27,633
Grant Reserve	1,000,000	1,053,317	0	(1,053,317)
Contributions and Donations	83,950	87,150	83,395	(3,755)
TOTAL OTHER REVENUES	$2,586,150	$1,242,667	$257,542	($985,125)
TOTAL, BEFORE PASS-THROUGH PROCEEDS	$195,203,995	$180,693,055	$184,071,907	$3,378,852
Pass-through Proceeds	0	0	1,052,739	1,052,739
OTHER FINANCING SOURCES				
Appropriation of Fund Balance	4,100,000	8,102,876	8,102,876	0
TOTAL REVENUES INCLUDING PASS-THROUGHS	$199,303,995	$188,795,931	$193,227,522	$4,431,591

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
GENERAL GOVERNMENT				
Legislative/County Commissioners				
Legislative/County Commissioners	$434,171	$431,771	$383,632	$48,139
County Administrator	456,654	381,949	353,230	28,719
Public Information	304,267	210,289	193,776	16,513
County Attorney	640,883	659,952	606,454	53,498
Legislative/County Commissioners	1,835,975	1,683,961	1,537,092	146,869
Department of Finance				
Administration/Budget	683,759	666,604	638,774	28,030
Accounting	497,049	489,238	471,135	18,103
Auditing	55,735	54,535	52,240	2,295
Procurement	293,340	290,440	270,269	20,171
Copy Center	19,003	20,028	13,791	6,237
Department of Finance	1,548,886	1,521,045	1,446,209	74,836
Department of Information Technology	2,296,691	2,263,391	2,160,345	103,046
Department of Human Resources				
Human Resources	620,852	512,110	481,261	30,849
Risk Management	1,088,764	778,958	687,810	91,148
Department of Human Resources	1,709,616	1,291,068	1,169,071	121,997
Department of Public Works & Transportation				
Building Services	3,820,220	3,824,449	3,429,481	394,968
Carter State Office Building	636,328	636,328	473,651	162,677
Development Review	230,216	223,516	219,707	3,809
Mailroom/Messenger Services	145,404	137,563	130,935	6,628
Vehicle Maintenance Shop	1,283,164	1,320,632	1,336,621	(15,989)
Department of Public Works & Transportation	6,115,332	6,142,488	5,590,395	552,093
Dept of Land Use & Growth Management				
Administration	639,268	621,268	567,373	53,895
Board of Electrical Examiners	15,000	15,000	5,203	9,797
Comprehensive Planning	634,021	606,547	558,774	47,773
Development Services	326,897	305,497	275,575	29,922
Inspections & Compliance	691,284	658,245	540,695	117,550
Permit Services	277,666	193,418	190,688	2,730
Zoning Administration	352,262	345,562	337,726	7,836
Building Code Appeals Board	1,000	1,000	0	1,000
Commission on the Environment	2,000	2,000	0	2,000
Plumbing & Gas Board	3,695	3,695	837	2,858
Planning Commission	23,229	23,229	23,118	111
Boards and Commissions	20,764	20,764	18,847	1,917
Historical Preservation	3,215	3,215	1,938	1,277
Grants	46,500	1,500	47,970	(46,470)
Dept of Land Use & Growth Management	3,036,801	2,800,940	2,568,744	232,196
Circuit Court				
Administration	946,878	932,446	874,919	57,527
Law Library	60,500	60,000	54,135	5,865
Grants	478,338	416,110	371,428	44,682
Orphan's Court	32,331	32,331	30,954	1,377
Circuit Court	1,518,047	1,440,887	1,331,436	109,451
Office of the State's Attorney				
Judicial	2,169,703	2,139,003	2,105,004	33,999
Grants	486,822	498,446	426,936	71,510
Office of the State's Attorney	2,656,525	2,637,449	2,531,940	105,509
County Treasurer	372,697	366,397	363,441	2,956

See Independent Auditor's Report

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
Alcohol Beverage Board	239,823	214,446	176,884	37,562
Supervisors of Elections	614,997	633,512	412,901	220,611
Ethics Commission	833	833	57	776
Total General Government	$21,946,423	$20,996,417	$19,288,515	$1,707,902
PUBLIC SAFETY				
Emergency Management				
Emergency Management	$293,615	$265,249	$250,607	$14,642
Animal Control	745,457	697,967	597,051	100,916
Emergency Management	1,039,072	963,216	847,658	115,558
Emergency Communications Center				
Emergency Communications Center	2,294,080	2,252,887	2,127,726	125,161
Emergency Radio Communications	833,592	754,486	662,074	92,412
Grants	506,328	550,154	402,700	147,454
Emergency Communications Center	3,634,000	3,557,527	3,192,500	365,027
Office of the Sheriff				
Law Enforcement	19,390,621	18,950,654	18,222,232	728,422
Corrections	10,079,714	9,600,469	8,669,021	931,448
Training	260,355	260,355	199,241	61,114
Canine	16,400	16,400	14,146	2,254
Grants	3,374,845	1,222,302	847,417	374,885
Office of the Sheriff	33,121,935	30,050,180	27,952,057	2,098,123
Volunteer Fire Depts. & Rescue Squads	200,000	201,040	201,040	0
Total Public Safety	$37,995,007	$34,771,963	$32,193,255	$2,578,708
PUBLIC WORKS				
Department of PW and Transportation				
Administration	$416,563	$404,863	$392,068	$12,795
Engineering Services	627,852	604,652	595,743	8,909
Construction & Inspections	489,749	506,279	478,312	27,967
County Highways	3,810,598	4,243,843	4,144,860	98,983
Solid Waste/Recycling Subsidy	1,442,348	1,194,317	1,194,317	0
St Mary's County Airport	15,167	15,167	14,438	729
St. Mary's Transit System	3,402,303	2,819,219	2,918,686	(99,467)
Department of PW and Transportation	10,204,580	9,788,340	9,738,424	49,916
Maryland Dept. of Agriculture Weed Control	17,500	16,500	15,838	662
Total Public Works	$10,222,080	$9,804,840	$9,754,262	$50,578
HEALTH				
Operating Allocation				
Health Department	$1,359,577	$1,359,577	$1,359,531	$46
Mosquito Control	50,500	50,500	50,500	0
Operating Allocation	1,410,077	1,410,077	1,410,031	46
Office of the State's Attorney				
Project Graduation	60,350	60,350	54,431	5,919
Human Services				
Human Services	606,162	453,002	472,985	(19,983)
Marcey Halfway House	494,761	448,996	439,026	9,970
Grants	5,742,374	4,587,519	4,467,652	119,867
Human Services	6,843,297	5,489,517	5,379,663	109,854
Total Health	$8,313,724	$6,959,944	$6,844,125	$115,819

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
SOCIAL SERVICES				
Department on Aging				
Department on Aging	1,400,440	1,304,697	1,270,747	33,942
Oakley	55,453	25,985	24,237	1,748
SMILE/Medical Adult Daycare Subsidies	600,000	538,811	586,396	(47,585)
Grants	817,404	924,925	884,793	40,132
Department on Aging	2,873,297	2,794,418	2,766,173	28,237
Department of Social Services	388,006	441,541	437,457	4,084
Operating Allocation				
Hospice of St. Mary's	15,000	15,000	15,000	0
The ARC of Southern Maryland, Inc.	132,150	132,150	132,150	0
Catholic Charities	15,000	15,000	15,000	0
So. Md. Center for Independent Living, Inc.	15,000	16,250	16,250	0
The Center for Life Enrichment	155,908	155,908	155,908	0
Greenwell Foundation	42,000	45,000	45,000	0
St. Mary's Caring, Inc.	3,000	6,000	6,000	0
Three Oaks Center	130,000	135,000	135,000	0
Alternatives for Youth/Families, Inc.	26,250	26,250	26,250	0
Tri-County Community Action (SMTCCAC, Inc.)	17,751	17,751	17,751	0
Tri-County Youth Services Bureau	116,479	116,479	116,479	0
Unified Commission for Afro-Americans	5,000	5,000	5,000	0
Walden/Sierra	345,447	345,447	345,447	0
The So. MD Center for Family Advocacy	108,089	108,089	108,089	0
Mini Grants	100,000	36,250	36,250	0
Operating Allocation	1,227,074	1,175,574	1,175,574	0
Total Social Services	$4,488,377	$4,411,533	$4,379,204	$32,329
PRIMARY AND SECONDARY EDUCATION				
Board of Education	$79,945,102	$79,195,102	$79,195,102	$0
Non-Public School Bus Transportation	2,142,849	2,169,014	1,947,417	221,597
Operating Allocation				
Literacy Council of St. Mary's County	12,000	12,000	12,000	0
Total Primary and Secondary Education	$82,099,951	$81,376,116	$81,154,519	$221,597
POST-SECONDARY EDUCATION				
College of Southern Maryland - general operations	$2,971,585	$2,971,585	$2,971,585	$0
College of Southern Maryland - scholarship fund	$25,000	$25,000	$25,000	$0
Operating Allocation				
St. Mary's College Scholarship Fund	6,000	6,000	6,000	0
Southern Md. Higher Education Center	50,000	50,000	50,000	0
Operating Allocation	56,000	56,000	56,000	0
Total Post-Secondary Education	$3,052,585	$3,052,585	$3,052,585	$0
PARKS, RECREATION AND CULTURE				
Department of Recreation and Parks				
Administration	$1,050,014	$1,025,984	$1,021,023	$4,961
Parks Maintenance	1,993,865	1,909,640	1,860,523	49,117
Museum Division	567,838	546,245	539,192	7,053
Recreation Fund Subsidy	50,000	50,000	50,000	0
Grants	85,000	(48,200)	165,695	(213,895)
Department of Recreation and Parks	3,746,717	3,483,669	3,636,433	(152,764)

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
Operating Allocation				
St. Mary's County Historical Society	12,500	12,500	12,500	0
Historic St. Mary's City Foundation	1,500	1,500	1,500	0
Maryland Historical Society	1,000	1,000	1,000	0
Patuxent River Naval Air Museum	30,000	30,000	30,000	0
Lexington Park Rotary-Oyster Festival	5,000	5,000	5,000	0
St. Mary's County Arts Council	2,000	2,000	2,000	0
Boys & Girls Club of Southern Maryland	100,000	100,000	100,000	0
Historic Sotterley, Inc.	75,000	75,000	75,000	0
St. Mary's College River Concert Series	10,000	10,000	10,000	0
Seventh District Optimist	10,000	10,000	10,000	0
Operating Allocation	247,000	247,000	247,000	0
Total Parks, Recreation and Culture	$3,993,717	$3,730,669	$3,883,433	($152,764)
LIBRARIES				
County Funding - general operations	$2,288,038	$2,276,038	$2,276,038	$0
CONSERVATION OF NATURAL RESOURCES				
Cooperative Extension Service	$193,701	$183,020	$179,366	$3,654
Soil Conservation District	55,646	55,646	55,471	175
Conservation of Natural Resources	249,347	238,666	234,837	3,829
Allocation of Agriculture and Seafood (Division of DECD)	123,281	119,906	118,651	1,255
Operating Allocation				
SMC Forest Conservation District Board	1,000	1,000	1,000	0
Southern Md. Resource Conservation/Dev.	8,054	8,054	8,054	0
Watermen's Association	20,000	20,000	20,000	0
Operating Allocation	29,054	29,054	29,054	0
Total Conservation of Natural Resources	$401,682	$387,626	$382,542	$5,084
HOUSING				
Total Housing	$1,388,624	$1,358,624	$981,314	$377,310
ECONOMIC DEVELOPMENT AND OPPORTUNITY				
Department of Economic & Community Development				
Administration/Office of the Director	$244,211	$237,011	$239,475	($2,464)
Tourism Development	423,838	409,338	381,601	27,737
Agriculture & Seafood Development	164,374	159,874	158,201	1,673
Less Allocation (see above)	(123,281)	(119,906)	(118,651)	(1,255)
Business Development/Lexington Park Revitalization	366,107	360,207	362,801	(2,594)
Grants	151,003	113,258	248,441	(135,183)
Department of Economic & Community Development	1,226,252	1,159,782	1,271,868	(112,086)
Office of Community Services				
Office of Community Services	380,175	338,351	331,664	6,687
Grants	330,061	210,161	258,914	(48,753)
Human Relations Commission	2,750	2,750	0	2,750
Commission for the Disabled	2,300	2,300	1,752	548
Commission for Women	3,500	3,500	3,353	147
VISTA Program	34,044	2,700	2,741	(41)
	752,830	559,762	598,424	(38,662)
Operating Allocation				
Navy Alliance	30,000	30,000	30,000	0
So. Md. Child Care Resource Center	12,400	13,900	13,900	0
Tri-County Council	94,200	94,200	94,200	0
Operating Allocation	136,600	138,100	138,100	0
Total Economic Development and Opportunity	$2,115,682	$1,857,644	$2,008,392	($150,748)

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
DEBT SERVICE				
Debt Service	$13,214,897	$10,925,897	$10,769,086	$156,811
INTER-GOVERNMENTAL				
Leonardtown Tax Rebate	$64,425	$64,425	$64,425	$0
Total Inter-Governmental	$64,425	$64,425	$64,425	$0
OTHER				
Employer Contributions-Retiree Health Benefits	$4,593,402	$4,593,402	$4,642,621	($49,219)
Unemployment Compensation	11,000	11,000	30,435	(19,435)
Bank Service Fees	35,000	35,000	24,507	10,493
Total Other	$4,639,402	$4,639,402	$4,697,563	($58,161)
Total Expenditures, Before Pass-Throughs	196,202,614	186,613,723	181,729,258	4,884,465
Pass-Through Expenditures	0	0	1,052,739	(1,052,739)
Total Expenditures, Including Pass-Throughs	$196,202,614	$186,613,723	$182,781,997	$3,831,726
RESERVES				
Reserve - Grants	$1,000,000	$1,094,940	$0	$1,094,940
Reserve - Bond Rating	725,000	0	0	0
Reserve - Budget Stabilization	376,381	1,000,000	0	1,000,000
Reserve - Emergency Appropriations	500,000	87,268	0	87,268
Reserves	2,601,381	2,182,208	0	2,182,208
Total Reserves	$2,601,381	$2,182,208	$0	$2,182,208
Total Expenditures, Including Pass-Throughs and Reserves	$198,803,995	$188,795,931	$182,781,997	$6,013,934
Transfer				
Capital Projects - General Fund Transfer/Pay-Go	$500,000	$0	$0	$0
Capital Projects - Reversion of Pay-Go Funds	0	0	(955,000)	955,000
	500,000	0	(955,000)	955,000
Total Expenditures and Other Financing Uses	$199,303,995	$188,795,931	$181,826,997	$6,968,934

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2010

LAND PRESERVATION		
Agriculture Preservation	$1,584,712	
Transfer of Development Rights	234,000	
Forest Conservation Planting	80,676	
Critical Area Planting	75,000	$1,974,388
HIGHWAYS		
Patuxent Park Neighborhood Preservation	$1,927,114	
FDR Blvd. Extended	1,294,978	
Mechanicsville Road	1,292,000	
Dr. Johnson Rd. Bridge Structure	728,478	
Modified Surface Treatment	654,001	
Pegg Rd. Extension to Rt 5	545,754	
Streetscape Improvement	415,938	
Asphalt Overlay	254,660	
Roadside Obstacles	245,834	
Regional Stormwater Management	229,289	
Roadway Base Widening	210,839	
Bridge/Culvert Replacement	111,705	
Transportation Plan	95,072	
Adequate Public Facilities	30,775	
County Mapping	13,259	
Big Chestnut Mitigation	9,509	$8,059,205
MARINE		
Villas on Waters Edge	$420,310	
Kingston Creek #2	257,577	
Thomas Road Revetment	137,402	
Gibson Road	98,075	
St. Jerome's Creek Dredging	85,703	
Patuxent Beach Road Revetment	72,365	
St. Jerome's Creek Jetty Study	64,352	$1,135,784
PUBLIC WORKS		
Patuxent River Naval Museum-New	$5,433,312	
ADC Minimum Security Addition	1,152,536	
STS Bus Barn	1,107,900	
Leonardtown Library Renovation	1,076,500	
Airport Master Plan	916,200	
Chancellor's Run Rebuild	858,050	
CSM Wellness & Pool	450,000	
MEA Clean Energies Grant	438,000	
Workforce Housing Initiative	350,450	
Parking/Site Improvements	347,121	
Carter State Building Maintenance/Repair	326,880	
Mattapany Farmers Market	271,638	
Adult Detention Center Booking/Inmate Processing	264,000	
Airport Improvements	213,052	
Building Maintenance & Repairs	191,582	
Stormwater Management 2007	187,506	
Adult Detention Center Maintenance & Repairs	105,859	
ADC Locking Mech. & Cameras	102,052	
800 MHz Radio Enhancement	57,952	
Lexington Manor EDI	45,539	
Fuel Facility Upgrades	43,629	
Emergency Communications Center Hardening	38,803	
Emergency Equipment Shelter	13,472	
Armory Building	6,772	$13,998,805

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2010
(CONTINUED)

PIERS AND BOAT RAMPS		
River Springs Landing	$125,000	
Fox Harbor Landing II	106,247	
St. George's Island Pier Replacement	56,720	
Derelict Boat Removal	20,000	$307,967
PUBLIC SCHOOLS		
Leonardtown MS Renovation	$3,255,377	
Land Acquisition	1,045,000	
Oakville ES HVAC	614,406	
ADA Transition Plan	607,908	
Playground Equipment	457,081	
State Relocatable-site to be determined	440,008	
Margaret Brent MS Wastewater	385,865	
Early Childhood Center HVAC	336,089	
Evergreen Elementary School	261,267	
Second New Elementary School	250,000	
Tech Center Addition	238,395	
BBEC Roof Replacement	183,066	
Greenview Knolls HVAC	169,900	
Security Entrances (12)	149,459	
Site Acquisition Various	147,110	
Site Paving and Sidewalks	73,939	
Chopticon High School Sewer	50,000	
Margaret Brent Add/Renovation	45,715	
Playground Equipment Study	42,096	
Leonardtown High - Relocatables	41,132	
GMHS Tennis/Track Resurfacing	17,572	
Leonardtown Elementary Addition	11,440	
Chopticon High School Gym Floor	9,200	
Lettie Dent Chiller	7,345	$8,839,370
RECREATION & PARKS		
Three Notch Trail	$1,536,241	
Parks Land Acquisition	1,223,661	
Piney Point Lighthouse Park	704,049	
Charlotte Hall Athletic Fields	537,907	
Carver Heights Park	12,016	
Park Roads, Parking & Access	6,500	
7th District Park Improvements	5,821	
Chancellor's Run Park	2,125	
Tennis Court Replacement	1,570	$4,029,890
SOLID WASTE		
Landfill Mitigation	$435,909	
Conevience Center Expansion	254,842	
St. Andrews Area D	93,687	
New Transfer Station	64,710	$849,148
Total		$39,194,557

Included in the above total is $13,586,201 in unexpended State and Federal projects appropriations.

Murphy & Murphy, CPA, LLC
Certified Public Accountants

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2010, which collectively comprise the County Commissioners for St. Mary's County, Maryland's basic financial statements and have issued our report thereon dated November 9, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the St. Mary's County Public Schools as described in our report on the County Commissioners for St. Mary's County, Maryland's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County Commissioners for St. Mary's County, Maryland 's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Commissioners for St. Mary's County, Maryland's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Commissioners for St. Mary's County, Maryland's internal control over financial reporting.

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

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

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Compliance and Other Matters

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

We noted certain matters that we reported to the management of the County, in a separate letter dated November 9, 2010.

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland
November 9, 2010

ST. MARY'S COUNTY METROPOLITAN COMMISSION

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

CONTENTS

Murphy & Murphy

CPA, LLC

INDEPENDENT AUDITOR'S REPORT ON COMPONENT UNIT FINANCIAL STATEMENTS

The Commissioners
St. Mary's County Metropolitan Commission
Hollywood, Maryland

We have audited the accompanying financial statements of the business-type activities of the St. Mary's County Metropolitan Commission (MetCom), a component unit of the County Commissioners of St. Mary's County, as of and for the years ended June 30, 2010 and 2009, which comprise the St. Mary’s County Metropolitan Commission’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the St. Mary's County Metropolitan Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the St. Mary's County Metropolitan Commission as of June 30, 2010 and 2009, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2010, on our consideration of the St. Mary's County Metropolitan Commission'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions on pages 3 through 9 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the St. Mary's County Metropolitan Commission's basic financial statements. The accompanying other supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. This other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
September 20, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the St. Mary's County Metropolitan Commission's (MetCom's) annual financial report presents our discussion and analysis of MetCom's financial performance during the fiscal years that ended June 30, 2010 and 2009. Please read it in conjunction with MetCom's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- MetCom's net assets increased by $8.8 million and $7.5 million, or 13.4% and 12.7%, as a result of operations in fiscal years 2010 and 2009, respectively.

- During the current year, MetCom's revenue from operations was $11.4 million, representing an increase of 10% over the prior year. The increase in operating revenue is due to an increase in rates of approximately 8% for both water and sewer services, as well as an increase in the number of customers served. In fiscal year 2009, revenue from operations was $10.3 million, or 1.8% over the prior year. This increase in operating revenue was due to an increase in the number of customers served, and an increase in the overage rates for water and sewer.

- MetCom's operating expenses excluding depreciation were $10 million during the current year, and $9.4 million during the prior year.

- MetCom's nonoperating revenue was $10.4 million during the current year and $9.2 million in fiscal year 2009, representing an increase of 13.8% and 58.6%, respectively. The increase in both years is attributable to capital contributions received.

- The slowdown in the construction industry that started in fiscal year 2008 has continued to have a negative impact on Engineering Revenues in both fiscal years 2010 and 2009. The current year's engineering revenues are two-thirds of the fiscal year 2006 enginerring revenues and only about one-half of the fiscal year 2007 level.

- In FY 2008 MetCom established a trust fund for the management of assets and accounting for financial transactions associated with the provision of retiree health insurance coverage. The balance in the trust fund was $1.6 million as of 6/30/10 and $1.2 million as of 6/30/09. MetCom has funded the full OPEB cost for both years.

- MetCom took out two new loans in FY10, totaling $774 thousand.

USING THIS ANNUAL REPORT

This annual reports consists of three parts – management's discussion and analysis, the basic financial statements and supplemental information. The basic financial statements consist of:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Fund Net Assets
- Statements of Cash Flows
- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to Financial Statements

The Statements of Net Assets provide a snapshot of MetCom's financial position at both June 30, 2010 and 2009. Amounts of Net Assets are cumulative from inception. Both current and long-term assets and liabilities, as well as net assets, are presented.

The Statements of Revenues, Expenses and Changes in Fund Net Assets provide information about the activities of MetCom as a whole and reflect activity for the fiscal years ended June 30, 2010 and 2009. These statements measure operating revenues and expenses as well as non-operating revenues and expenses. The statements also present capital contributions as well as changes in net assets.

The Statements of Cash Flows present the sources and uses of MetCom's cash. MetCom uses the direct method for presenting the cash flow statements.

The Notes to the Financial Statements provide information and more detailed data about the financial statements. The Supplementary departmental financial statements report MetCom's activities in more detail by providing information about MetCom's most financially significant funds.

MetCom operates as an enterprise fund, which is one type of proprietary fund. All of MetCom's basic services are reported here, including water, sewer, engineering services and general administration, as well as other nonoperating revenues and expenses. MetCom charges customers fees to cover all of the costs of the services it provides. MetCom's financial statements are presented using the accrual basis of accounting and the economic resource measurement focus. All assets and liabilities are included in the financial statements. Revenue is recognized when water and other services are delivered, and expenses are recognized when goods and services are received, regardless of when cash is received or paid.

MetCom has one fiduciary fund, the Retiree Health Benefit Fund, which is used to account for resources held for the benefit of MetCom employees and retirees. These funds are not available to support MetCom's operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The supplementary departmental financial statements provide details about MetCom's most significant funds – not MetCom as a whole. The Board of Commissioners of MetCom establishes funds to help it manage and control monies for particular purposes or to show that it is meeting legal responsibilities.

METCOM AS A WHOLE

Statements of Net Assets

MetCom's net assets increased by approximately $8.8 million in FY 2010 and $7.5 million in FY 2009. The majority of the increase is attributable to the change in net assets invested in capital assets, net of related debt. During fiscal year 2010, developers completed construction of $4.8 million of capital assets and donated them to MetCom. In fiscal year 2009, developers contributed $5.2 million of capital assets. MetCom also received $2.1 million in grants in fiscal year 2010. The following condensed statements show the changes in assets, liabilities and net assets for the years ended June 30, 2010, 2009 and 2008.

MetCom's Net Assets
(in millions of dollars)
Business-type activities

	June 30,		
	2010	2009	2008
Current and other assets	$ 11.20	$ 10.10	$ 8.40
Capital assets	89.90	78.80	71.50
Total assets	$ 101.10	$ 88.90	$ 79.90
Long-term debt outstanding	$ 20.30	$ 18.90	$ 17.80
Other liabilities	5.90	3.90	3.50
Total liabilities	$ 26.20	$ 22.80	$ 21.30
Net assets			
Invested in capital assets, net of related debt	$ 67.80	$ 58.30	$ 52.20
Restricted	3.80	3.10	3.80
Unrestricted	3.30	4.70	2.60
Total net assets	$ 74.90	$ 66.10	$ 58.60

Statements of Revenues, Expenses and Changes in Fund Net Assets

Changes in MetCom's net assets can be determined by reviewing the following condensed Statements of Revenue, Expenses and Changes in Fund Net Assets:

MetCom's Changes in Net Assets
(in millions of dollars)
Business-type activities

	Years ended June 30, 2010	2009	2008
Operating revenues	$ 11.4	$ 10.3	$ 10.1
Operating expenses	(10.0)	(9.4)	(8.6)
Depreciation expense	(3.0)	(2.6)	(2.3)
Operating loss	(1.6)	(1.7)	(0.8)
Net nonoperating revenues	3.5	3.8	3.4
Capital contributions	6.9	5.4	2.4
Change in net assets	8.8	7.5	5.0
Net assets at beginning of year	66.1	58.6	53.6
Net assets at end of year	$ 74.9	$ 66.1	$ 58.6

MetCom's operating revenues totaled $11.4 million during the current year. Total operating revenues increased by 10% over the prior year, compared to an operating revenue of the prior year of $10.3 million, which was an increase of 1.8% over fiscal year 2008. The current year increase is due to an 8% average increase in water and sewer service charges and customer growth. The prior year increase was due to customer growth, as well as an increase in the overage rate for both water and sewer usage. Expenses from MetCom's operating activities excluding depreciation totaled $10.0 million during the current year and $9.4 million in the prior year. All of these expenses are considered related to providing water, sewer and engineering services to the residents/businesses of St. Mary's County. Salaries and benefits comprised $6.2 million, or 63% of operating expenses. Power for plant operations was $1.1 million, or 10.9 %. Maintenance of the system was $.5 million, or 5% of operating expenses. The remaining $2.2 million, or 21%, related to direct and administrative costs.

Nononoperating revenue increased 13.8% to $10.4 million during the current year and 58.6% to $9.2 million in fiscal year 2009. Capital contributions made up $6.9 million and $5.4 million of the nonoperating revenue in fiscal years 2010 and 2009 respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At June 30, 2010, MetCom had $129.4 million prior to depreciation invested in capital assets. This represents an increase of 12% over the previous year. As of June 30, 2009, MetCom had $115.2 million prior to depreciation invested in capital assets. MetCom owns water and sewer systems and treatment facilities in addition to numerous vehicles, furniture, equipment and computer equipment and a building. The following table summarizes MetCom's capital assets (in millions):

	2010	2009	2008
Utility plants	$ 87.1	$ 79.8	$ 75.8
Water plants	23.5	19.8	17.9
Equipment	6.6	6.2	5.7
Capitalized interest	.8	0.8	0.8
Buildings	1.5	1.5	1.5
Land	.6	0.6	0.6
Construction in process	9.3	6.5	3.3
	129.4	115.2	105.6
Accumulated depreciation	(39.5)	(36.4)	(34.1)
Net capital assets	$ 89.9	$ 78.8	$ 71.5

This year's major capital asset additions included:

Buck Hewitt Road sewer extension, $775 thousand, built with loan proceeds.

Facilities Plan for $618 thousand, which was primarily funded by a loan in the amount of $424 thousand and $169 thousand from St. Mary's County.

Andover Estates sewer system for $552 thousand, which together with the Andover Road project was funded with loans and a $282 thousand grant.

Hollywood Water extension for $297 thousand, which was primarily built with a $191 thousand loan and $100 thousand grant.

Sewer lines, force mains, manholes, grinder pumps, three sewer pumping stations, water mains, valves, fire hydrants and a well, pumphouse and tower were constructed and contributed by developers, $4.8 million.

MetCom's FY11 Capital Improvement Budget for water is $11.1 million, which includes $2.4 million for water lines, $.4 million for water storage tanks, $.6 million for wells, $4.9 million for the radio read meter system and oversize meters, $1.3 million for the MetCom Office expansion and $1.5 million for miscellaneous projects.

The FY 11 Capital Improvement Budget for sewer is $44.1 million, which includes $38.2 million for the Marlay-Taylor Water Reclamation Facility Enhanced Nutrient Removal Upgrade, ENR, $1.4 million for replacement projects, $2.0 million for pump stations and $2.5 million for upgrades/expansions. The largest project is $38.2 million for the ENR, project at the Marlay-Taylor Water Reclamation Facility, which is in the design phase. This project is required to meet the requirements of the Chesapeake Bay 2000 agreement and will be designed to achieve 3mg/l total nitrogen and 0.3mg/l total phosphorous in the effluent. The State is expected to pay for the ENR portion of this project, estimated to be $11 million, and the Navy is expected to pay $6.5 million for this project.

MetCom has also been approved for a $3.6 million grant from the ARRA 2009 Stimulus Funds to build the Methane Powered Co-Generator, including the cost of the Digester Covers needed to make the methane recoverable. Through June 30, 2010, MetCom has spent $2 million, which should be reimbursed in early fiscal year 2011.

In fiscal year 2010, MetCom received grants from the Maryland Department of the Environment, MDE: $117 thousand for the Patuxent Park Sewer Line Repair Project and $100 thousand for the Hollywood Well Arsenic Remediation Project .

Debt administration

At the end of FY10 and FY 09, MetCom had a total of $22.1 million and $20.5 million in debt outstanding, respectively.

On November 14, 2007, MetCom issued $10.9 million of Infrastructure Financing Bonds in conjunction with the Maryland Department of Housing and Community Development. During FY 10, MetCom received $2.6 million on this loan. Total draws in FY 10 were $3.5 million. During FY 09 draws totaled $3.3 million.

The following table summarizes MetCom's debt (in millions):

	June 30,			% change	% change
	2010	2009	2008	FY09	FY08
Bonds payable	$ 12.0	$ 10.4	$ 9.2	14.8	13.1
Notes, leases and loans payable	10.1	10.1	10.1	.2	.0
Total debt	$ 22.1	$ 20.5	$ 19.3	7.6	6.4

The primary sources of revenue available for repayment of debt are System Improvement Charges that are paid by all customers with allocations on our system and Capital Contribution Charges which are paid by new customers.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

MetCom anticipates about a 6% increase in the total operating revenues for next year. This increase is mostly attributable to rate increases of approximately 4% in both sewer and water service charges, but is also impacted by projected growth in water and sewer customers.

The total operating expenses in MetCom's Operating Budget for FY11 are $11.6 million, about $759 thousand more than the FY 10 Amended Budget. Salaries are the largest component of MetCom's expenses; in FY 11 salaries are $4.8 million, with a $174 thousand increase over the FY 10 Amended Operating Budget. Health insurance is $916 thousand and OPEB is $375 thousand to fully fund the Annual Required Contribution, ARC, to the Other Post-Employment Benefit Trust. Electricity to operate the water and sewer systems is $1.1 million in the FY 11 Operating Budget; the budget reflects a budget reduction of $50 thousand expected to result from the Methane Co-Generator scheduled to go on line in January 2011.

MetCom closed on a $12.6 million loan from the Maryland Department of Housing and Community Development (DHCD) Local Government Infrastructure Program in August 2010 to fund a variety of projects. MetCom expects to receive a loan of about $400 thousand in the fall of 2010 from the Maryland Department of the Environment, MDE, to fund the St. Clements Shores Well.

MetCom has been awarded a grant from MDE for one-half of the cost of the Radio Read Meter Project, $2 million. MDE will provide a loan for the other $2 million. Construction on this project is expected to start the summer of 2011.

CONTACTING METCOM'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of MetCom's finances and show MetCom's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the MetCom Administrative office at 43990 Commerce Avenue, Hollywood, Maryland 20636.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET ASSETS

ASSETS

	June 30, 2010	June 30, 2009
Current assets:		
Cash and cash equivalents	$ 6,754,013	$ 8,119,670
Accounts receivable	1,142,930	1,090,559
Loans/grants receivable	2,366,844	-
Inventory	144,503	128,555
Prepaid expenses	303,035	300,224
Total current assets	10,711,325	9,639,008
Noncurrent assets:		
Capital assets, net	89,942,407	78,787,257
Deferred bond issue costs	410,584	445,125
Unamortized bond discount	64,489	70,487
Total noncurrent assets	90,417,480	79,302,869
Total assets	$ 101,128,805	$ 88,941,877

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET ASSETS (CONTINUED)

LIABILITIES AND NET ASSETS

	June 30, 2010	June 30, 2009
Current liabilities:		
Accounts payable	$ 2,843,349	$ 762,855
Accrued interest payable	209,570	265,475
Accrued expenses	781,157	941,020
Deferred income	253,929	334,023
Bond premiums	33,073	37,239
Bonds payable	918,166	796,849
Notes, leases and loans payable	876,614	810,641
Total current liabilities	5,915,858	3,948,102
Noncurrent liabilities:		
Bonds payable	11,091,508	9,665,494
Notes, leases and loans payable	9,208,186	9,251,420
Total noncurrent liabilities	20,299,694	18,916,914
Total liabilities	26,215,552	22,865,016
Net assets:		
Invested in capital assets, net of related debt	67,847,933	58,262,853
Restricted	3,765,804	3,151,341
Unrestricted	3,299,516	4,662,667
Total net assets	74,913,253	66,076,861
Total liabilities and net assets	$ 101,128,805	$ 88,941,877

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

	Years ended June 30, 2010	2009
Operating revenue:		
Service charges	$ 11,148,449	$ 10,118,110
Miscellaneous	208,631	205,939
Total operating revenue	11,357,080	10,324,049
Operating expenses:		
Direct operating expenses	6,495,872	5,950,589
Administrative expenses	3,470,434	3,505,591
Total operating expenses	9,966,306	9,456,180
Operating income before depreciation	1,390,774	867,869
Depreciation	(2,981,136)	(2,595,661)
Operating loss	(1,590,362)	(1,727,792)
Nonoperating revenue (expenses):		
Interest income	28,790	78,573
Debt service charges	4,309,391	4,090,607
House connection charges- net	47,440	157,820
Water supply fees	-	61,200
Water storage fees	-	167,940
Interest expense	(923,400)	(980,219)
Other fees	76,979	152,236
Total nonoperating revenue, net	3,539,200	3,728,157
Income before contributions	1,948,838	2,000,365
Capital contributions	6,887,554	5,436,625
Change in fund net assets	8,836,392	7,436,990
Total net assets- beginning	66,076,861	58,639,871
Total net assets- ending	$ 74,913,253	$ 66,076,861

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS

	Years ended June 30, 2010	2009
Cash flows from operating activities:		
Receipts from customers	$ 11,015,984	$ 10,105,444
Payments to suppliers	(3,231,854)	(5,179,670)
Payments to employees	(4,743,436)	(3,911,749)
Other receipts	208,631	205,939
Net cash provided by operating activities	3,249,325	1,219,964
Cash flows from capital and related financing activities:		
Proceeds from capital debt	3,514,502	3,298,543
Purchases of capital assets	(9,704,720)	(4,525,461)
Principal paid on capital debt	(1,944,432)	(2,072,637)
Interest paid on capital debt	(942,932)	(906,897)
Other receipts and payments	4,433,810	4,629,803
Net cash provided (used) by capital and related financing activities	(4,643,772)	423,351
Cash flows from investing activities:		
Interest received	28,790	78,573
Net increase (decrease) in cash and cash equivalents	(1,365,657)	1,721,888
Cash and cash equivalents at beginning of year	8,119,670	6,397,782
Cash and cash equivalents at end of year	$ 6,754,013	$ 8,119,670

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended June 30, 2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (1,590,362)	$ (1,727,792)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	3,070,280	2,683,276
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(52,371)	11,441
Increase in prepaid expense	(2,811)	(872)
Increase in inventory	(15,948)	(97,132)
Increase (decrease) in accounts payable	2,080,494	(93,224)
Increase (decrease) in accrued expenses	(159,863)	468,374
Increase in deferred income	(80,094)	(24,107)
Net cash provided by operating activities	$ 3,249,325	$ 1,219,964

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

	Years ended June 30, 2010	2009
Increase in capital assets	$ 14,225,430	$ 9,962,086
Capital contribution	(4,520,710)	(5,436,625)
Purchase of capital assets	$ 9,704,720	$ 4,525,461

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF FIDUCIARY NET ASSETS

ASSETS

	Years ended June 30, 2010	2009
Restricted investments	$ 1,563,818	$ 1,222,517
Total assets	$ 1,563,818	$ 1,222,517

NET ASSETS

	Years ended June 30, 2010	2009
Net assets held in trust for OPEB	$ 1,563,818	$ 1,222,517
Total net assets	$ 1,563,818	$ 1,222,517

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

	Years ended June 30, 2010	2009
ADDITIONS:		
Contributions	$ 405,000	$ 514,000
Interest income	2,760	10,976
Net additions	$ 407,760	$ 524,976
DEDUCTIONS:		
Benefits paid	$ (66,459)	$ (55,287)
Administrative expenses	-	(5,000)
Net deductions	(66,459)	(60,287)
Change in net assets	$ 341,301	$ 464,689
NET ASSETS:		
Beginning of year	$ 1,222,517	$ 757,828
End of year	$ 1,563,818	$ 1,222,517

See accompanying notes.

1. Summary of significant accounting policies

Financial reporting entity

The St. Mary's County Metropolitan Commission (MetCom) is responsible for providing water and wastewater facilities and services within the jurisdiction of St. Mary's County, Maryland. MetCom's commissioners are appointed by the County Commissioners of St. Mary's County. MetCom, a body politic and corporate, organized under section 113 of the code of St. Mary's County is a component unit of the St. Mary's County Government.

The financial statements of MetCom have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The significant accounting policies are described below.

Fund accounting and basis of accounting

MetCom maintains its accounting system as an enterprise fund to report its nonfiduciary activities. An enterprise fund is used to account for operations that are primarily financed by user charges. Separate financial statements are provided for its fiduciary fund.

MetCom applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Fund accounting is designed to demonstrate legal compliance and to aid in financial management by segregating transactions related to certain government functions or activities. An enterprise fund is used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Both enterprise and fiduciary funds are accounted for using the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. Fund equity (i.e., net assets) is segregated into invested in capital assets and restricted and unrestricted components. Enterprise fund-type operating statements present increases (e.g., revenue) and decreases (e.g., expenses) in net assets.

Net assets are reported as restricted when constraints placed on net assets use are either externally imposed by creditors (such as through debt covenants),

1. Summary of significant accounting policies (continued)

Fund accounting and basis of accounting (continued)

grantors, contributions, or laws or regulations of other governments or imposed by law through legislation.

Use of 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 reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits and any highly liquid investments with an initial maturity of three months or less.

Inventory

Inventory is valued at the average cost method. The consumption method of recording inventory is used, which means that the acquisition of materials and supplies is recorded initially in inventory accounts and charged as expenses when used.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Major receivables include inspection fees and water and sewer billings receivable.

Compensated absences

Compensated absences are accrued as incurred and recognized as a current liability in the financial statements. These absences represent vacation leave earned but not taken. The total leave earned but not taken was $317,959 and $323,090 at June 30, 2010 and 2009, respectively.

1. Summary of significant accounting policies (continued)

Capital assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Depreciation expense is calculated on a straight-line basis over the estimated useful lives of the related assets, as follows:

Asset Class	Estimated Life
Utility plants	18 to 50 years
Water plant systems	18 to 50 years
Equipment	3 to 10 years
Capitalized interest	50 years
Buildings	25 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Capital contributions

Capital grants and contributions from federal and state governments are reported as capital contributions in the statements of revenues, expenses and changes in fund net assets.

Donated assets consist principally of capital assets constructed by developers and subsequently donated to MetCom and reported as capital contributions. They are recorded at estimated fair value using developers' estimated costs to construct the assets. The capital assets and related capital contributions are recognized upon completion of construction.

Deferred bond issue costs

Deferred bond issue costs include legal fees, advertising, rating fees and other costs incurred when bonds were issued. The costs are being amortized over the maturity of the bond issues using the bonds-outstanding method, which approximates the effective interest method.

2. Deposits and investments

Policy

Maryland law prescribes that local government units such as MetCom must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits.

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

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, MetCom's deposits may not be returned to it. Custodial credit risk for investments is the risk that securities are uninsured, unregistered, and held by the counterparty, or by its trust department or agent, but not in the County or the Plans name. As of June 30, 2010 and 2009, there were no deposits or investments exposed to custodial credit risk.

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. MetCom's policy does not allow investments in foreign denominations, therefore they are not subject to foreign currency risk.

Deposits

The carrying amount of MetCom's deposits was $2,825,435 and $3,863,157 at June 30, 2010 and 2009, respectively, and the bank balances were $2,429,954 and $3,771,506. Of the bank balances, $250,000 was covered by federal depository insurance at June 30, 2010.

2. Deposits and investments (continued)

Deposits (continued)

and 2009, with the remaining $2,179,954 and $3,521,506 adequately covered by collateral.

Cash and cash equivalents consisted of the following as of June 30,

	2010	2009
Investments	$ 3,928,128	$ 4,256,063
Cash	2,825,435	3,863,157
Petty cash	450	450
	$ 6,754,013	$ 8,119,670

Investments

Investments in the MLGIP are not evidenced by securities. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. Separately issued financial statements may be obtained from the contractor: David Rommel, PNC Bank, Two Hopkins Plaza, Baltimore, Maryland 21201. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments. The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated AAAm by Standard and Poors. As of June 30, 2010 and 2009, MetCom’s investments, for both custodial and credit risk purposes, consisted solely of shares in the MLGIP. This investment is not deemed to have either risk. The Pool is managed as a Rule 2a-7 pool. Therefore, MetCom faces no interest rate risk. The cost and fair value of the MLGIP investments at June 30, 2010 and 2009 was $3,928,128 and $4,256,063, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

3. Capital assets and depreciation

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets:				
Utility plants	$ 79,798,675	$ 7,350,475	$ 0	$ 87,149,150
Water plant systems	19,789,857	3,719,800	0	23,509,657
Equipment	6,245,871	359,249	22,968	6,582,152
Capitalized interest	818,201	0	0	818,201
Buildings	1,461,505	0	0	1,461,505
Subtotal	108,114,109	11,429,524	22,968	119,520,665
Not being depreciated:				
Utility plant construction in process	3,581,440	5,890,053	4,581,684	4,889,809
Water plant construction in process	2,947,728	3,159,666	1,673,129	4,434,265
Land and land rights	598,037	1,000	0	599,037
	115,241,314	20,480,243	6,277,781	129,443,776
Accumulated depreciation:				
Utility plants	27,131,379	1,878,294	0	29,009,673
Water plant systems	5,136,032	593,052	0	5,729,084
Equipment	3,278,280	527,262	22,968	3,782,574
Capitalized interest	237,278	16,364	0	253,642
Buildings	671,088	55,308	0	726,396
	36,454,057	3,070,280	22,968	39,501,369
Net capital assets	$ 78,787,257	$ 17,409,963	$ 6,254,813	$ 89,942,407

Depreciation expense of $3,070,280 was charged to activities as follows:

Sewer activities	$ 2,137,343
Water activities	780,828
Engineering activities	62,965
Administrative	89,144
Total	$ 3,070,280

3. Capital assets and depreciation (continued)

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets:				
Utility plants	$ 75,771,536	$ 4,027,139	$ 0	$ 79,798,675
Water plant systems	17,881,970	1,907,887	0	19,789,857
Equipment	5,730,349	836,926	321,404	6,245,871
Capitalized interest	818,201	0	0	818,201
Buildings	1,461,505	0	0	1,461,505
Subtotal	101,663,561	6,771,952	321,404	108,114,109
Not being depreciated:				
Utility plant construction in process	2,311,778	1,751,185	481,523	3,581,440
Water plant construction in process	1,030,256	2,201,168	283,696	2,947,728
Land and land rights	595,037	3,000	0	598,037
	105,600,632	10,727,305	1,086,623	115,241,314
Accumulated depreciation:				
Utility plants	25,496,815	1,634,564	0	27,131,379
Water plant systems	4,645,569	490,463	0	5,136,032
Equipment	3,113,108	486,576	321,404	3,278,280
Capitalized interest	220,914	16,364	0	237,278
Buildings	615,779	55,309	0	671,088
	34,092,185	2,683,276	321,404	36,454,057
Net capital assets	$ 71,508,447	$ 8,044,029	$ 765,219	$ 78,787,257

Depreciation expense of $2,683,276 was charged to activities as follows:

Sewer activities	$ 1,877,835
Water activities	666,204
Engineering activities	51,622
Administrative	87,615
Total	$ 2,683,276

4. Long-term debt

Long-term bonds payable as of June 30, 2010, are as follows:

Bonds Payable Description	Due	Rate	Principal	Interest
Twelfth Issue	1996-2013	3.9% -5.25%	$ 665,000	$ 70,919
Fourteenth Issue	2001-2029	4.125%-5%	1,426,400	814,176
Seventeenth Issue	2006-2019	2.75%-4.40%	4,273,862	877,601
Twenty-first Issue	2007-2021	3.65%-4.275%	899,700	228,799
Twenty-third Issue	2008-2027	3.5%-4.25%	4,744,712	1,916,550
			12,009,674	3,908,045
Less current portion			918,166	499,143
Total			$ 11,091,508	$ 3,408,902

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2010 are as follows:

Year ending June 30,	Principal	Interest
2011 (current)	$ 918,166	$ 499,143
2012	966,623	461,271
2013	1,008,347	420,206
2014	807,548	376,256
2015	837,249	343,351
2016 – 2020	4,219,480	1,170,178
2021 – 2025	2,085,712	535,558
2026 – 2030	1,166,549	102,082
	$ 12,009,674	$ 3,908,045

4. Long-term debt (continued)

Long-term bonds payable as of June 30, 2009 are as follows:

Bonds Payable Description	Due	Rate	Principal	Interest
Twelfth Issue	1996-2013	3.9% -5.25%	$ 870,000	$ 115,918
Fourteenth Issue	2001-2029	4.125%-5%	1,471,300	886,090
Seventeenth Issue	2006-2019	2.75%-4.40%	4,654,969	1,062,859
Twenty-first Issue	2007-2021	3.65%-4.275%	968,200	267,984
Twenty-third Issue	2008-2027	3.5%-4.25%	2,497,874	1,040,614
			10,462,343	3,373,465
Less current portion			796,849	436,599
Total			$ 9,665,494	$ 2,936,866

Redemption - Tenth Issue - DHCD Loan

Bonds in the amount of $170,000 were redeemed in full at 100% on March 8, 2009.

Redemption - Twelfth Issue

Optional redemption

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

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

4. Long-term debt (continued)

Fourteenth Issue

On May 18, 1999, the Commission issued $1,830,900 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA).

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

The bonds may be prepaid at the following premiums:

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

Seventeenth Issue

On September 4, 2003, MetCom issued Refunding Bonds of 2003 in the principal amount of $6,105,000. The bonds mature on November 1, in 14 annual installments, beginning in 2005 and ending in 2018. Interest rates on the bonds range from 2.75% to 4.4%. Interest is payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1 to maturity.

The bonds may be prepaid at the following premiums:

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

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

The outstanding amount of refunding bond issue number seventeen is shown net of a deferred loss on the advance refunding of $71,138.

4. Long-term debt (continued)

Twenty-first Issue

In fiscal year 2006, the Commission issued Refunding Bonds on April 5, 2006 in the principal amount of $1,158,700. The bonds mature on May 1, in 15 annual installments, beginning in 2007 and ending in 2021. Interest is payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

This bond is not subject to prepayment by the Issuer prior to May 1, 2016. On or after May 1, 2017, this bond is subject to prepayment by the Issuer at 100%.

The bonds were issued to refund outstanding maturities of Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). These bonds were issued with a true interest cost ranging from 3.65% to 4.275% to refund certain maturities of $620,000 in outstanding 1996 Series A bonds, the Thirteenth Issue, with a coupon rate of 5.579% and $500,000 in outstanding 1995 Series A bonds, the Tenth issue, with an average interest rate of 6.24%. These bonds were issued to take advantage of a favorable interest rate environment. The net proceeds (including interest and premium) of $1,131,200 were deposited with an escrow agent to provide for all future debt service payments of the refunded bonds.

MetCom refunded these bonds at a premium to reduce its total debt service payments by $152,325 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $110,445.

Twenty-Third Issue

On November 14, 2007, the Commission issued $10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2010 and 2009, MetCom had drawn only $5,887,712 and $3,245,673 of the proceeds, respectively.

The bonds mature on May 1, in 20 annual installments, beginning in 2008 and ending in 2027. Interest rates on the bonds range from 3.5%-4.25%. Interest is payable on May 1, 2008 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2017. Any partial prepayment shall not be less than the outstanding balance or $50,000, whichever is less.

4. Long-term debt (continued)

Notes, leases and loans payable

Notes, leases and loans payable as of June 30, 2010 are as follows:

Description	Due	Rate	Principal	Interest
Leonardtown	2010-2020	6.10% - 10%	$ 99,400	$ 73,163
Sixth Issue	2017	6.682%	97,942	27,865
MD Water Quality Loan #8	2012	3.45%	195,616	10,180
MD Water Quality Loan #11	2017	4.26%	1,859,957	330,139
MD Water Quality Loan #15	2020	2.70%	472,789	73,011
MD Water Quality Loan #16	2023	1.20%	366,971	27,663
MD Water Quality Loan #18	2025	1.10%	3,628,976	327,498
MD Water Quality Loan #19	2024	1.10%	738,264	62,350
MD Water Quality Loan #20	2024	1.10%	971,119	65,305
MD Water Quality Loan #22	2027	1.10%	992,026	93,080
MD Water Quality Loan #25	2029	1.00%	191,593	19,433
MD Water Quality Loan #26	2030	1.00%	470,147	50,272
			10,084,800	1,159,959
Less current portion			876,614	195,861
Total			$ 9,208,186	$ 964,098

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2010, are as follows:

Year ending June 30,	Principal	Interest
2011 (current)	$ 876,614	$ 195,861
2012	888,488	173,654
2013	807,272	151,984
2014	826,148	133,109
2015	845,688	113,570
2016 – 2020	3,477,289	298,361
2021 – 2025	2,149,101	87,919
2026 – 2030	214,200	5,501
	$ 10,084,800	$ 1,159,959

4. Long-term debt (continued)

Notes, leases and loans payable as of June 30, 2009 are as follows:

Description	Due	Rate	Principal	Interest
Leonardtown	2010-2020	6.10% - 10%	$ 119,571	$ 88,601
MD Bank and Trust	2010	4.80%	18,885	919
Sixth Issue	2017	6.682%	108,655	35,125
MD Water Quality Loan #8	2012	3.45%	287,677	20,105
MD Water Quality Loan #11	2017	4.26%	2,084,048	418,920
MD Water Quality Loan #15	2020	2.70%	513,504	84,284
MD Water Quality Loan #16	2023	1.20%	397,148	32,430
MD Water Quality Loan #18	2025	1.10%	3,850,387	369,850
MD Water Quality Loan #19	2024	1.10%	648,687	58,541
MD Water Quality Loan #20	2024	1.10%	983,355	88,745
MD Water Quality Loan #22	2027	1.10%	1,050,144	102,903
			10,062,061	1,300,423
Less current portion			810,641	208,655
Total			$ 9,251,420	$ 1,091,768

As of June 30, 2010, MetCom has ten loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eight amounting to $1,326,045 were used to finance the Marley-Taylor WRF Interim Expansion. Proceeds from loan number eleven of $4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for $835,000 was drawn during the year ended June 30, 2000 for the purpose of financing an office building for the administrative use of MetCom. Loan number sixteen for $567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for $4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for $976,700 was used to replace the Lexington Park Wastewater Pumping Station. Proceeds drawn at June 30, 2010 and 2009 were $976,700 and $838,591, respectively. Loan number twenty was for water meter installations. As of June 30, 2010 and 2009, amounts drawn on the loan were $1,466,576 and $1,393,960, respectively. Loan number twenty-two for $1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for $191,593 was used for the Hollywood Water Extension to provide arsenic remediation. This loan has been fully drawn. Loan number twenty-six for $582,547 is to be used for Patuxent Park Sewer Line Repair and the Marlay-Taylor Methane Powered CoGeneneration Project. Proceeds drawn at June 30, 2010 were $470,147.

4. Long-term debt (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2010 were as follows:

	Balance July 01, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
Bonds payable	$ 10,462,343	$ 2,642,039	$ 1,094,708	$ 12,009,674	$ 918,166
Notes, leases and loans payable	10,062,061	872,463	849,724	10,084,800	876,614
Total long-term debt	$ 20,524,404	$ 3,514,502	$ 1,944,432	$ 22,094,474	$ 1,794,780

The changes in long-term debt payable for the year ended June 30, 2009 were as follows:

	Balance July 01, 2008	Additions	Deductions	Balance June 30, 2009	Amounts Due Within One Year
Bonds payable	$ 9,248,136	$ 2,435,314	$ 1,221,107	$ 10,462,343	$ 796,849
Notes, leases and loans payable	10,050,362	863,229	851,530	10,062,061	810,641
Total long-term debt	$ 19,298,498	$ 3,298,543	$ 2,072,637	$ 20,524,404	$ 1,607,490

5. Restricted net assets

Net assets are restricted for the repayment of the following:

a. Special assessments are restricted in net assets for the future replacement of sewer systems that were built with Environmental Protection Agency grants awarded after February 1984. The amount restricted at June 30, 2010 and 2009 is $1,410,023 and $1,410,023, respectively.

b. Collection of fees for a sinking fund to upgrade the capacity of the main sewage treatment plant at Marley-Taylor WRF are restricted for that purpose. The amount restricted June 30, 2010 and 2009 is $707,104 and $687,123, respectively.

c. The Board has restricted net assets per agreement with customers for upgrades and replacements to their water and sewer systems. The amount restricted June 30, 2010 and 2009 is $130,894 and $130,894, respectively.

5. Restricted net assets (continued)

d. System Improvement Charges are collected for the replacement and upgrade of water and sewer facilities. These funds are restricted by law for that purpose. The balance as of June 30, 2010 and 2009 was $1,515,254 and $848,882, respectively.

e. Capital Contribution Charges are collected for the construction of facilities to serve new customers. These funds are restricted by law for that purpose. The balance at June 30, 2010 and 2009 was $2,529 and $74,419, respectively.

6. Retirement and pension plan

On March 18, 2004, MetCom adopted a Section 457 plan. Under the terms of the plan, employees may contribute up to 100% of their salary, up to the contribution limits, to the plan. No employer contributions are made to this plan.

Effective July 1, 2004, MetCom joined the Maryland State Retirement and Pension System. Under the terms of entry into the system, MetCom will grant 100% credit for prior service of eligible employees. The actuarial cost of entry into the Maryland State Retirement and Pension System for service prior to June 30, 2004 was $3,392,774.

Description

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

Maryland State Pension Systems

Participants in the Pension Systems contribute a percentage of their earnings. Pensions normally start at age 62 or after 30 years' service, but with 15 or more years

6. Retirement and pension plan (continued)

Maryland State Pension Systems (continued)

of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest consecutive three years' pay. Cost of living increases are limited to 3% per annum.

On July 13, 2006, MetCom passed a resolution to join the Alternate Contributory Pension Selection Plan (ACPS). The plan increases the employee multiplier from 1.4% to 1.8% for service credits earned after July 1, 1998. Employee contributions are 3% for FY07, 4% for FY08 and 5% thereafter. The ACPS surcharge for FY10 and FY09 is 1.11% of salaries.

Funding policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the Pension Systems were required to contribute 5% of earnable compensation for the years ended June 30, 2010 and 2009.

Contribution rates are established by annual actuarial valuations. The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as the June 30, 2000 actuarial valuation is being amortized over the remaining 11-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. The equivalent single amortization period is 30 years. The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and over 100 participating governmental units make all of the employer and other contributions to the System.

MetCom provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2010, MetCom's total payroll and payroll for covered employees were $4,786,691 and $3,829,598, respectively. MetCom's contribution to the System was $282,327 and $250,958 for the years ended June 30, 2010 and 2009, respectively.

6. Retirement and pension plan (continued)

Funding policy (continued)

Actuarial assumptions

a) Return on investment of 7.75% compounded annually (adopted June 30, 2003).

b) Projected salary increases of 3.5% compounded annually due to inflation (adopted June 30, 2007).

c) Salary increases due to seniority and merit are projected at 0.00-8.5% per annum (adopted June 30, 2007).

d) Postretirement benefit increases are projected at 2.75-3.5% per annum depending on the system (adopted June 30, 2009).

e) Rates of mortality, termination, disablement and retirement are based on actual experience from 2003 through 2006 (adopted June 30, 2007).

f) Member payroll assumed to increase 3.5% annually (adopted June 30, 2007).

Trend information

	June 30,		
	2009	2008	2007
Annual required contributions (in thousands)	$1,313,560	$1,183,765	$ 1,025,972
Percentage contributed	84%	89%	81%

7. Other post-employment benefits

MetCom adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, MetCom recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in

7. Other post-employment benefits (continued)

assessing potential demands on MetCom's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

During FY08 MetCom established a trust fund, the Retiree Benefit Trust of St. Mary's County Metropolitan Commission, to fund certain retiree health benefits.

Plan Description

MetCom provides health, prescription, dental and vision care insurance benefits to eligible retirees, eligible retirees' family members and the family members of deceased employees as a single-employer plan. Eligible persons include employees with a minimum of ten years of eligible MetCom service entering an immediate retirement, family members of eligible retirees and family members of deceased employees. MetCom pays a percentage of premiums based on the date of hire and number of years of service. For employees hired prior to May 10, 2007, the percentage ranges from 53.13% with ten years of service to 85% with 16 or more years of service. The percentages for employees hired on or after May 10, 2007 range from 21.25% with 15 years service to 85% with 30 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by MetCom's Board of Commissioners.

Membership

At June 30 membership consisted of:

	2010	2009	2008
Retirees and Beneficiaries Currently Receiving Benefits	9	6	5
Active Employees	60	62	61
Total	69	68	66

Funding Policy

During FY08 MetCom established a trust fund, the Retiree Benefit Trust of St. Mary's County Metropolitan Commission, to fund certain retiree health benefits. MetCom contributed $405,000 and $514,000 to the trust in FY10 and FY09, respectively. The Net OPEB Obligation is overpaid by $284,984 as of June 30, 2010.

7. Other post-employment benefits (continued)

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY11 Operating Budget includes fully funding the OPEB cost.

Annual OPEB Costs and Net OPEB Obligation

MetCom'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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of MetCom's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in MetCom's net OPEB obligation:

	2010	2009
Annual Required Contribution	$ 409,000	$ 519,000
Interest on NOPEBO	16,000	17,000
Adjustment to ARC	(20,000)	(22,000)
Annual OPEB Cost	405,000	514,000
Contributions Made	405,000	514,000
NOPEBO, (Prepaid) Beginning of Year	$ (283,984)	$ (283,984)
NOPEBO, (Prepaid) End of Year	$ (283,984)	$ (283,984)

The funded status of the plan as of June 30, 2010, was as follows:

Actuarial Accrued Liability (AAL)	$ 3,989,000
Actuarial Value of Plan Assets	1,219,000
Unfunded Actuarial Accrued Liability	$ 2,770,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	30.56%
Covered Payroll (Active Plan Members)	$ 3,670,430
UAAL as a percentage of covered payroll	75.47%

7. Other post-employment benefits (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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, 2009 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 8.5% and 5.2% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 3.2% rate of inflation assumption. The UAAL is being amortized as a 30-year level percentage of projected payroll, closed basis, with 28 years remaining.

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 and healthcare cost trends.

Amounts determined regarding the funded status of the plan and the annual required contributions 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 information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits. The actuarial value of assets was based on the estimated July 1, 2009 asset figure of $1,219,000.

Summary of significant accounting policies

The Trust’s financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable. The Trust assets are invested with the Maryland Local Government Investment Pool.

7. Other post-employment benefits (continued)

The Trust does not issue a stand-alone financial report and is not included in the report of a public employee reitrement system or of another entity.

8. Rate setting

MetCom is required by law to set rates which are sufficient to cover both operating expenses and debt service. Depreciation of the plant and collection systems is not an allowable cost for purposes of setting rates. A reconciliation of the results of operations for financial reporting and rate-setting purposes is as follows:

	Years ended June 30, 2010	2009
Change in net assets – per financial statements	$ 8,836,392	$ 7,436,990
Add: Depreciation – facilities	2,536,296	2,189,974
Amortization	52,766	49,213
Less: Principal payment on capital debt	(1,946,311)	(2,081,441)
Repayment of internal pension loan	(113,091)	(113,092)
Meter costs	(91,803)	(79,174)
Capital contributions	(6,887,554)	(5,436,625)
Excess or (deficiency) of revenue over expenses – rate-setting method	$ 2,386,695	$ 1,965,845

9. Risk management

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

9. Risk management (continued)

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During fiscal years 2010 and 2009, MetCom paid premiums of $109,973 and $112,666, respectively, to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any, resulting from these risks have not exceeded commercial coverage in the past fiscal year.

10. Commitments and contingencies

Under the Chesapeake Bay 2000 agreement, the Marlay-Taylor Water Reclamation Facility is required to meet Enhanced Nutrient Removal (ENR) standards by 2012. ENR standards require the Marley-Tylor Water Reclamation Facility to achieve levels of 3mg/l total nitrogen and 0.3mg/l total phosphorous in the effluent that flows into the Chesapeake Bay. MetCom is currently in the design stage of an ENR project to achieve this goal.

11. Subsequent events

In preparing these financial statements, MetCom has evaluated events and transactions for potential recognition or disclosure through September 20, 2010, the date the financial statements were available to be issued.

On August 25, 2010, Infrastructure Bond, 2010 Series A, in the amount of $12,613,963 was issued in conjunction with the Maryland Community Development Administration, with an effective interest rate of 3.779% and a twenty-year term.

REQUIRED SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POSTEMPLOYMENT BENEFIT PLAN

JUNE 30, 2010 AND 2009

MetCom's Other Postemployment Benefit Plan (OPEB Plan) is administered through the Retiree Benefit Trust of St. Mary's County Metropolitan Commission as an irrevocable trust. Assets of the trust are dedicated to providing post-retirement health, prescription, dental and vision coverage to current and eligible future retirees.

The following schedules present MetCom's actuarially determined funding progress and required contributions for the Retiree Benefit Trust of St. Mary's County Metropolitan Commission.

Schedule of Funding Progress for the MetCom Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
07/01/07	$ -	$ 4,331,000	$ 4,331,000	0.00%	$ 3,400,838	127.35%
07/01/09	$ 1,219,000	$ 3,989,000	$ 2,770,000	30.56%	$ 3,670,430	75.47%

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Annual OPEB Cost	Percentage Contributed
06/30/08	$ 801,984	$ 518,000	155%
06/30/09	514,000	514,000	100%
06/30/10	405,000	405,000	100%

MetCom implemented GASB Statement No. 45 for the fiscal year ended June 30, 2008. Information for prior years is not available.

See Independent Auditor's Report.

OTHER SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2010

	Sewer	Water	Engineering	Total
Operating revenue:				
Service charges	$ 6,808,403	$ 3,937,389	$ 402,657	$ 11,148,449
Miscellaneous	31,034	148,016	29,581	208,631
Total operating revenue	6,839,437	4,085,405	432,238	11,357,080
Operating expenses:				
Direct operating expenses	3,804,576	2,089,472	601,824	6,495,872
Administrative expenses	1,915,333	1,155,307	399,794	3,470,434
Total operating expenses	5,719,909	3,244,779	1,001,618	9,966,306
Operating income (loss) before depreciation	1,119,528	840,626	(569,380)	1,390,774
Depreciation	(2,137,343)	(780,828)	(62,965)	(2,981,136)
Operating income (loss)	(1,017,815)	59,798	(632,345)	(1,590,362)
Allocable nonoperating revenue (expense):				
Interest income	2,122	530	-	2,652
Debt service charges	2,758,462	1,550,929	-	4,309,391
House connection charges - net	(2,738)	50,178	-	47,440
Water supply fees	-	-	-	-
Water storage fees	-	-	-	-
Debt service - interest and finance charges	(520,880)	(402,520)	-	(923,400)
Total allocable nonoperating revenue	2,236,966	1,199,117	-	3,436,083
Total allocable net income (loss)	1,219,151	1,258,915	(632,345)	1,845,721
Nonallocable revenue:				
Interest income				26,138
Other fees				76,979
Total nonallocable revenue				103,117
Capital contribution				6,887,554
Change in fund net assets				$ 8,836,392

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2009

	Sewer	Water	Engineering	Total
Operating revenue:				
Service charges	$ 6,064,997	$ 3,685,067	$ 368,046	$ 10,118,110
Miscellaneous	20,165	154,709	31,065	205,939
Total operating revenue	6,085,162	3,839,776	399,111	10,324,049
Operating expenses:				
Direct operating expenses	3,265,781	2,015,566	669,242	5,950,589
Administrative expenses	1,893,019	1,226,957	385,615	3,505,591
Total operating expenses	5,158,800	3,242,523	1,054,857	9,456,180
Operating income (loss) before depreciation	926,362	597,253	(655,746)	867,869
Depreciation	(1,877,835)	(666,204)	(51,622)	(2,595,661)
Operating income (loss)	(951,473)	(68,951)	(707,368)	(1,727,792)
Allocable nonoperating revenue (expense):				
Interest income	14,116	3,529	-	17,645
Debt service charges	2,630,560	1,460,047	-	4,090,607
House connection charges - net	163,251	(5,431)	-	157,820
Water supply fees	-	61,200	-	61,200
Water storage fees	-	167,940	-	167,940
Debt service - interest and finance charges	(576,596)	(403,623)	-	(980,219)
Total allocable nonoperating revenue	2,231,331	1,283,662	-	3,514,993
Total allocable net income (loss)	1,279,858	1,214,711	(707,368)	1,787,201
Nonallocable revenue:				
Interest income				60,928
Other fees				152,236
Total nonallocable revenue				213,164
Capital contribution				5,436,625
Change in fund net assets				$ 7,436,990

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2010

	Sewer	Water	Engineering	Total
Service charges:				
Service charge - metered	$ 1,364,519	$ 3,488,728	$ -	$ 4,853,247
Service charge - nonmetered	5,309,459	333,308	-	5,642,767
Service charge - ready-to-serve	-	68,158	-	68,158
Septage haul revenue	95,052	-	-	95,052
Remote area surcharge	39,373	520	-	39,893
Review fees	-	-	130,091	130,091
Inspection fees	-	-	271,316	271,316
Residential tap fee sewer	-	-	1,250	1,250
Cut-on cut-off fees	-	46,675	-	46,675
Total service charges	$ 6,808,403	$ 3,937,389	$ 402,657	$ 11,148,449

	Sewer	Water	Engineering	Total
Direct operating expenses:				
Salaries	$ 1,797,010	$ 923,541	$ 719,393	$ 3,439,944
Chemicals	141,361	85,278	-	226,639
Employee training	9,629	3,507	4,479	17,615
Employee physicals/uniforms	12,618	5,276	1,491	19,385
Oil and gas	92,928	6,540	1,204	100,672
Lab/soil testing	5,038	-	-	5,038
Vehicle operating and mileage	105,622	49,057	22,539	177,218
Safety supplies	7,844	4,549	-	12,393
Water testing	-	18,671	-	18,671
Tools purchased	5,988	4,690	-	10,678
Maintenance	354,772	140,972	647	496,391
Materials and supplies	102,295	74,696	15,994	192,985
Miscellaneous	124,169	100,423	947	225,539
Leonardtown - treatment plant	154,301	-	-	154,301
Power	549,800	533,708	3,952	1,087,460
Telephone	39,982	14,439	11,414	65,835
Sludge removal	228,153	-	-	228,153
Major system repair cost	77,801	46,710	-	124,511
Casual/contracted labor	-	-	-	-
Meter reading expense	-	80,807	-	80,807
Recovery of costs	(4,735)	(3,392)	(180,236)	(188,363)
Total direct operating expenses	$ 3,804,576	$ 2,089,472	$ 601,824	$ 6,495,872

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2009

	Sewer	Water	Engineering	Total
Service charges:				
Service charge - metered	$ 1,037,634	$ 3,248,939	$ -	$ 4,286,573
Service charge - nonmetered	4,834,218	319,422	-	5,153,640
Service charge - ready-to-serve	-	63,814	-	63,814
Septage haul revenue	159,724	-	-	159,724
Remote area surcharge	33,421	520	-	33,941
Review fees	-	-	89,965	89,965
Inspection fees	-	-	276,831	276,831
Residential tap fee sewer	-	-	1,250	1,250
Cut-on cut-off fees	-	52,372	-	52,372
Total service charges	$ 6,064,997	$ 3,685,067	$ 368,046	$ 10,118,110
Direct operating expenses:				
Salaries	$ 1,663,896	$ 858,136	$ 763,185	$ 3,285,217
Chemicals	141,799	88,331	-	230,130
Employee training	6,569	2,372	3,679	12,620
Employee physicals/uniforms	9,957	5,470	1,794	17,221
Oil and gas	75,126	7,057	829	83,012
Lab/soil testing	12,051	-	-	12,051
Vehicle operating and mileage	105,337	51,751	23,806	180,894
Safety supplies	5,691	3,079	-	8,770
Water testing	-	15,092	-	15,092
Tools purchased	5,516	5,679	-	11,195
Maintenance	237,858	113,447	665	351,970
Materials and supplies	83,016	56,864	11,828	151,708
Miscellaneous	14,820	18,564	805	34,189
Leonardtown - treatment plant	146,132	-	-	146,132
Power	555,681	547,666	3,964	1,107,311
Telephone	38,823	20,994	11,847	71,664
Sludge removal	133,254	-	-	133,254
Major system repair cost	52,461	139,934	-	192,395
Casual/contracted labor	2,806	2,806	-	5,612
Meter reading expense	-	78,324	-	78,324
Recovery of costs	(25,012)	-	(158,551)	(183,563)
Professional fees	-	-	5,391	5,391
Total direct operating expenses	$ 3,265,781	$ 2,015,566	$ 669,242	$ 5,950,589

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULES OF ADMINISTRATIVE EXPENSES

	Years ended June 30, 2010	2009
Administrative expenses:		
Advertising	$ 24,029	$ 22,060
Accounting	9,500	11,900
Bond fees	1,500	1,500
Casual labor	-	969
Commissioners' salaries	14,500	14,500
Computer services	35,272	30,146
Consulting	19,060	508
Depreciation	89,144	87,615
Dues and subscriptions	6,448	5,554
Electric	9,140	9,167
Employee training	39,375	17,842
Hospitalization and disability	1,051,791	1,221,125
Insurance	207,910	192,545
Legal	11,184	44,354
Mileage and travel	3,563	3,838
Miscellaneous	5,717	5,840
Office and administrative salaries	1,129,129	1,080,406
Office supplies and expenses	61,267	60,936
Payroll taxes	349,420	333,991
Postage expense	88,884	92,720
Retirement	282,327	250,958
Telephone and fax	36,876	23,998
Trailer rent expense	-	3,135
Tuition reimbursement	12,956	17,791
Recovery of costs	(18,558)	(27,807)
Total administrative expenses	$ 3,470,434	$ 3,505,591
Allocated to services as follows:		
Sewer 55%	$ 1,915,333	$ 1,893,019
Water 33%	1,155,307	1,226,957
Engineering 12%	399,794	385,615
	$ 3,470,434	$ 3,505,591

Murphy & Murphy
CPA, LLC

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

The Commissioners
St. Mary's County Metropolitan
  Commission
Hollywood, Maryland

We have audited the financial statements of the business-type activities of the St. Mary's County Metropolitan Commission as of and for the years ended June 30, 2010 and 2009, which comprise the St. Mary's County Metropolitan Commission's basic financial statements and have issued our report thereon dated September 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the St. Mary's County Metropolitan Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the St. Mary's County Metropolitan Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of St. Mary's County Metropolitan Commission's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland
September 20, 2010