

THE COUNTY COMMISSIONERS OF
CHARLES COUNTY, MARYLAND

ANNUAL FINANCIAL REPORT
June 30, 2007

Charles County, Maryland
Table of Contents

	<u>Page</u>
Report of Independent Certified Public Accountants	1 - 2
Management's Discussion and Analysis	3 - 16
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18 - 19
Fund Financial Statements:	
Governmental Fund Financial Statements	
Balance Sheet	20
Reconciliation of Total Governmental Fund Balance to Net	
Assets of Governmental Activities	21
Statement of Revenues, Expenditures, and Changes in Fund Balance	22
Reconciliation of the Statement of Revenues, Expenditures,	
and Changes in Fund Balance of Governmental Funds to the	
Statement of Activities	23
Proprietary Fund Financial Statements	
Statement of Net Assets	24
Statement of Revenues, Expenses, and Changes in Net Assets	25
Statement of Cash Flows	26 - 27
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	28
Statement of Changes in Fiduciary Net Assets	29
Component Units Financial Statements	
Combining Statement of Net Assets	30
Combining Statement of Activities	32 - 33
Notes to the Financial Statements Index	34 - 35
Notes to the Financial Statements	36 - 88
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget to Actual - General Fund	91
Other Supplementary Information	
Other Governmental Funds	
Combining Balance Sheet	95 - 98
Combining Statement of Revenues, Expenditures and	
Changes in Fund Balance	99 - 102

Continued

Charles County, Maryland

Table of Contents

(CONTINUED)

	<u>Page</u>
Other Proprietary Funds	
Combining Statement of Net Assets	103-104
Combining Statement of Revenues, Expenses and Changes in Net Assets	105-106
Combining Statement of Cash Flows	107-110
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	111-112

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of The County Commissioners of Charles County, Maryland provides an overview of the County's financial activities for the Fiscal Year ended June 30, 2007. We encourage readers to use the information presented here in conjunction with the financial statements (beginning on page 17), and the accompanying notes to those financial statements (beginning on page 34).

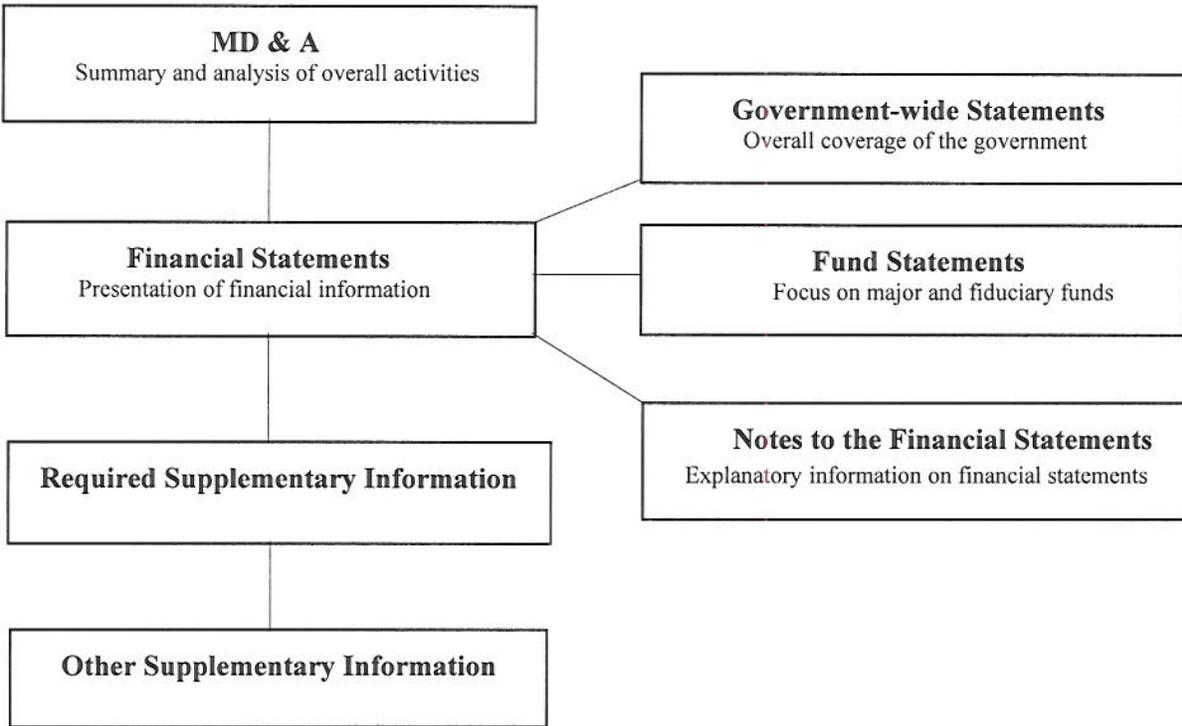
Financial Highlights

- ★ The government-wide assets of Charles County exceeded liabilities at the close of the current fiscal year by \$408.7 million (*net assets*). An increase in assets is a direct result of the aggressive capital project program for roads, sewer, and water facilities. It also reflects the rapid appreciation of property values due to the housing market.
- ★ The County's change in net assets was \$21.1 million.
- ★ As of the close of the current fiscal year, Charles County's governmental funds reported combined ending fund balances of \$136.3 million, an increase of \$1.6 million from the prior year. Approximately 59% of this total amount, \$80 million, is available for spending at the government's discretion (*unreserved fund balance*).
- ★ Unreserved undesignated fund balance for the General Fund was \$54 million or 20% of General Fund expenditures at June 30, 2007.
- ★ The unreserved fund balance level of 20% for the General Fund significantly exceeds our target of 8%. The long-term fiscal plan conveys that approximately \$37 million of current and future fund balance is reinvested over the course of the next five years to fund capital projects, debt service associated with new schools, and other minor equipment and vehicle purchases. Combined with modest estimated future operating surpluses, the fiscal plan projects that fund balance will return to the 8% target by FY2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's financial statements. Charles County's financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required and other supplementary information in addition to the financial statements themselves. The diagram below illustrates how each element of the statements can be used to enhance the overall understanding of the information presented.

Financial Statement Presentation



Government-wide financial statements (Reporting on the County as a Whole)

The government-wide financial statements are designed to provide readers with a broad overview of Charles County Government’s finances, in a manner similar to that of a private-sector business. The Statement of Net Assets and the Statement of Activities are prepared using the accrual basis of accounting.

The Statement of Net Assets presents information on all of the County’s assets and liabilities, with the difference between the two reported as net assets. Historical trending of the increases and decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County’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 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 the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general

government, public safety, education, highway and street maintenance, health, parks, and recreation. The business-type activities of the County include water and sewer services, solid waste management, environmental services (recycling) programs, golf course operation, recreation programs, and development services (plan review and inspection).

The government-wide financial statements include not only the operations of Charles County Government itself (known as the primary government), but also the legally separate organizations of the Board of Education of Charles County, Maryland, and the Board of Library Trustees for Charles County, Maryland (component units). The financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 17-19 of this report.

Fund financial statements (Reporting on the County's Most Significant Funds)

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 County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County 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 more narrow 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.

Charles County Government maintains twenty-one individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund, the Capital Projects Fund, and the Debt Service Fund, which are considered to be major funds. Data from the other eighteen governmental funds are combined into a single, aggregated presentation in the governmental fund financial statements. The governmental fund financial statements can be found on pages 20-23 of this report.

Proprietary funds - Proprietary funds include internal service funds and enterprise funds. An internal service fund is an accounting device used to accumulate and allocate costs internally among the County's various functions. Charles County does not maintain any internal service funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its water and sewer services, solid waste management, environmental services programs, golf course operations, recreation programs, and development services.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered to be a major fund of the County. The remaining six enterprise funds are combined into a single, aggregated presentation in the proprietary fund financial statements. The proprietary fund financial statements can be found on pages 24-27 of this report.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. Fiduciary funds include four fund types - pension trust funds, investment trust funds, private-purpose trusts, and agency funds. The County does not maintain any investment trust funds, private-purpose trusts or agency funds. The two pension trust funds maintained by the County are the Sheriff's Office Retirement Plan and the County Employees Retirement Plan. The fiduciary fund financial statements can be found on pages 28-29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to developing a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-88 of this report.

Required supplementary information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information that is not considered a part of the financial statements. Included in this section is a budgetary comparison for the General Fund, which demonstrates compliance with the annually adopted budget. This information can be found on page 91 of this report.

Other supplementary information. Other supplementary information includes the Combining Balance Sheet and the Combining Statement of Revenues, Expenditures and Changes in Fund Balance for other nonmajor governmental funds. Also presented here are the Combining Statement of Net Assets, the Combining Statement of Revenues, Expenses and Changes in Net Assets, and the Combining Statement of Cash Flows for the other nonmajor proprietary funds. These reports can be found on pages 95-110 of this report.

Government-wide Financial Analysis

As noted earlier, trend analysis of net assets may serve as a useful indicator of a government's financial position. In Charles County, assets exceeded liabilities by \$408.7 million at the close of the most recent fiscal year, as shown in the summary schedule of net assets below.

By far the largest portion of Charles County's net assets, \$315.9 million (77%), reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any

related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets (9%) represents resources that are subject to external restrictions on how they may be used.

Net Assets
June 30, 2007 and 2006
(amounts expressed in thousands)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 225,026	\$ 223,930	\$ 37,429	\$ 37,409	\$ 262,455	\$ 261,339
Capital assets, net of depreciation	369,715	329,122	166,383	156,170	536,098	485,292
Total assets	<u>594,741</u>	<u>553,052</u>	<u>203,812</u>	<u>193,579</u>	<u>798,553</u>	<u>746,631</u>
Non-current liabilities	252,591	233,965	74,692	62,407	327,283	296,372
Other liabilities	53,011	54,096	9,511	8,550	62,522	62,646
Total liabilities	<u>305,602</u>	<u>288,061</u>	<u>84,203</u>	<u>70,957</u>	<u>389,805</u>	<u>359,018</u>
Net assets:						
Invested in capital assets, net of related debt	217,933	199,787	97,968	98,060	315,901	297,847
Restricted net assets	37,214	37,980	0	0	37,214	37,980
Unrestricted net assets	33,993	27,224	21,641	24,562	55,634	51,786
Total net assets	<u>\$ 289,140</u>	<u>\$ 264,991</u>	<u>\$ 119,609</u>	<u>\$ 122,622</u>	<u>\$ 408,749</u>	<u>\$ 387,613</u>

Changes in Net Assets
Years ended June 30, 2007 and 2006
(amounts expressed in thousands)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
Program revenues:						
Charges for services	\$ 31,860	\$ 12,789	\$ 35,487	\$ 34,965	\$ 67,347	\$ 47,754
Operating grants	23,366	21,257	0	0	23,366	21,257
Capital grants	145	3,539	721	5,197	866	8,736
General revenues:						
Property taxes	144,342	130,168	0	0	144,342	130,168
Other taxes	124,178	125,174	0	0	124,178	125,174
Grants and contributions not restricted to specific programs	0	349	0	0	0	349
Other	16,815	10,298	4,593	480	21,408	10,778
Total revenues	<u>340,706</u>	<u>303,574</u>	<u>40,801</u>	<u>40,642</u>	<u>381,507</u>	<u>344,216</u>
Program expenses:						
General government	1,857	4,865	0	0	1,857	4,865
Public safety	77,007	68,719	0	0	77,007	68,719
Education	166,363	152,384	0	0	166,363	152,384
Judicial	3,931	4,072	0	0	3,931	4,072
Health	7,440	6,749	0	0	7,440	6,749
Social services	1,829	1,702	0	0	1,829	1,702
Community services	15,857	13,940	0	0	15,857	13,940
Economic development	1,571	1,265	0	0	1,571	1,265
Public facilities	24,252	24,455	0	0	24,252	24,455
Water and sewer	0	0	28,686	20,986	28,686	20,986
Other	16,977	13,900	14,599	11,482	31,576	25,382
Total expenses	<u>317,084</u>	<u>292,051</u>	<u>43,285</u>	<u>32,468</u>	<u>360,369</u>	<u>324,519</u>
Excess before transfers and extraordinary gain	23,622	11,523	(2,486)	8,174	21,136	19,697
Net transfers	527	68	(527)	(68)	0	0
Extraordinary gain	0	0	0	0	0	0
Change in net assets	24,149	11,591	(3,013)	8,106	21,136	19,697
Net assets - beginning of year	<u>264,991</u>	<u>253,400</u>	<u>122,622</u>	<u>114,516</u>	<u>387,613</u>	<u>367,916</u>
Net assets - end of year	<u>\$ 289,140</u>	<u>\$ 264,991</u>	<u>\$ 119,609</u>	<u>\$ 122,622</u>	<u>\$ 408,749</u>	<u>\$ 387,613</u>

Overall, the financial position of Charles County improved during the year. The change in net assets reflects a 9% increase for governmental activities. The business-type activities showed a 2% decrease in net assets primarily due to an aggressive water meter replacement program in the Water and Sewer operations that added \$5.6 million to the cost of operation. The meter replacement program was financed by with a capital lease agreement.

Governmental activities. To aid in the understanding of the Statement of Activities (pg 18), some additional explanation is given. Of particular interest is the format of this statement. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expenses)/Revenue and Changes in Net Assets. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the County's taxpayers. It also identifies how much each function draws from the general revenues, or if the function is self-supporting through fees and grants. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

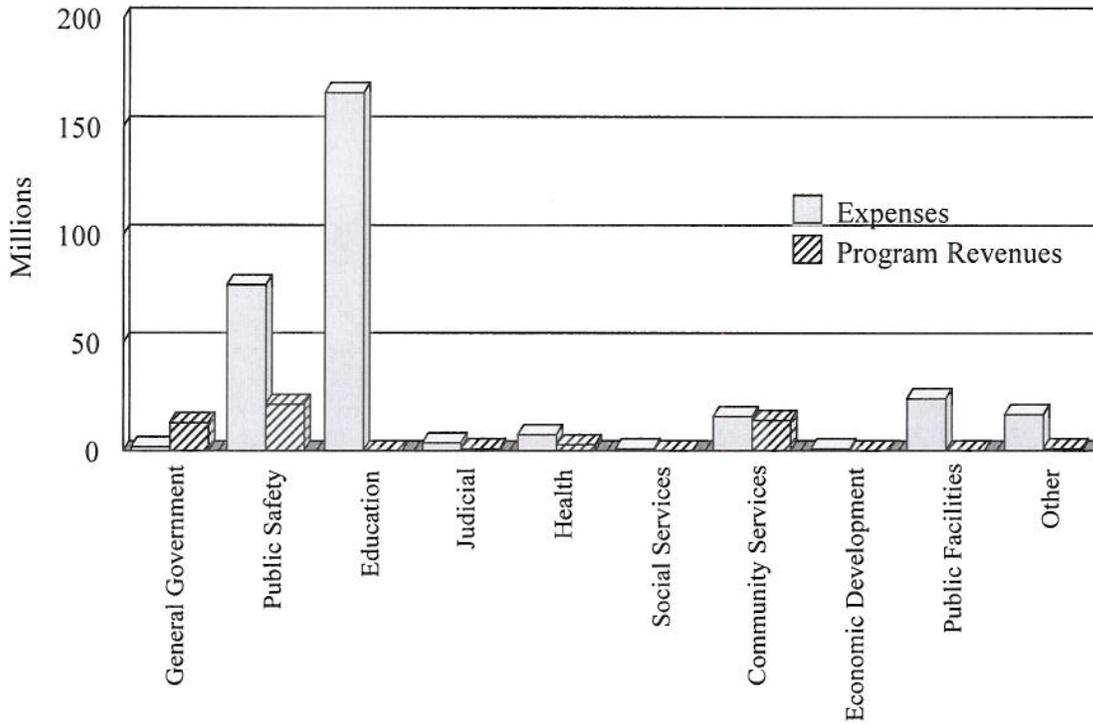
Property taxes increased by \$14.1 million (10%) during the year. Residential and commercial property value assessments increased by 17% compared to fiscal year 2006. The County granted property tax credits for owner occupied homes by limiting the property tax increase compared to the prior year to 10%. The tax credit known as "The Homestead Tax Credit" was increased for fiscal year 2008 by lowering the rate to 7% by which a tax bill can increase regardless of the growth in assessment value.

Recordation taxes decreased by 10% compared to Fiscal Year 2006. A sensitive housing market created a conservative budget approach to Fiscal Year 2007 revenue, therefore, revenues exceeded the adopted budget by approximately \$10.3 million.

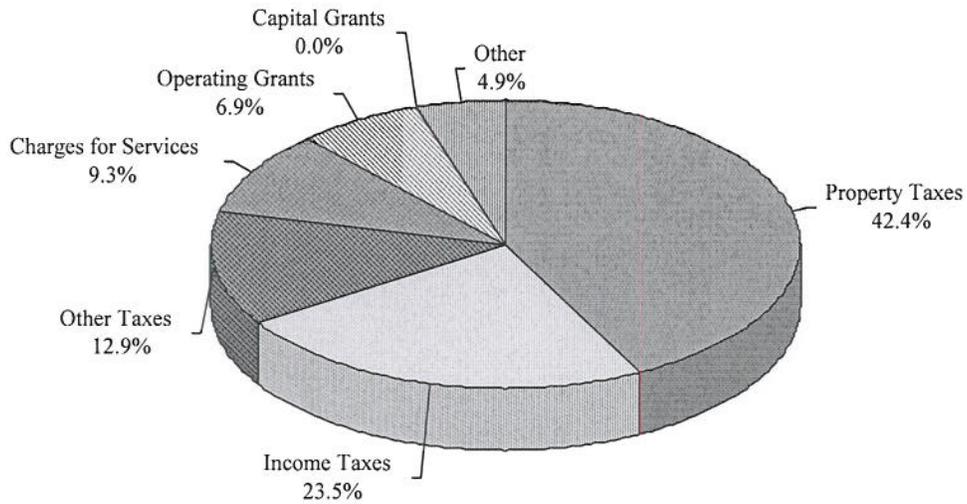
Interest and investment earnings increased nearly \$2.6 million (32%) due to rising rates & yields on allowed investment instruments.

Expenditures increased by \$35.8 million (11%). Two of the highest priorities in the County's budget, Public Education and Public Safety received the largest increases of \$14 million and \$8 million, respectively. Water and Sewer operations had an increase of \$7.7 million, of which \$5.6 million was the direct result of updating the water meters and automating the meter reading process for a higher level of efficiency.

Expenses and Program Revenues - Governmental Activities (Year Ended June 30, 2007)



General Governmental Revenues by Source - Governmental Activities (Year Ended June 30, 2007)



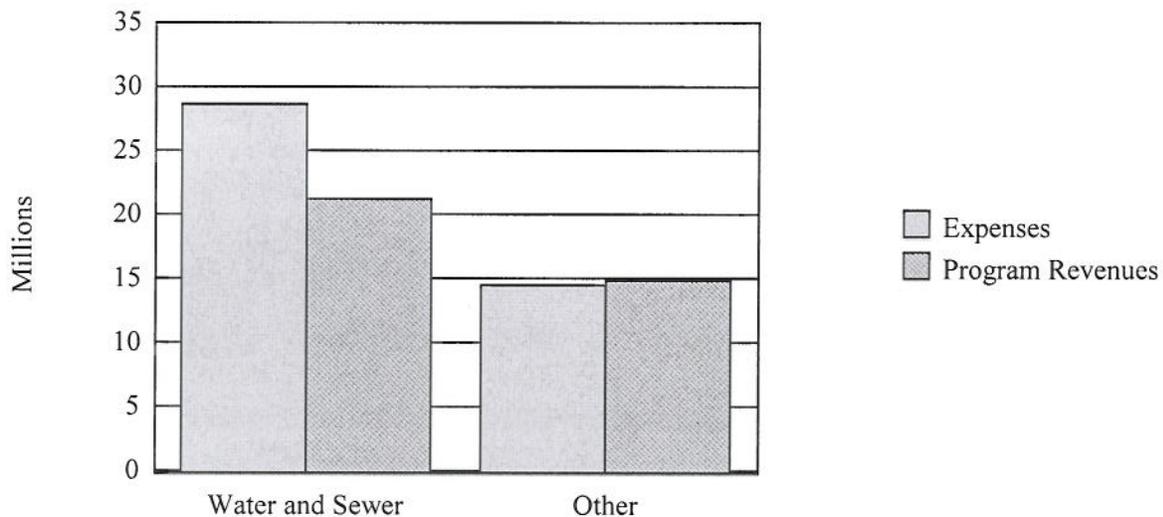
Business-type activities. The Water and Sewer Fund is considered a major fund for reporting purposes. For Fiscal Year 2007, the water user fee was increased by twenty-one cents per thousand gallons of water consumed, and the sewer user fee was increased by thirty-seven cents per thousand gallons of water consumed, for a combined water and sewer user fee rate of \$6.40 per thousand gallons of water consumed. The combined rate increase was 10% and was needed to fund the increased costs for labor and other operating costs.

The County owns and operates a landfill. The primary source of revenue is derived from tipping fees. The fee of \$75 per ton for commercial and residential refuse was increased by \$10 compared to FY2006.

In conjunction with the landfill operation, the County also operates recycling and environmental programs. The recycling operation helps keep reusable items out of the landfill, thus extending the life, which, in turn, defrays the cost of the landfill and defers the need for additional sites. The recycling and environmental programs are funded by an annual user fee of \$62 assessed on each improved property in the County, an increase of \$3 compared to fiscal year 2006. Additional revenue is generated from the sale of recyclable materials.

The Board of County Commissioners are committed to maintaining low tax rates and adjusting fees for services to preserve a self-supporting level. User fees are reviewed and changes are recommended on a regular basis during the County’s budgeting process. There are many factors that affect user fee revenue, ranging from weather conditions to citizen participation. For example, unseasonably dry weather creates a greater demand for water, which in turn increases user fee revenue.

Expenses and Program Revenues - Business-type Activities (Year Ended June 30, 2007)



Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County'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 the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$136.3 million, an increase of \$1.6 million in comparison with the prior year. Approximately 59% of this total (\$80 million) constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to fund the purchase of capital assets (\$291,000), (2) to fund capital projects (\$46.2 million), (3) to perform services as provided by grants and contributions (\$8.2 million), and (4) for inventories (\$1.6 million).

The General Fund is the chief operating fund of the Charles County Government. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$70.8 million, while total fund balance was \$73.4 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 26% of the total General Fund expenditures, while total fund balance represents 27% of that same amount.

The fund balance of the County's General Fund increased by \$4 million during the current fiscal year. The primary factor for this net increase is expenditures finished the year at 98.5% of the approved budget, approximating \$4 million. Expenditure budget savings of this type is typical for the County as budgetary controls help contain total cost.

The fund balance of the County's Capital Projects Fund decreased by \$4 million during the current fiscal year. The decrease in fund balance is the result of expenditures exceeding revenues as prior year bond proceeds are used for current year capital project costs.

The fund balance of the County's Debt Service Fund decreased by \$1 million during the current fiscal year. This decrease is due to revenues falling short of budget by approximately \$1 million. Revenues fell short of budget as a result of less than expected school impact fee revenues were not available to meet current operating costs.

Proprietary funds. Charles County's proprietary fund statements provide the same type of information found in the government-wide financial statements, only in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$8.9 million. Unrestricted net assets of all other proprietary funds were \$12.7 million. There was a total decrease in net assets for all proprietary funds in the amount of \$3 million. Other factors concerning the finances of all these funds have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

The General Fund Operating Budget was adopted at \$273.5 million with budget amendments approved during the year of \$5.3 million that increased the budget to \$278.8 million. Approximately \$12.5 million in Fund Balance appropriations were approved to balance the FY2007 operating budget. Approximately one-half of the fund balance appropriations were used to fund capital projects or major capital repairs, \$4 million to fund various one-time costs such as equipment purchases, \$1 million was appropriated to supplement the annual snow removal budget, and the balance to fund various unexpected expenditures. These appropriations are consistent with the County's philosophy of reinvesting surplus for one-time costs.

Actual revenues exceeded the budget estimates primarily in three categories: Property Tax, Recordation Tax, and Interest Income. These three revenue sources exceeded budget by nearly \$17 million. Property Tax revenue exceeded budget by \$3 million. Recordation Tax exceeded the budget by \$9 million due to a conservative budget approach used on this highly sensitive revenue source. Interest Income outperformed budget by \$4 million as interest rates and yields remained higher than expected.

Expenditure savings of \$4 million were generated primarily from Public Safety programs. Public Safety spent \$3 million less than the budget, however, \$1 million of this saving will be appropriated in Fiscal Year 2008 for vehicles and equipment that were delayed in acquisition. The final result excluding delayed purchases resulted in a small budget surplus with expenditures nearly equaling the budget.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$536.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was slightly over 9% (a 12% increase for governmental activities and a 6% increase for business-type activities).

Capital Assets
(net of depreciation)
June 30, 2007 and 2006
(amounts expressed in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
Land (not depreciated)	\$ 45,877	\$ 45,347	\$ 1,983	\$ 1,983	\$ 47,860	\$ 47,330
Construction in progress (not depreciated)	180,917	154,413	71,319	63,801	252,236	218,214
Land improvements	2,008	1,998	906	766	2,914	2,764
Infrastructure	96,466	96,651	75,808	73,441	172,274	170,092
Buildings and improvements	32,663	22,212	10,844	11,128	43,507	33,340
Machinery and equipment	5,289	3,926	4,076	3,831	9,365	7,757
Vehicles	6,495	4,575	1,447	1,220	7,942	5,795
Total	<u>\$ 369,715</u>	<u>\$ 329,122</u>	<u>\$ 166,383</u>	<u>\$ 156,170</u>	<u>\$ 536,098</u>	<u>\$ 485,292</u>

Additional information on the County's capital assets can be found in Note 3 on pages 54-57 of this report.

Long-term debt. At the end of the current fiscal year, the County had notes and bonds outstanding of \$300 million, which are backed by the full faith and credit of the County.

Outstanding Debt
General Obligation Bonds and Notes Payable
June 30, 2007 and 2006
(amounts expressed in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 235,896	\$ 217,281	\$ 48,173	\$ 37,024	\$ 284,069	\$ 254,305
Notes payable	2,614	3,063	13,402	18,684	16,016	21,747
Total	<u>\$ 238,510</u>	<u>\$ 220,344</u>	<u>\$ 61,575</u>	<u>\$ 55,708</u>	<u>\$ 300,085</u>	<u>\$ 276,052</u>

The County's total debt increased by \$24 million during the current fiscal year. The issuance of bonds at favorable interest rates combined with the County's strategic long term financial policy of 15-year bond terms resulting in rapid pay down of debt, has provided the County with the ability to issue new debt without a large negative fiscal impact.

During the year, the County issued \$53 million of general obligation bonds, of which \$3 million is taxable.

The County continues to maintain an “AA” rating from Standard & Poor’s, an “AA+” from Fitch Investors Service and an “Aa2” from Moody’s Investors Service.

The County may issue general obligation and revenue bonds under existing authority conferred by the Maryland General Assembly. As a Code Home Rule county, the County has also enacted public local laws authorizing the issuance of general obligation bonds. The County currently has \$118,241,100 of general obligation bond authority.

State statutes limit the amount of general obligation debt a governmental entity may issue for water, sewer, and solid waste infrastructure to ten percent of its total assessed valuation. This debt is typically backed first by revenue bonds from the various enterprise funds and secondly by the full faith and credit of the County. The current debt limitation for Charles County is \$1.2 billion, which significantly exceeds the County’s current outstanding general obligation debt related to revenue bonds. Additional information on the County’s long-term debt can be found in Note 3 on pages 62-66 of this report.

Economic Factors and Next Year’s Budgets and Rates

- ★ The unemployment rate for the County is currently 3.3%, which is a slight increase from the 3.1% rate of the previous year. This compares favorably to the State’s average unemployment rate of 3.7% and the national average rate of 4.7%.
- ★ Property tax revenue is estimated to increase by 11% due to the rise in property value coupled with a strong growth in new construction.
- ★ Income tax revenue is expected to increase nearly 11% due to a strong local economy, low unemployment rates and taxable wage increases. The local tax rate remained the same.
- ★ Inflationary trends in the region compare favorably to national averages.

These factors, as well as many others, were considered in preparing the County’s budget for Fiscal Year 2008.

During Fiscal Year 2007, unreserved fund balance in the General Fund increased to \$70.8 million. The County has appropriated \$12.5 million of this amount for spending in Fiscal Year 2007.

Requests for Information

This financial report is designed to provide a general overview of Charles County's finances for all those with an interest in the County's finances. Questions concerning any information provided in this report should be addressed to:

Director of Fiscal and Administrative Services
Charles County Government
P.O. Box 2150
La Plata, MD 20646

Please visit our website at www.charlescounty.org

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
ASSETS:				
Cash and cash equivalents	\$ 21,973,397	\$ 539,383	\$ 22,512,780	\$ 40,163,988
Short-term investments	149,753,430	0	149,753,430	458,041
Other receivables	18,977,493	5,439,211	24,416,704	9,882,978
Notes receivable	0	442,014	442,014	0
Excise tax receivable	16,620,436	0	16,620,436	0
Taxes receivable	2,435,676	0	2,435,676	0
Internal balances	(30,057,863)	30,057,863	0	0
Inventory	1,572,156	804,287	2,376,443	815,455
Other current assets	399,006	34,132	433,138	2,772,415
Restricted assets	43,353,155	112,277	43,465,432	0
Capital assets, net of accumulated depreciation:				
Land	45,876,869	1,982,631	47,859,500	13,094,385
Construction in progress	180,917,008	71,318,675	252,235,683	31,161,542
Land improvements	2,008,012	905,947	2,913,959	1,599,264
Infrastructure	96,465,975	75,807,852	172,273,827	0
Buildings and improvements	32,662,865	10,844,715	43,507,580	184,653,333
Machinery and equipment	5,289,030	4,075,640	9,364,670	9,456,031
Vehicles	6,495,344	1,447,670	7,943,014	0
Total assets	<u>594,741,989</u>	<u>203,812,297</u>	<u>798,554,286</u>	<u>294,057,432</u>
LIABILITIES:				
Accounts payable	15,057,270	4,965,108	20,022,378	14,094,048
Accrued expenses	3,516,815	1,074,649	4,591,464	21,155,403
Net deferred bond issue premiums	5,297,971	862,815	6,160,786	0
Unearned revenue	21,881,254	347,211	22,228,465	2,966,559
Other liabilities	7,258,419	2,260,904	9,519,323	50,365
Noncurrent liabilities:				
Due within one year	24,554,886	5,506,777	30,061,663	1,740,000
Due in more than one year	228,035,481	69,185,497	297,220,978	8,526,172
Total liabilities	<u>305,602,096</u>	<u>84,202,961</u>	<u>389,805,057</u>	<u>48,532,547</u>
NET ASSETS:				
Invested in capital assets, net of related debt	217,932,805	97,968,074	315,900,879	236,464,555
Restricted for:				
Capital projects	29,722,583	0	29,722,583	0
Public housing	4,173,906	0	4,173,906	0
Public safety	1,436,658	0	1,436,658	0
Other purposes	1,881,423	0	1,881,423	0
Unrestricted	33,992,518	21,641,262	55,633,780	9,060,330
Total net assets	<u>\$ 289,139,893</u>	<u>\$ 119,609,336</u>	<u>\$ 408,749,229</u>	<u>\$ 245,524,885</u>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
Legislative	\$ 1,331,325	\$ 0	\$ 0	\$ 0
Judicial	3,931,506	179,082	761,463	0
Law	790,215	0	0	0
General government	1,885,753	11,232,430	2,543,253	0
Elections	738,503	7,046	0	0
Public safety	77,007,397	17,203,036	4,532,330	0
Planning and growth management	4,245,235	694,038	831,804	27,377
Health	7,440,758	28,130	2,754,069	0
Social services	1,828,759	0	0	0
Community services	15,857,477	2,007,430	11,833,693	65,310
Public facilities	24,251,462	508,650	0	52,070
Economic development	1,571,550	0	62,224	0
Education	166,363,198	0	0	0
Conservation of natural resources	561,820	0	47,529	0
Interest expense on long term debt	9,279,460	0	0	0
Total governmental activities	317,084,418	31,859,842	23,366,365	144,757
Business-type activities:				
Water and sewer	28,686,214	20,513,212	0	696,154
Inspection and review	3,251,479	3,538,665	0	0
County parks	957,450	858,120	0	0
Recreation	3,927,976	3,123,033	0	24,426
Solid waste	3,278,830	4,310,368	0	0
Environmental services	3,082,082	3,054,939	0	0
Vending machines	102,465	89,104	0	0
Total business-type activities	43,286,496	35,487,441	0	720,580
Total primary government	\$ 360,370,914	\$ 67,347,283	\$ 23,366,365	\$ 865,337
COMPONENT UNITS:				
Board of Education of Charles County, Maryland	293,305,261	6,745,797	62,751,438	26,730,669
Board of Library Trustees for Charles County	3,505,762	165,620	12,905	0
Total component units	\$ 296,811,023	\$ 6,911,417	\$ 62,764,343	\$ 26,730,669

General revenues:

Taxes:

Local property taxes

Other local

Income taxes

State shared

County and state appropriations

Other income

Interest and investment earnings

Donations - noncash transactions

Net transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

See accompanying notes.

Net (Expenses)Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (1,331,325)	\$ 0	\$ (1,331,325)	\$ 0
(2,990,961)	0	(2,990,961)	0
(790,215)	0	(790,215)	0
11,889,930	0	11,889,930	0
(731,457)	0	(731,457)	0
(55,272,031)	0	(55,272,031)	0
(2,692,016)	0	(2,692,016)	0
(4,658,558)	0	(4,658,558)	0
(1,828,759)	0	(1,828,759)	0
(1,951,044)	0	(1,951,044)	0
(23,690,744)	0	(23,690,744)	0
(1,509,326)	0	(1,509,326)	0
(166,363,198)	0	(166,363,198)	0
(514,291)	0	(514,291)	0
(9,279,460)	0	(9,279,460)	0
(261,713,455)	0	(261,713,455)	0
			0
0	(7,476,847)	(7,476,847)	0
0	287,186	287,186	0
0	(99,330)	(99,330)	0
0	(780,517)	(780,517)	0
0	1,031,538	1,031,538	0
0	(27,143)	(27,143)	0
0	(13,361)	(13,361)	0
0	(7,078,474)	(7,078,474)	0
(261,713,455)	(7,078,474)	(268,791,929)	0
			0
0	0	0	(197,077,357)
0	0	0	(3,327,237)
0	0	0	(200,404,594)
			0
144,342,192	0	144,342,192	0
34,687,130	0	34,687,130	0
80,001,338	0	80,001,338	0
9,489,506	0	9,489,506	0
0	0	0	126,454,030
2,699,439	513,511	3,212,950	93,896,876
10,614,025	753,005	11,367,030	1,507,849
3,501,055	3,326,300	6,827,355	0
527,370	(527,370)	(0)	0
285,862,055	4,065,446	289,927,501	221,858,755
			0
24,148,600	(3,013,028)	21,135,572	21,625,075
264,991,293	122,622,364	387,613,657	223,899,810
\$ 289,139,893	\$ 119,609,336	\$ 408,749,229	\$ 245,524,885

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General Fund	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 18,111,290	\$ 0	\$ 0	\$ 3,862,107	\$ 21,973,397
Investments	149,753,430	0	0	0	149,753,430
Other receivables	13,089,464	2,879,527	10,727	2,997,775	18,977,493
Excise tax receivable	0	0	16,620,436	0	16,620,436
Taxes receivable	2,435,676	0	0	0	2,435,676
Due from other funds	0	69,075,470	0	7,475,457	76,550,927
Inventory	1,572,156	0	0	0	1,572,156
Other assets	398,461	0	0	545	399,006
Restricted assets	2,889,149	0	40,464,008	0	43,353,157
Total assets	\$ 188,249,626	\$ 71,954,997	\$ 57,095,171	\$ 14,335,884	\$ 331,635,678
LIABILITIES AND FUND BALANCES:					
Accounts payable	\$ 2,088,183	\$ 11,561,100	\$ 0	\$ 1,407,987	\$ 15,057,270
Accrued expenditures	2,078,023	0	0	0	2,078,023
Deferred revenue	2,333,467	2,636,270	57,087,785	2,296,739	64,354,261
Due to other funds	103,413,844	0	2,337,217	857,734	106,608,795
Other liabilities	2,087,833	0	0	2,281,439	4,369,272
Payable from restricted assets	2,889,147	0	0	0	2,889,147
Total liabilities	114,890,497	14,197,370	59,425,002	6,843,899	195,356,768
Fund balances:					
Reserved fund balance	2,513,359	46,231,557	0	7,491,985	56,236,901
Unreserved:					
Designated fund balance	16,403,259	11,526,070	0	0	27,929,329
Undesignated fund balance (deficit)	54,442,511	0	(2,329,831)	0	52,112,680
Total fund balances (deficit)	73,359,129	57,757,627	(2,329,831)	7,491,985	136,278,910
Total liabilities and fund balances	\$ 188,249,626	\$ 71,954,997	\$ 57,095,171	\$ 14,335,884	\$ 331,635,678

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total Governmental Fund Balance	\$	136,278,910
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		369,715,103
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable		(235,896,259)
Loans and notes payable		(99,595)
Capital leases payable		(4,112,261)
Landfill closure costs		(2,514,757)
Health insurance claims		(638,792)
Net pension obligation-County employee plan		(472,231)
Unearned revenue		42,473,009
Unamortized deferred charges		(5,297,971)
Compensated absences which are not due and payable in the current period and therefore are not reported in the funds		<u>(10,295,263)</u>
Net assets of Governmental Activities	\$	<u>289,139,893</u>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General Fund	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes - local property	\$ 134,614,568	\$ 0	\$ 0	\$ 9,727,624	\$ 144,342,192
Taxes - income	80,001,338	0	0	0	80,001,338
Taxes - other local	28,223,605	0	6,463,525	0	34,687,130
Taxes - state shared	9,489,506	0	0	0	9,489,506
Charges for services	9,527,555	12,556,912	0	3,944,454	26,028,921
Intergovernmental	4,828,732	4,579,792	0	18,627,347	28,035,871
Interest income	7,785,758	0	2,524,582	303,685	10,614,025
Other income	211,875	0	2,374,476	113,092	2,699,443
Total revenues	<u>274,682,937</u>	<u>17,136,704</u>	<u>11,362,583</u>	<u>32,716,202</u>	<u>335,898,426</u>
Expenditures:					
Current:					
Education	134,349,392	24,162,914	0	1,217,514	159,729,820
Public safety	63,943,424	2,690,116	0	13,322,983	79,956,523
Other general government	16,694,340	0	0	0	16,694,340
Public facilities	16,640,828	34,522,473	0	0	51,163,301
Financial administration	7,385,324	0	0	0	7,385,324
Community services	3,859,682	3,491,830	0	12,763,772	20,115,284
Judicial	2,804,579	1,293,167	0	1,075,816	5,173,562
Planning and growth management	3,278,534	1,378,968	0	900,541	5,558,043
Health services	2,864,942	306,355	0	2,775,260	5,946,557
Economic development	1,439,592	0	0	113,004	1,552,596
Social services	1,031,638	0	0	797,121	1,828,759
Legislative	1,183,037	0	0	13,928	1,196,965
Law	781,485	0	0	0	781,485
Conservation of natural resources	549,096	0	0	0	549,096
Elections	738,503	0	0	0	738,503
Debt service:					
Principal	0	0	8,413,950	0	8,413,950
Interest	5,286,195	0	3,993,265	0	9,279,460
Total expenditures	<u>262,830,591</u>	<u>67,845,823</u>	<u>12,407,215</u>	<u>32,979,939</u>	<u>376,063,568</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,852,346</u>	<u>(50,709,119)</u>	<u>(1,044,632)</u>	<u>(263,737)</u>	<u>(40,165,142)</u>
Other financing sources (uses):					
Issuance of debt	1,753,600	38,361,000	0	0	40,114,600
Premium on issuance of debt	1,033,133	0	0	0	1,033,133
Transfers in	799,800	8,381,979	0	2,975,280	12,157,059
Transfers out	(11,429,690)	0	0	(200,000)	(11,629,690)
Total other financing sources (uses)	<u>(7,843,157)</u>	<u>46,742,979</u>	<u>0</u>	<u>2,775,280</u>	<u>41,675,102</u>
Net change in fund balance	4,009,189	(3,966,140)	(1,044,632)	2,511,543	1,509,960
Fund balance (deficit) - beginning of year	69,349,940	61,723,767	(1,285,199)	4,980,442	134,768,950
Fund balance (deficit) - end of year	<u>\$ 73,359,129</u>	<u>\$ 57,757,627</u>	<u>\$ (2,329,831)</u>	<u>\$ 7,491,985</u>	<u>\$ 136,278,910</u>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Net change in fund balance - Governmental Funds	\$	1,509,960
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.		
		52,319,589
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the cost of the assets disposed less accumulated depreciation.		
		(53,397)
Governmental funds do not report contributions from developers and other sources. However, in the government-wide statements contributions are reported as an increase to capital assets.		
		(3,501,055)
Governmental funds report the issuance of debt as income and the repayment of debt as expenditures. However, in the government-wide statements, debt and repayment of debt is reported as a reduction of a long-term liability.		
		(16,698,127)
Governmental funds report costs associated with the issuance of debt as revenues and expenditures. However, in the government-wide statements, these revenues and expenses are amortized in the statement of activities.		
		371,578
Governmental funds report revenues based on the availability of the funds. However, in the government-wide statements revenues are recorded based on collectibility.		
		2,347,300
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Depreciation expense		(11,725,917)
Amortization of deferred charges		(477,541)
Compensated absences		(471,287)
Net pension obligation		(272,502)
Health insurance IBNR charges		800,000
		800,000
Change in Net Assets of Governmental Activities	\$	24,148,600

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-type activities		
	Water and Sewer Fund	Other Proprietary Funds	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 390,675	\$ 148,708	\$ 539,383
Other receivables	4,660,816	778,395	5,439,211
Notes receivable	442,014	0	442,014
Due from other funds	11,539,818	19,799,692	31,339,510
Inventory	762,690	41,597	804,287
Other current assets	10,080	24,052	34,132
Total current assets	<u>17,806,093</u>	<u>20,792,444</u>	<u>38,598,537</u>
Noncurrent assets:			
Net capital assets	145,528,968	20,854,163	166,383,130
Restricted assets	0	112,277	112,277
Total noncurrent assets	<u>145,528,968</u>	<u>20,966,440</u>	<u>166,495,407</u>
Total assets	<u>163,335,061</u>	<u>41,758,884</u>	<u>205,093,944</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	3,998,471	966,637	4,965,108
Accrued expenses	856,320	218,329	1,074,649
Due to other funds	0	1,281,648	1,281,648
Net deferred bond issue premiums	712,899	149,916	862,815
Unearned revenue	7,518	339,693	347,211
Current portion of long-term debt	4,655,066	851,711	5,506,777
Total current liabilities	<u>10,230,274</u>	<u>3,807,934</u>	<u>14,038,208</u>
Noncurrent liabilities:			
Other liabilities	2,148,627	112,277	2,260,904
Bonds payable	35,155,423	9,007,769	44,163,192
Long-term debt	13,625,295	5,107,634	18,732,929
Capital lease obligation	6,122,144	167,232	6,289,376
Total noncurrent liabilities	<u>57,051,489</u>	<u>14,394,912</u>	<u>71,446,401</u>
Total liabilities	<u>67,281,763</u>	<u>18,202,846</u>	<u>85,484,609</u>
NET ASSETS:			
Invested in capital assets, net of related debt	87,096,337	10,871,737	97,968,074
Unrestricted	8,956,962	12,684,300	21,641,262
Total net assets	<u>\$ 96,053,299</u>	<u>\$ 23,556,037</u>	<u>\$ 119,609,336</u>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Business-type activities		
	Water and Sewer Fund	Other Proprietary Funds	Total
Operating revenues:			
Charges for services	\$ 20,510,932	\$ 14,892,705	\$ 35,403,637
Other income	318,916	194,595	513,511
Total operating revenues	<u>20,829,848</u>	<u>15,087,300</u>	<u>35,917,148</u>
Operating expenses:			
Personnel services	8,219,422	5,348,915	13,568,337
Utilities	2,504,690	439,799	2,944,489
Repairs and maintenance	575,139	433,805	1,008,944
Insurance costs	239,079	41,474	280,553
Indirect costs	311,500	166,800	478,300
Supplies	7,309,765	1,099,751	8,409,516
Contract services	1,232,070	4,375,607	5,607,677
Other operating costs	1,420,856	896,700	2,317,556
Depreciation	5,034,654	1,343,439	6,378,093
Total operating expenses	<u>26,847,175</u>	<u>14,146,290</u>	<u>40,993,465</u>
Operating income (loss)	<u>(6,017,327)</u>	<u>941,010</u>	<u>(5,076,317)</u>
Nonoperating revenues (expenses):			
Interest income	143,881	609,127	753,008
Intergovernmental	696,154	24,426	720,580
Interest expense	(1,839,040)	(453,996)	(2,293,036)
Gain on disposal of capital assets	2,280	81,527	83,807
Total nonoperating revenues (losses)	<u>(996,725)</u>	<u>261,083</u>	<u>(735,642)</u>
Income before transfers	(7,014,052)	1,202,093	(5,811,959)
Donations - noncash transactions	3,326,300	0	3,326,300
Transfers in	42,871	29,559	72,430
Transfers out	0	(599,800)	(599,800)
Change in net assets	(3,644,881)	631,852	(3,013,029)
Net assets - beginning of year	<u>99,698,180</u>	<u>22,924,184</u>	<u>122,622,364</u>
Net assets - end of year	<u>\$ 96,053,299</u>	<u>\$ 23,556,036</u>	<u>\$ 119,609,335</u>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Business-type activities		
	Water and Sewer Fund	Other Proprietary Funds	Total
Cash flows from operating activities:			
Cash received from customers	\$ 22,666,345	\$ 14,876,009	\$ 37,542,354
Cash paid to suppliers	(13,660,201)	(7,027,706)	(20,687,907)
Cash paid to employees	(8,325,236)	(5,351,724)	(13,676,960)
Net cash provided by operating activities	<u>680,908</u>	<u>2,496,579</u>	<u>3,177,487</u>
Cash flows from investing activities:			
Interest received	143,881	609,127	753,008
Net cash provided by investing activities	<u>143,881</u>	<u>609,127</u>	<u>753,008</u>
Cash flows from noncapital financing activities:			
Intergovernmental	696,154	24,426	720,580
Transfers in (out)	42,871	(570,241)	(527,370)
Receipts from interfund loans	0	(1,451,327)	(1,451,327)
Repayments of interfund loans	0	232,716	232,716
Net cash used by (used in) noncapital financing activities	<u>739,025</u>	<u>(1,764,426)</u>	<u>(1,025,401)</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of bonds	3,511,457	7,538,780	11,050,237
Proceeds from new loan	3,175,808	475,589	3,651,397
Principal payments on bonds payable	(553,648)	(175,842)	(729,490)
Principal payments on capital lease obligations	(252,122)	(50,598)	(302,720)
Principal payments on loans	(60,000)	(6,571,667)	(6,631,667)
Interest paid	(1,839,040)	(453,996)	(2,293,036)
Proceeds from disposal of assets	2,280	81,527	83,807
Cash paid for capital expenses	(5,158,073)	(2,157,140)	(7,315,213)
Net cash used in capital and related financing activities	<u>(1,173,338)</u>	<u>(1,313,347)</u>	<u>(2,486,685)</u>
Net increase in cash and cash equivalents	390,476	27,933	418,409
Cash and cash equivalents - beginning of year	200	120,775	120,975
Cash and cash equivalents - end of year	<u>\$ 390,676</u>	<u>\$ 148,708</u>	<u>\$ 539,384</u>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
STATEMENT OF CASH FLOWS (continued)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Business-type activities		
	Water and Sewer Fund	Other Proprietary Funds	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ (6,017,327)	\$ 941,010	\$ (5,076,316)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	5,034,654	1,343,438	6,378,092
Increase (decrease) in compensation-related liabilities included in long-term debt	57,234	36,504	93,738
Increase in landfill closure liabilities included in long-term debt	0	0	0
(Increase) decrease in other receivables	486,948	(213,463)	273,485
(Increase) decrease in notes receivable	1,351,869	0	1,351,869
(Increase) decrease in inventories	57,125	(4,135)	52,990
(Increase) decrease in other current assets	(9,890)	16,090	6,200
(Increase) decrease in restricted assets	0	(5,412)	(5,412)
(Increase) decrease in deferred bond issue costs	(140,313)	0	(140,313)
Increase (decrease) in accounts payable	(114,337)	414,275	299,938
Increase (decrease) in accrued expenses	(163,048)	(39,313)	(202,361)
Increase (decrease) in other liabilities	140,313	5,412	145,725
Increase (decrease) in deferred revenue	(2,320)	2,173	(147)
Net cash provided by operating activities	<u>\$ 680,908</u>	<u>\$ 2,496,579</u>	<u>\$ 3,177,487</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	Water and Sewer Fund	Other Proprietary Funds	Total
Borrowing under capital lease	6,122,144	167,231	6,289,375
Contributions of capital assets from government	3,326,300	0	3,326,300
Purchase of equipment on account	13,462,971	0	13,462,971

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	<u>Pension Trust Funds</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 3,833,087
Interest receivable	<u>146,894</u>
Total current assets	<u>3,979,981</u>
Investments at fair value:	
Bond mutual funds	49,428,099
Equity securities	<u>129,418,741</u>
Total investments	<u>178,846,840</u>
Total assets	182,826,821
LIABILITIES:	
Accrued expenses	<u>39,144</u>
NET ASSETS:	
Held in trust for pension benefits	<u>\$ 182,787,677</u>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2007

	<u>Pension Trust Funds</u>
ADDITIONS:	
Contributions:	
Employer contributions	\$ 10,574,738
Employee contributions	3,554,172
Total contributions	<u>14,128,910</u>
Investment earnings:	
Interest	2,762,306
Net increase in fair value of investments	21,895,977
Total investment earnings	<u>24,658,283</u>
Less investment expenses	(613,517)
Net investment earnings	<u>24,044,766</u>
Total additions	<u>38,173,676</u>
DEDUCTIONS:	
Benefits paid to members	5,814,179
Administrative costs	177,438
Total deductions	<u>5,991,617</u>
Changes in net assets	32,182,059
Net assets - beginning of year	<u>150,605,618</u>
Net assets - end of year	<u>\$ 182,787,677</u>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF NET ASSETS
 COMPONENT UNITS
 JUNE 30, 2007

	Board of Education of Charles County, Maryland	Board of Library Trustees for Charles County	Total
ASSETS:			
Cash and cash equivalents	\$ 40,142,048	\$ 21,940	\$ 40,163,988
Short-term investments	0	458,041	458,041
Accounts receivable	9,870,680	12,298	9,882,978
Inventory	815,455	0	815,455
Other assets	2,725,785	46,630	2,772,415
Capital assets			
Land	13,094,385	0	13,094,385
Construction in progress	31,161,542	0	31,161,542
Land improvements	1,599,264	0	1,599,264
Buildings	184,653,333	0	184,653,333
Machinery and equipment	8,891,340	564,691	9,456,031
Total assets	<u>292,953,832</u>	<u>1,103,600</u>	<u>294,057,432</u>
LIABILITIES:			
Accounts payable	14,079,230	14,818	14,094,048
Accrued expenses	20,897,922	257,481	21,155,403
Unearned revenue	2,966,559	0	2,966,559
Other liabilities	50,365	0	50,365
Non-current liabilities:			
Due within one year	1,740,000	0	1,740,000
Due in more than one year	8,526,172	0	8,526,172
Total liabilities	<u>48,260,248</u>	<u>272,299</u>	<u>48,532,547</u>
Invested in capital assets, net of related debt	235,899,864	564,691	236,464,555
Unrestricted assets	8,793,720	266,610	9,060,330
Total net assets	<u>\$ 244,693,584</u>	<u>\$ 831,301</u>	<u>\$ 245,524,885</u>

See accompanying notes.

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THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF ACTIVITIES
 COMPONENT UNITS
 YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
COMPONENT UNITS:				
Board of Education of Charles County, Maryland	\$ 293,305,261	\$ 6,745,797	\$ 62,751,438	\$ 26,730,669
Board of Library Trustees for Charles County	<u>3,505,762</u>	<u>165,620</u>	<u>12,905</u>	<u>0</u>
Total component units	<u>\$ 296,811,023</u>	<u>\$ 6,911,417</u>	<u>\$ 62,764,343</u>	<u>\$ 26,730,669</u>

General revenues:
 County and state appropriations
 Other income
 Interest and investment earnings
 Miscellaneous
 Total general revenues and transfers

Change in net assets
 Net assets - beginning of the year
 Net assets - end of year

See accompanying notes.

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Board of Education of Charles County, Maryland	Board of Library Trustees for Charles County	Total
\$ (197,077,357)	\$ 0	\$ (197,077,357)
0	(3,327,237)	(3,327,237)
(197,077,357)	(3,327,237)	(200,404,594)
124,006,000	2,448,030	126,454,030
92,971,133	925,743	93,896,876
1,479,605	28,244	1,507,849
146,453	24,461	170,914
218,603,191	3,426,478	222,029,669
21,525,834	99,241	21,625,075
223,167,750	732,060	223,899,810
\$ 244,693,584	\$ 831,301	\$ 245,524,885

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

INDEX

		<u>Page</u>
NOTE 1	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	36
	A. Reporting Entity	36
	B. Basic Financial Statements	38
	Government-wide Statements	38
	Fund Financial Statements	39
	C. Basis of Accounting and Measurement Focus	40
	Basis of Accounting	40
	Measurement Focus	41
	D. Financial Statement Amounts	41
NOTE 2	STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY	46
	A. Budgets and Budgetary Accounting	46
	B. Deficit Fund Equity	47
NOTE 3	DETAILED NOTES ON ALL FUNDS	47
	A. Cash Deposits and Investments	47
	B. Receivables	50
	C. Property Taxes Receivable	51
	D. Notes Receivable	51
	E. Capital Assets	54
	F. Interfund Receivables, Payables, and Transfers	59
	G. Leases	60
	H. Long-Term Debt	62
	I. Restricted Assets	67
	J. Fund Balance Analysis	68
NOTE 4	RISK MANAGEMENT	69
NOTE 5	COMMITMENTS AND CONTINGENCIES	70
	A. Contingencies Under Grant Provisions	70

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

INDEX
(continued)

	<u>Page</u>	
NOTE 6	PENSION PLANS	70
	A. Sheriff's Office Retirement Plan	73
	B. County Employees Retirement Plan	78
	C. Length of Service Award Program (LOSAP) for Volunteer Firemen and Rescue Squadmen	85
NOTE 7	OTHER EMPLOYMENT BENEFITS	86
	A. Deferred Compensation Plan	86
	B. Other Post-Employment Benefits	87
NOTE 8	CLOSURE AND POST-CLOSURE CARE COSTS	88
	A. Pisgah Landfill	88
	B. Charles County Landfill	88
NOTE 9	RELATED PARTIES	88

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Charles County, Maryland (the County) was created by order of council on May 10, 1658. The County operates under the Maryland Code Home Rule form of Government. Both the executive and the legislative functions of the County are vested in the elected five-member Board of Commissioners of Charles County, Maryland (County Commissioners). The County provides various services to its citizens including public safety, health and social services, parks and recreation, public transportation, public works and general administrative services. In addition, the County owns and operates a water and sewer system, a landfill and recycling center, a public golf course, and various recreational centers.

The County's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). 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 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 GAAP and used by the County are discussed below.

In June 1999, the Governmental Accounting Standards Board unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). Some of the significant changes in the Statement include (1) the addition of a Management's Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations; (2) the addition of financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure; and (3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements (including Notes to the Financial Statements).

A. Reporting Entity

The financial statements of the reporting entity include those of Charles County Government (the primary government) and its component units. 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 GASB Statement 14 *The Financial Reporting*

Entity and modified by GASB Statement 39 Determining Whether Certain Organizations are Component Units, include whether:

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

Based on the application of these criteria, the following organizations are considered component units of Charles County Government. Their financial data is discretely presented in a separate column in the government-wide financial statements. A Combining Statement of Net Assets and a Combining Statement of Activities for the component units are also provided. All discretely presented component units have a June 30 year end.

The Board of Education of Charles County, Maryland (the Board of Education) is a legally separate organization created by Maryland state law to operate the County's public school system. Management of the County's schools is under the control of the Board of Education, with the final decision-making authority held by the State Board of Education. The members of the Board of Education are elected by the residents of Charles County. The Board of Education is financially accountable to the Charles County Government because the Board of Education's annual budget is subject to the approval of the County Commissioners. The Board of Education is presented as a governmental fund type. The County provided \$123,685,000 in operating funds and \$20,573,674 in capital funding to the Board of Education during Fiscal Year 2007.

The Board of Library Trustees for Charles County, Maryland (the Library) is a legally separate entity under Maryland state law. The Library's Trustees are appointed by the Governor of the State of Maryland and oversee the day-to-day management of the Library. The Library's budget is subject to the approval of the County Commissioners. The Library is presented as a governmental fund type. The County provided \$1,804,300 in operating funds to the Library during Fiscal Year 2007.

Complete financial statements of the discretely presented component units can be obtained directly from their respective administrative offices:

Board of Education of Charles County, Maryland
5980 Radio Station Road
La Plata, MD 20646

Board of Library Trustees for Charles County, Maryland
2 Garrett Avenue
La Plata, MD 20646

B. Basic Financial Statements

The County's basic financial statements include government-wide financial statements (reporting on the County as a whole), fund financial statements (reporting on the County as a whole with an emphasis on the 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 water and sewer operation, solid waste management operations, environmental services (recycling), parks, recreation and development services 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 the net asset's 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 of a business-type activity. The operating grants column

includes 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 not properly 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 and proprietary funds. Indirect costs are not normally charged to general government activities.

Fund Financial Statements

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

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB 34 sets forth minimum criteria for the determination of major funds. The criteria used by the County is the percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise funds combined. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Nonmajor funds by category are summarized into a single column.

1. 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 change in fund balance. The following is a description of the governmental funds of the County:

- a. **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.
- b. **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.
- c. **Debt Service Fund** is used to account for the accumulation of funds for the periodic payment of principal and interest on long-term debt. The Debt Service Fund is a major fund.
- d. **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.

2. Proprietary Funds:

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

Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to cover similar costs. Only the Water and Sewer Fund is considered a major fund and is presented separately. All other enterprise funds are non-major and their data is combined into a single aggregated presentation.

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

C. 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. Property taxes, income taxes, highway user taxes, excise taxes and interest associated the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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 below in item b.

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

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating 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.

D. Financial Statement Amounts

1. Cash and Cash Equivalents:

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 at time of purchase.

2. Investments:

Investments held by the County, including the pension 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.

3. Receivables:

All trade, excise and property tax receivables are reported at their fair value. Estimated unbilled revenues from the Water and Sewer Fund are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billings during the month following the close of the fiscal year. Taxes, special assessments, utility charges and accrued interest are deemed collectible in full. Property taxes attach as an enforceable lien when levied on July 1 of each fiscal year. The taxes are payable without interest by September 30.

All property tax revenue is recognized in compliance with NCGAI-3 (Revenue Recognition-Property Taxes), which states that such revenue is recorded when it becomes measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 60 days after the close of the current period. Revenue relating to receivables which have not been collected within sixty days after the year-end has been reclassified from property tax revenues to deferred revenues.

4. Interfund Transactions:

The following is a description of the basic types of interfund transactions made during the year and related accounting policies:

- a. Transactions for services rendered or facilities provided - these transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.
- b. Transactions to reimburse a fund for expenditures made by it or for the benefit of another fund - these transactions are recorded as expenditures in the disbursing fund and as reductions of expenditures in the receiving fund.
- c. Transactions to shift revenues or contributions from the fund budgeted to receive them to the fund budgeted to expend them - these transactions are recorded as transfers in and out.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due (to) from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances" and are eliminated.

5. Inventories:

Inventories of the County, consisting of expendable supplies held for the County's use, are valued at the lower of cost or market using the First-In / First-Out Method. Inventories in all funds are initially recorded in the inventory account and recognized as expenditures/expenses when consumed.

6. Prepaid Items:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the allocation method.

7. Restricted Assets:

Cash deposits held for construction bonds in the General Fund, as well as certain debt proceeds and certain resources set aside for their repayment in the Debt Service Fund, are classified as restricted assets on the balance sheet because their use is limited and they are maintained in separate accounts.

8. Capital Assets:

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, and similar items), are reported in applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an original, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Both the Board of Education and the Library (component units) define capital assets as assets having an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. For the Library, books and audio visual materials with a useful life greater than one year are capitalized and are valued and depreciated using the group method. For the primary government and component units, donated capital assets are recorded at estimated fair market value at the date of donation. Normal maintenance and repair costs that do not add to the value of the assets or materially extend assets' lives are not capitalized by the County or the component units.

Significant outlays for capital assets and improvements are capitalized as Construction in Progress while projects are being constructed. Projects are not depreciated until completed or substantially completed and available for use.

Property, plant and equipment of the primary government and the component units are depreciated using the straight line method over the following estimated useful lives:

<u>Charles County Government</u>	
Buildings	30 years
Improvements	10-30 years
Water and sewer systems	30-50 years
Infrastructure	10-50 years
Machinery and equipment	5-10 years
Vehicles	5 years
Computers & software	3-5 years
Other infrastructure	10-50 years

<u>The Board of Education</u>	
Buildings and improvements	30 years
Land improvements	10 years
Furniture and equipment	10 years
Vehicles	8 years
Computer equipment	5 years

<u>The Library</u>	
Leasehold improvements	39 years
Furniture and equipment	7 years
Vehicles	5 years
Computer equipment	5 years
Books and audio visual materials	3 years

9. Fund Equity:

In the government-wide financial statements, equity is classified as net assets and is displayed in three components:

- a. Invested in capital assets, net of related debt - consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - consists of net assets with constraints placed on the 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.
- c. Unrestricted net assets - all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the fund financial statements, equity is classified as fund balance for governmental funds. Further classifications are as follows:

- a. Reserved fund balance - this represents amounts that have been legally restricted by outside parties for specific purposes and are not available for appropriation.
- b. Unreserved fund balance - represents amounts available for budgeting future operations.
 1. Designated fund balance - represents tentative management plans for utilizing resources in the subsequent year's budget for financing specific activities and to fund deficits in other funds. These designations are subject to change.
 2. Undesignated fund balance - represents the remaining fund balance that is available for use.

Equity in the proprietary fund statements is classified the same as in the government-wide statements.

10. Compensated Absences:

Employees of the County earn annual leave, compensatory time and sick leave in varying amounts. It is the County's policy to permit employees to accumulate earned but unused annual leave, compensatory time, and sick pay benefits. Upon separation of service with the County, noncritical employees are reimbursed for accumulated annual leave up to a maximum of 45 days and accumulated compensatory time up to 240 hours. Sworn Officers, Corrections Officers, and certain critical employees of the Sheriff's Office are reimbursed for accumulated annual leave up to a maximum of 720 hours. Sworn Officers can be reimbursed up to 480 hours of compensatory time. There is no liability recorded for unpaid accumulated sick leave since the County does not have a policy to pay any of these amounts when employees separate from service.

The County accrues the value of the accumulated unpaid annual leave, compensatory time and associated employee-related costs when incurred in the government-wide and proprietary fund financial statements. Only the amount of unused annual leave and compensatory pay that is expected to be liquidated with expendable available financial resources (amount estimated to be used within 60 days of year-end) is recorded as an expenditure and a liability in the governmental fund that will pay it. The noncurrent portion for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

11. Long-term Obligations:

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

In the fund financial statements, governmental fund-types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Capital leases are recorded in the same manner.

12. Revenues, Expenditures, and Expenses:

Property taxes and interest assessed in the current fiscal period are accrued and are recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be earned and therefore recognizable as revenue of the current period.

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, expenditures are classified by character.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing goods in connection with the proprietary fund's principal operations. Operating revenues include user fees and charges. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

13. Accounting 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for all funds of the County, except the two pension trust funds. However, a legal budget is adopted only for the General Fund. Thus, the budgetary financial statement included in this report as required supplementary information does not include Special Revenue Funds, Debt Service Funds, Capital Projects Fund, Proprietary Funds or Fiduciary Funds. The basis for budgeting is the modified accrual basis. All annual appropriations lapse at fiscal year-end. Project-length budgets are adopted for the Capital Projects Fund which is projected in five year increments.

The legal level of budgetary control (that is, the level at which expenditures cannot exceed budgeted appropriations) is at the program level. However, with proper approval by the County Commissioners, budget transfers can be made. The budgeted financial statements represented in this report reflect the final budget authorization, including all amendments made by the County Commissioners. There were no material violations of the annual appropriated budget for the fiscal year ended June 30, 2007.

B. Deficit Fund Equity

The Debt Service Fund had a deficit fund balance of \$2,329,831 as of June 30, 2007. The fund incurred a net operating loss in the current fiscal year due to the timing of the County's bond issue in March 2007, the current year's debt payment activity, and the related note repayment schedules for the Nursing Home, Hospital, and ACPT, as adjusted by any new debt issues.

The Recreation Fund had a deficit fund balance of \$286,999 as of June 30, 2007. The deficit balance resulted from the first full year start up costs associated with an indoor recreation complex. This operation was acquired by the County in May 2006.

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. Cash Deposits and Investments

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 Treasurer is charged with the responsibility for selecting depositories and investing idle funds as directed by the State and County Codes. The County Treasurer 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 \$20,095,355 and the bank balances were \$22,825,741. Of the bank balance, \$408,280 was covered by Federal depository insurance and \$22,417,461 was collateralized with securities held by the pledging financial institution's trust department or agent in the County's name.

At year-end, the carrying amount of the deposits of the Board of Education, a discretely presented component unit, was \$7,680,034 and the bank balance was \$5,021,319. Of the bank balance, \$544,432 was covered by Federal depository insurance and \$4,476,887 was covered by collateral held in either the pledging bank's trust department or by the pledging bank's agent.

At year-end, the carrying amount of the deposits of the Library, a discretely presented component unit, was \$21,130 and the bank balance was \$39,914. The bank balance was covered by Federal depository insurance.

Investments

Statutes authorize the County Treasurer to invest in short-term U.S. 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 Treasurer 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.

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

<u>Investment Type</u>	<u>Fair Value</u>
U.S. government securities:	
Treasuries	\$ 30,290,883
Agencies	20,295,778
Repurchase agreements (sweep)	5,000,000
Money market	413,570
Certificates of deposit	25,000,000
Maryland local government pool	73,753,198
Pension investments:	
Sheriff’s office retirement plan	
Money market	185,676
Guaranteed investment contracts	6,177,741
Mutual funds	98,368,054
County employees retirement plan	
Money market	3,647,411
Guaranteed investment contracts	15,037,919
Mutual funds	59,263,128
Total investments	<u>\$ 337,433,358</u>

At year-end, the Board of Education's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Repurchase agreements	\$ 8,502,430
Money market mutual funds	3,247,016
Maryland local government pool	35,026,937
U.S. government & agencies	21,328,561
Mortgage-backed securities	1,550,025
Corporate bonds	362,405
Equity mutual funds	7,230,095
Common stocks	9,913,534
Total investments	<u>\$ 87,161,003</u>

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

<u>Investment Type</u>	<u>Fair Value</u>
Maryland local government pool	\$ 458,041
Total investments	<u>\$ 458,041</u>

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 maintains an AAAM credit quality rating from Standard and Poor's. 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.

Investments made by the County under Agencies consists of several instruments backed by either the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation organizations, and are held in a custodial account along with Treasuries. These agency investments are implicitly guaranteed by the U.S. government.

Interest Rate Risk

As a means of limiting its exposure to fair value losses stemming from rising interest rates, the County's investment policy prohibits the investment of operating funds in securities maturing more than 270 days from the date of purchase.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counter party, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty’s trust department or agent, but not in the government’s name. County and State statutes require that securities underlying all certificates of deposit, repurchase agreements and reverse repurchase agreements have a market value of at least 102 percent of the cost plus accrued interest of the investment. County policies require that a third party custodian hold investment securities and the collateral underlying all investments, in the governments’ name. At June 30, 2007, the County’s investments were not exposed to custodial credit.

B. Receivables

Receivables as of year-end for the County’s individual major funds and nonmajor funds in the aggregate were as follows:

	General	Capital Projects	Debt Service	Water and Sewer Fund	Nonmajor Funds	Total
Receivables:						
Interest	\$ 1,657,001	\$ 0	\$ 0	\$ 7,273	\$ 146,894	\$ 1,811,168
Taxes	2,435,676	0	16,620,436	0	0	19,056,112
Accounts	10,748,695	2,879,527	0	4,742,984	2,503,531	20,874,737
Special assessments	0	0	10,727	410,232	0	420,959
Intergovernmental	683,768	0	0	0	1,269,391	1,953,159
Total receivables	<u>\$ 15,525,140</u>	<u>\$2,879,527</u>	<u>\$16,631,163</u>	<u>\$ 5,160,489</u>	<u>\$ 3,919,816</u>	<u>\$ 44,116,135</u>

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue reported in the governmental funds were as follows:

	<u>Unearned</u>	<u>Unavailable</u>	<u>Total</u>
Delinquent property taxes receivable (General Fund)	\$ 0	\$ 18,525,821	\$ 18,525,821
Agricultural preservation taxes	1,561,007	0	1,561,007
Special assessments not yet due	0	10,727	10,727
School construction impact fees	2,536,270	0	2,536,270
Grant draw-downs prior to meeting all eligibility requirements	731,029	0	731,029
Other unearned revenue	525,397	0	525,397
Loans receivable (Debt Service Fund)	0	40,464,008	40,464,008
Total unearned revenue for governmental funds	<u>\$ 5,353,703</u>	<u>\$ 59,000,556</u>	<u>\$ 64,354,259</u>

C. Property Taxes Receivable

The County levies a property tax each July 1 on the assessed value of all taxable real property located within the County on that date. Assessed values are established by the Maryland Department of Assessments and Taxation at assessed market value. A reassessment of all property is required to be completed every three years. The rates of the levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice and only after public hearings. The real property tax rate during the year ended June 30, 2007 remained constant at \$0.962 per \$100 of assessed value. Property taxes attach as an enforceable lien on the property when levied on July 1 of each year. The taxes are payable without interest by September 30.

Revenue relating to property taxes receivable, which have not been collected within sixty days after year-end, have been reclassified from property tax revenues to deferred revenues in governmental funds.

D. Notes Receivable

During the fiscal year, the County entered into its fourth financing agreement with American Community Property Trust (ACPT) in the amount of \$3,000,000 to finance certain road, water and sewer projects within the County. The note receivable was funded through issuance of \$3,000,000 taxable general obligation bonds.

The following is a schedule of the notes receivable balances:

<u>Loan & Year</u>	<u>Total Borrowed</u>	<u>Term & Rate</u>	<u>Principal Balance 6/30/07</u>
Nursing Home 1992	\$ 2,300,000	15 years, 5%-8.375%	\$ 51,111
Nursing Home 1995	200,000	15 years, 5.05%-7%	40,010
Nursing Home 2000	500,000	15 years, 3.13%	258,333
Nursing Home 2001	250,000	15 years, 2.55%	150,000
Nursing Home 2002	100,000	15 years, 2.83%	66,667
Nursing Home 2003	150,000	15 years, 3.28%	107,500
Nursing Home 2005	100,000	15 years, 2.67%	84,444
Nursing Home 2006	400,000	15 years, 2.24%	364,444
Subtotal: Nursing Home	4,000,000		1,122,509
Hospital 2004	15,000,000	15 years, 3.04831%	13,994,763
ACPT 2004	8,000,000	15 years, 4%-5%	6,750,000
ACPT 2005	6,000,000	15 years, 5%-5.125%	5,321,250
ACPT 2006	10,000,000	15 years, 5.125%-8%	9,418,750
ACPT 2007	3,000,000	15 years, 5.25%-5.75%	2,965,000
CSM	1,000,000	15 years, 3.67%	891,736
Total notes receivable	<u>\$ 47,000,000</u>		<u>\$ 40,464,008</u>

A first lien security interest on all the Hospital's receipts secures their loan. A first lien security interest on the Nursing Home building and facilities secures the Nursing Home loans. ACPT's loan is collateralized by a letter of credit from U.S. Homes Corporation. These restricted assets are recorded in the Debt Service Fund. Principal and interest payments on the related bonds from these restricted resources are also accounted for in the same fund.

The future minimum note payments receivable for the year ended June 30, 2007 are as follows:

	Nursing Home	Hospital	ACPT	CSM	Total
2008	\$ 240,501	\$ 1,247,233	\$ 2,646,398	\$ 86,792	\$ 4,220,924
2009	159,123	1,247,234	2,626,557	86,792	4,119,706
2010	159,123	1,247,234	2,610,364	86,792	4,103,513
2011	139,156	1,247,234	2,603,410	86,791	4,076,591
2012	139,156	1,247,234	2,605,874	86,791	4,079,055
2013 - 2017	562,460	6,236,169	15,938,190	433,956	23,170,775
2018 - 2022	165,274	4,677,127	5,196,784	253,162	10,292,347
Subtotal	1,564,793	17,149,464	34,227,577	1,121,075	54,062,909
Less: interest	(442,284)	(3,154,701)	(9,772,577)	(229,338)	(13,598,900)
Total future minimum note payments receivable	<u>\$ 1,122,509</u>	<u>\$ 13,994,763</u>	<u>\$ 24,455,000</u>	<u>\$ 891,736</u>	<u>\$ 40,464,008</u>

E. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 45,346,678	\$ 530,191	\$ 0	\$ 45,876,869
Construction in progress	154,413,049	42,867,674	(16,363,715)	180,917,008
Total capital assets, not depreciated	199,759,727	43,397,865	(16,363,715)	226,793,877
Capital assets, depreciated:				
Land improvements	2,789,663	316,456	0	3,106,119
Infrastructure	224,494,640	6,309,608	0	230,804,248
Buildings and improvements	68,416,905	12,319,232	0	80,736,137
Machinery and equipment	11,898,763	2,562,658	(81,975)	14,379,446
Vehicles	14,403,293	4,164,831	(1,022,179)	17,545,945
Total capital assets, depreciated	322,003,264	25,672,785	(1,104,154)	346,571,895
Less: accumulated depreciation for:				
Land improvements	(791,033)	(307,074)	0	(1,098,107)
Infrastructure	(127,844,578)	(6,493,696)	0	(134,338,275)
Buildings and improvements	(46,204,857)	(1,868,415)	0	(48,073,272)
Machinery and equipment	(7,972,888)	(1,199,503)	81,975	(9,090,416)
Vehicles	(9,828,115)	(1,857,229)	634,743	(11,050,601)
Total accumulated depreciation	(192,641,471)	(11,725,917)	716,718	(203,650,671)
Total capital assets, depreciated, net	129,361,792	13,946,868	(387,437)	142,921,225
Governmental activities capital assets, net	\$ 329,121,519	\$ 57,067,221	\$(16,473,639)	\$ 369,715,102

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 1,982,631	\$ 0	\$ 0	\$ 1,982,631
Construction in progress	63,801,402	11,918,473	(4,401,200)	71,318,675
Total capital assets, not depreciated	<u>65,784,033</u>	<u>11,918,473</u>	<u>(4,401,200)</u>	<u>73,301,306</u>
Capital assets, depreciated:				
Land improvements	5,201,198	262,168	0	5,463,366
Infrastructure	161,751,512	6,871,637	0	168,623,149
Buildings and improvements	13,058,581	167,776	0	13,226,357
Machinery and equipment	7,902,263	1,143,450	(8,000)	9,037,713
Vehicles	4,167,099	648,279	(479,000)	4,336,378
Total capital assets, depreciated	<u>192,080,653</u>	<u>9,093,310</u>	<u>(487,000)</u>	<u>200,686,963</u>
Less: accumulated depreciation for:				
Land improvements	(4,435,238)	(122,181)	0	(4,557,419)
Infrastructure	(88,310,405)	(4,504,892)	0	(92,815,297)
Buildings and improvements	(1,929,570)	(452,072)	0	(2,381,642)
Machinery and equipment	(4,071,621)	(898,452)	8,000	(4,962,073)
Vehicles	(2,947,364)	(391,663)	450,319	(2,888,708)
Total accumulated depreciation	<u>(101,694,198)</u>	<u>(6,369,260)</u>	<u>458,319</u>	<u>(107,605,139)</u>
Total capital assets, depreciated, net	<u>90,386,455</u>	<u>2,724,050</u>	<u>(28,681)</u>	<u>93,081,824</u>
Business-type activities capital assets, net	<u>\$ 156,170,488</u>	<u>\$ 14,642,523</u>	<u>\$ (4,429,881)</u>	<u>\$ 166,383,130</u>

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

Governmental Activities:

General Government	\$ 59,566
Public Safety	2,483,318
Legislative	157,398
Judicial	74,042
Financial Administration	101,789
Law	6,340
Planning and Growth	67,890
Health	179,979
Community Services	253,103
Public Facilities	8,239,158
Education	103,334
Total depreciation expense - Governmental Activities	<u>\$ 11,725,917</u>

Business-type Activities:

Water and Sewer	\$ 5,034,654
Solid Waste	508,879
Recycling/Environmental Service	421,526
Parks	66,409
Recreation	334,770
Inspection	11,855
Total depreciation expense - Business-type Activities	<u>\$ 6,378,093</u>

Construction Commitments

The County has active construction projects as of June 30, 2007. The projects include widening and reconstruction of existing streets and bridges, maintenance of existing roads, landfill expansion, construction of a baseball stadium/entertainment complex, and the improvement and expansion of existing water and sewer facilities. At year-end, the County's project commitments are as follows:

<u>Division / Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Transportation		
Road and bridge expansions	\$ 83,313,270	\$ 73,315,977
Other transportation projects	1,467,644	515,335
General government		
Radio communication system	20,351,936	207,064
Courthouse expansion	2,023,928	14,989,652
Baseball Stadium & Entertainment Complex	1,812,415	17,816,085
Buildings and improvements	43,718,208	2,975,233
Other general government projects	5,016,807	6,452,703
Water and sewer		
Expansions and improvements	40,075,863	65,679,179
Bio-nutrient removal project	26,771,865	2,790,245
Parks		
Expansions and improvements	4,883,971	16,158,089
Environmental service		
Various environmental service projects	5,694,037	9,048,963
Total	<u>\$ 235,129,944</u>	<u>\$ 209,948,525</u>

Most construction projects are financed, in part or in full, by general obligation bonds. Road and bridge expansions are also financed by off-site road fees and transfers of existing resources from the General Fund. Water and sewer expansions are financed by general obligation bonds, the state, and property owners.

Discretely Presented Component Units

Capital asset activity for the Board of Education for the year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 12,363,444	\$ 730,941	\$ 0	\$ 13,094,385
Construction in progress	39,663,352	25,348,283	(33,850,093)	31,161,542
Total capital assets, not depreciated	<u>52,026,796</u>	<u>26,079,224</u>	<u>(33,850,093)</u>	<u>44,255,927</u>
Capital assets, depreciated:				
Buildings	302,023,598	33,621,425	(2,000)	335,643,023
Land improvements	5,501,585	1,182,571	(5,600)	6,678,556
Furniture and equipment	23,377,404	2,086,613	(784,582)	24,679,435
Total capital assets, depreciated	<u>330,902,587</u>	<u>36,890,609</u>	<u>(792,182)</u>	<u>367,001,014</u>
Less accumulated depreciation for:				
Buildings	(142,403,217)	(8,587,106)	633	(150,989,690)
Land improvements	(4,945,767)	(139,125)	5,600	(5,079,292)
Furniture and equipment	(14,408,500)	(2,138,044)	758,449	(15,788,095)
Total accumulated depreciation	<u>(161,757,484)</u>	<u>(10,864,275)</u>	<u>764,682</u>	<u>(171,857,077)</u>
Total capital assets, depreciated, net	<u>169,145,103</u>	<u>26,026,334</u>	<u>(27,500)</u>	<u>195,143,937</u>
Board capital assets, net	<u>\$ 221,171,899</u>	<u>\$ 52,105,558</u>	<u>\$ (33,877,593)</u>	<u>\$ 239,399,864</u>

Capital asset activity for the Library for the year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, depreciated:				
Furniture and equipment	\$ 509,841	\$ 34,271	\$ (30,350)	\$ 513,762
Library books and AV material	1,525,298	241,125	(373,874)	1,392,549
Total capital assets, depreciated	<u>2,035,139</u>	<u>275,396</u>	<u>(404,224)</u>	<u>1,906,311</u>
Less accumulated depreciation	<u>(1,477,844)</u>	<u>(266,639)</u>	<u>402,863</u>	<u>(1,341,620)</u>
Library capital assets, depreciated, net	<u>\$ 557,295</u>	<u>\$ 8,757</u>	<u>\$ (1,361)</u>	<u>\$ 564,691</u>

F. Interfund Receivables, Payables, and Transfers

The General Fund is the main fund used to collect, invest, and disburse monies for governmental and proprietary funds. This creates temporary interfund balances. The composition of interfund balances as of June 30, 2007, is as follows:

Due (to) from other funds:		
	Governmental Activities	Business-type Activities
General Fund	\$ (103,413,844)	\$ 0
Capital Projects Fund	69,075,474	0
Debt Service Fund	(2,337,217)	0
Water and Sewer Fund	0	11,539,818
Other Nonmajor Funds	6,617,723	18,518,045
Total	<u>\$ (30,057,863)</u>	<u>\$ 30,057,863</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The following is a schedule of interfund transfers:

<u>Transfers Out</u>	<u>Transfers In</u>					<u>Total</u>
	General Fund	Capital Projects Fund	Water and Sewer Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	
General Fund	\$ 0	\$ 8,381,979	\$ 42,871	\$ 2,975,281	\$ 29,559	\$ 11,429,690
Nonmajor Governmental Funds	200,000	0	0	0	0	200,000
Nonmajor Enterprise Funds	599,800	0	0	0	0	599,800
Total Transfers In:	<u>\$ 799,800</u>	<u>\$ 8,381,979</u>	<u>\$ 42,871</u>	<u>\$ 2,975,281</u>	<u>\$ 29,559</u>	<u>\$ 12,229,490</u>

G. Leases

Capital Leases

The County has entered into several lease agreements as lessee for financing the acquisition of various machinery and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception dates. Information on each of the various lease agreements is as follows:

- Fiscal Year 2002 - Various equipment for the General Fund, Water and Sewer Fund, Environmental Service Fund, Parks Fund, and Inspection Fund - semiannual payments of \$133,122 over five years ending September 2006, including interest at a rate of 3.86%, equipment capitalized at \$1,200,000.
- Fiscal Year 2003 - Various equipment for the General Fund, Water and Sewer Fund, Environmental Service Fund, Parks Fund, and Inspection Fund - semiannual payments of \$295,345 over five years ending August 2007, including interest at a rate of 2.98%, equipment capitalized at \$2,725,000.
- Fiscal Year 2004 - Various equipment for the General Fund, Water and Sewer Fund, Environmental Service Fund, Parks Fund, and Inspection Fund - semiannual payments of \$130,695 over five years ending August 2008, including interest at a rate of 2.39%, equipment capitalized at \$1,225,000.
- Fiscal Year 2004 - Equipment for the Southern Maryland Criminal Justice Academy - semiannual payments of \$5,475 over five years ending April 2009, including interest at rate of 2.94%, equipment capitalized at \$50,575.
- Fiscal Year 2005 - Various equipment for the General Fund, Water and Sewer Fund, Environmental Service Fund, Parks Fund, and Inspection Fund - semiannual payments of \$159,787 over five years ending August 2009, including interest at a rate of 2.96%, equipment capitalized at \$1,475,000.
- Fiscal Year 2006 - Various equipment for the General Fund, Water and Sewer Fund, Environmental Service Fund and I-Net Fund, - semiannual payments of \$205,840 over five years ending July 2010, including interest at a rate of 4.63%, equipment capitalized at \$1,900,000.
- Fiscal Year 2006 - Equipment for Charles County Sheriff's Office - semiannual payments of \$60,269 over five years ending November 2010, including interest at a rate of 3.398%, equipment capitalized at \$550,000.
- Fiscal Year 2007 - Various equipment for the General Fund, Inspection Fund, Parks Fund, and Water and Sewer Fund - semiannual payments of \$238,797 over five years ending August 2011, including interest at a rate of 6.10%, equipment capitalized at \$2,150,000.

- Fiscal Year 2007 - Meter Replacement Lease for the Water and Sewer Fund - semiannual payments starting at \$132,965 and increasing to \$569,142 over fifteen years ending February 2022, including interest at a rate of 6.47%, various components expended at \$5,862,900.

The assets acquired through capital leases and still in use are as follows:

	Governmental Activities	Business-type Activities
Assets:		
Machinery and equipment	\$ 6,175,181	\$ 1,530,039
Vehicles	4,299,184	2,280,700
Total capital assets	<u>10,474,365</u>	<u>3,810,739</u>
Less accumulated depreciation:		
Machinery and equipment	(2,873,881)	(1,094,244)
Vehicles	(2,603,044)	(1,562,690)
Total accumulated depreciation	<u>(5,476,925)</u>	<u>(2,656,934)</u>
Total capital assets, net	<u>\$ 4,997,440</u>	<u>\$ 1,153,805</u>

The future minimum obligations and the net present value of the minimum lease payments as of June 30, 2007, were as follows:

	Governmental Activities	Business-type Activities	Total
2008	\$ 1,437,411	\$ 818,889	\$ 2,256,300
2009	1,196,981	734,294	1,931,275
2010	967,390	676,259	1,643,649
2011	604,640	627,335	1,231,975
2012	194,758	546,957	741,715
2013 -2017	0	2,684,702	2,684,702
2018 - 2022	0	3,033,492	3,033,492
Subtotal	<u>4,401,180</u>	<u>9,121,928</u>	<u>13,523,108</u>
Interest	<u>(288,919)</u>	<u>(2,283,587)</u>	<u>(2,572,506)</u>
Present value of minimum lease payments	<u>\$ 4,112,261</u>	<u>\$ 6,838,341</u>	<u>\$ 10,950,602</u>

H. Long-Term Debt

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 governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$415,853,000. During the year ended June 30, 2007, general obligation bonds totaling \$53,000,000 were issued for consolidated public improvement, of which \$3,000,000 were taxable.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. In the past these bonds have been generally issued as 15-year serial bonds with equal amounts of principal maturing each year. Over the past five years, the County has issued 10 year bonds as part of its overall debt issuance as it pertains to the Excise Tax collections assessed annually on new homeowner's tax bills for school construction. The County's General obligation bonds currently outstanding are as follows:

Bond Description and Year	Amount Borrowed	Term and Rate	Governmental Activities Balance 6/30/2007	Business-type Activities Balance 6/30/2007	Total
Water and Sewer Bonds 1968B	\$2,000,000	40 years, 4.7532%	\$ 0	\$ 60,000	\$ 60,000
Consolidated Public Improvement Bonds of 1998	\$5,400,000	15 years, 4.125% - 4.6%	2,345,449	229,551	2,575,000
Consolidated Public Improvement Bonds of 1999	\$8,000,000	15 years, 3.875% - 4.4%	4,270,981	134,019	4,405,000
Consolidated Public Improvement Bonds of 2000	\$11,150,000	15 years, 4.8% - 5.625%	4,319,682	2,620,318	6,940,000
Consolidated Public Improvement Bonds of 2001	\$11,700,000	15 years, 4.125% - 4.7%	5,697,549	2,147,451	7,845,000
Consolidated Public Improvement and Refunding Bonds of 2002	\$26,860,000	15 years, 3% - 5%	9,654,586	2,520,414	12,175,000
Consolidated Public Improvement Bonds of 2003	\$22,090,000	15 years, 2%-4%	10,196,444	6,913,556	17,110,000
Consolidated Public Improvement Bonds of 2003	\$ 6,910,000	10 years, 2%-4%	4,350,000	0	4,350,000
Consolidated Public Improvement and Refunding Bonds of 2004	\$52,745,000	15 years, 2% -4%	33,152,569	4,147,431	37,300,000
Consolidated Public Improvement and Refunding Bonds of 2004	\$31,500,000	10 years, 2% -4%	22,775,000	0	22,775,000
Consolidated Public Improvement Bonds (Taxable) of 2004	\$8,000,000	15 years, 4%-5%	6,750,000	0	6,750,000
Consolidated Public Improvement and Refunding Bonds of 2005	\$52,550,000	15 years, 3% - 4.5%	33,865,444	11,309,556	45,175,000
Consolidated Public Improvement and Refunding Bonds of 2005	\$10,160,000	10 years, 3% - 4.5%	8,435,000	0	8,435,000
Consolidated Public Improvement Bonds (Taxable) of 2005	\$6,000,000	15 years, 5% - 5.125%	5,400,000	0	5,400,000
Consolidated Public Improvement Bonds of 2006	\$26,880,000	15 years, 4%-5%	22,042,552	3,452,448	25,495,000
Consolidated Public Improvement Bonds of 2006	\$16,120,000	10 years, 4%-5%	14,740,000	0	14,740,000
Consolidated Public Improvement Bonds (Taxable) of 2006	\$10,000,000	15 years, 5.125%-8%	9,540,000	0	9,540,000
Consolidated Public Improvement Bonds of 2007	\$33,700,000	15 years 3.5 %- 4 %	19,061,000	14,639,000	33,700,000
Consolidated Public Improvement Bonds of 2007	\$16,300,000	10 years 3.5 %- 4 %	16,300,000	0	16,300,000
Consolidated Public Improvement Bonds (Taxable) of 2007	\$3,000,000	15 years 5.75%-5.51%	3,000,000	0	3,000,000
Total bonds outstanding			235,896,256	48,173,744	284,070,000

Notes Payable

Loan Description and Year	Amount Borrowed	Term and Rate	Governmental Activities Balance 6/30/2007	Business-type Activities Balance 6/30/2007	Total
FHA Loan 1973	\$250,000	40 years, 3.649%	99,595	0	99,595
MD Water Quality Revolving Loan Fund of 1996	\$1,513	15 years, 4.35%	0	499,192	499,192
MD Water Quality Revolving Loan Fund for Pisgah Landfill	\$7,839	15 years, 4.37%	2,514,757	0	2,514,757
MD Water Quality Revolving Loan Mattawoman WWTP BNR Upgrade	\$9,385	20 years, 1.200%	0	12,903,780	12,903,780
Total loans outstanding			2,614,352	13,402,972	16,017,324
Total bonds & loans outstanding			\$ 238,510,608	\$ 61,576,716	\$ 300,087,324

MD Water Quality Revolving Loan

In Fiscal Year 2004, the County entered into an agreement with the State of Maryland to borrow up to \$14,767,900 for partial funding of the Mattawoman Waste Water Treatment Plant Bio-Nutrient Removal upgrade. During the Fiscal Year 2007, the County requested funds in the amount of \$2,384,125, which left an available balance of \$1,864,120 for future drawdowns. As of June 30, 2007, the County has a related debt balance of \$12,903,780.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
General obligation bonds	\$ 217,280,522	\$ 38,361,000	\$ (19,745,266)	\$ 235,896,256	\$ 22,554,449
Notes payable	3,062,983	0	(448,631)	2,614,352	468,185
Capital leases	3,798,264	1,753,600	(1,439,603)	4,112,261	613,671
Compensated absences	9,823,976	3,493,612	(3,022,325)	10,295,263	918,581
Governmental activities noncurrent liabilities	233,965,745	43,608,212	(24,655,825)	252,918,132	24,554,886
<u>Business-type activities:</u>					
General obligation bonds	37,024,478	14,639,000	(3,489,734)	48,173,744	4,010,551
Notes payable	18,684,070	2,384,125	(7,665,223)	13,402,972	782,565
Capital leases	988,400	6,259,300	(409,359)	6,838,341	548,965
Landfill closure costs	4,351,944	335,344	0	4,687,288	0
Compensated absences	1,358,261	631,722	(557,680)	1,432,303	164,694
Business-type activities noncurrent liabilities	62,407,153	24,249,491	(12,121,996)	74,534,648	5,506,775
Total primary government noncurrent liabilities	\$ 296,372,898	\$ 67,857,703	\$ (36,777,821)	\$ 327,452,780	\$ 30,061,661
<u>Component units:</u>					
Board of Education	\$ 10,746,344	\$ 0	\$ (480,172)	\$ 10,266,172	\$ 1,740,000
Library	\$ 130,085	\$ 25,278	\$ 0	\$ 155,363	\$ 130,085

For the governmental activities, compensated absences are generally liquidated by the general fund and certain special revenue funds.

The annual requirements to amortize all debt outstanding as of June 30, 2007, including interest of \$83,777,861 and excluding compensated absences and landfill closure costs, are as follows:

Year ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2008	\$ 24,352,269	\$ 10,241,593	\$ 5,285,523	\$ 2,463,759	\$ 42,343,144
2009	23,623,791	9,342,142	5,111,633	2,301,997	40,379,563
2010	23,070,413	8,432,202	5,031,891	2,110,386	38,644,892
2011	22,817,344	7,449,795	5,019,473	1,912,097	37,198,709
2012	22,742,914	6,483,552	4,751,882	1,718,496	35,696,844
2013-2017	89,593,588	19,029,147	23,130,302	5,839,789	137,592,826
2018-2022	36,422,550	4,564,526	17,119,594	1,798,907	59,905,577
2023-2027	0	0	2,964,758	89,473	3,054,231
	<u>\$ 242,622,869</u>	<u>\$ 65,542,957</u>	<u>\$ 68,415,056</u>	<u>\$ 18,234,904</u>	<u>\$ 394,815,786</u>

Conduit Debt

Charles County Government has issued five economic development revenue bonds for the express purpose of providing capital financing for specific third parties that are not a part of the Charles County Government's financial reporting entity. These bonds neither constitute an indebtedness nor do they represent a pledge of the full faith and credit of the Charles County Government and are not reported as liabilities on the accompanying financial statements. For these five issues, the aggregate principal amount outstanding at June 30, 2007 is \$24,286,466.

Special Assessment Debt

In prior years, the County has had requested and granted various special assessments on projects petitioned by citizens. These projects are performed by the County, but the cost is fully funded by the property owners. No debt has been issued for these projects to date, rather they have been funded on a pay-go basis.

I. Restricted Assets

The details of the restricted assets are as follows:

Governmental Activities

Cash and cash equivalents:

Inmate account	\$ 63,764	
Lease deposits	5,078	
Construction escrow	<u>2,820,305</u>	
Total cash and cash equivalents		\$ 2,889,148

Notes receivable:

Nursing Home	1,122,509	
Civista	13,994,763	
ACPT	24,455,000	
College of Southern Maryland	<u>891,736</u>	
Total notes receivable		<u>40,464,008</u>
Total Governmental Activities		43,353,156

Business-type Activities

Cash and cash equivalents:

Landfill Bonds		<u>112,277</u>
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TOTAL PRIMARY GOVERNMENT		<u>\$ 43,465,433</u>
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J. Fund Balance Analysis

The following are the components of Fund Balance in the governmental funds:

	General Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:					
Reserved for:					
Inventory	\$ 1,572,156	\$ 0	\$ 0	\$ 0	\$ 1,572,156
Capital outlay	290,863	46,231,557	0	0	46,522,420
Economic development	650,340	0	0	0	650,340
Judicial grants	0	0	0	162,263	162,263
Transportation	0	0	0	967,711	967,711
Public safety	0	0	0	358,347	358,347
Community development grants	0	0	0	156,660	156,660
Housing	0	0	0	4,017,246	4,017,246
Animal control	0	0	0	85,051	85,051
Drug enforcement	0	0	0	577,431	577,431
Fire and rescue	0	0	0	415,828	415,828
Mental health	0	0	0	138,335	138,335
I-net technology	0	0	0	613,113	613,113
Total reserved	<u>2,513,359</u>	<u>46,231,557</u>	<u>0</u>	<u>7,491,985</u>	<u>56,236,901</u>
Unreserved:					
Designated for:					
Health insurance	1,171,676	0	0	0	1,171,676
Animal control	68,044	0	0	0	68,044
Housing	324,500	0	0	0	324,500
Infrastructure	0	11,309,540	0	0	11,309,540
Road improvements	0	216,530	0	0	216,530
Parks	10,839	0	0	0	10,839
CIP & operations	14,828,200	0	0	0	14,828,200
Total designated	<u>16,403,259</u>	<u>11,526,070</u>	<u>0</u>	<u>0</u>	<u>27,929,329</u>
Undesignated:					
Other undesignated	54,442,511	0	0	0	54,442,511
Debt Service	0	0	(2,329,831)	0	(2,329,831)
Total undesignated	<u>54,442,511</u>	<u>0</u>	<u>(2,329,831)</u>	<u>0</u>	<u>52,112,680</u>
Total fund balances (deficit)	<u>\$ 73,359,129</u>	<u>\$ 57,757,627</u>	<u>\$ (2,329,831)</u>	<u>\$ 7,491,985</u>	<u>\$ 136,278,910</u>

NOTE 4. RISK MANAGEMENT

Liability Insurance

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County was unable to obtain general liability, public officials legal liability, police legal liability, business auto liability, and auto physical damage insurance from commercial insurance companies at a cost it considered to be economically justifiable. The County and other local governments throughout the State joined together to form the Local Government Insurance Trust (LGIT), a public entity risk pool. The County pays an annual premium to LGIT for its general insurance coverage. LGIT is self-sustaining through member premiums and will reinsure through commercial companies.

Self-Insured Health Care

The County is self-insured for employee health insurance through agreements with CareFirst BlueCross BlueShield, CareFirst BlueChoice, and Delta Dental. Employees contribute 30% of the estimated cost of the plan, and the County contributes 70%. Certain outside agencies and some retirees are also covered under this agreement with varying contribution levels. The health insurance agreements are claims-made policies with administrative fees paid to all carriers. The policies include stop-loss provisions for claims in excess of \$100,000 per person/per year for CareFirst. Claims in excess of this limit are covered by the insurance carrier. Delta Dental does not have a stop-loss provision. At June 30, 2007, a liability of \$960,000 (\$638,792 in governmental-type funds and \$321,208 in business-type funds) was recorded for estimated claims incurred but not yet reported (IBNR), which represents the estimated run-out claims liability should the self-insurance agreement be terminated. Historical experience and actuarial assumptions were the basis used in estimating the liabilities for unpaid claims.

The changes in the County's claims liability are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Claims and Changes in Estimates</u>	<u>Payments</u>	<u>End of Year</u>
2003	\$ 700	\$ 50	\$ 0	\$ 750
2004	750	410	0	1,160
2005	1,160	600	0	1,760
2006	1,760	0	0	1,760
2007	1,760	(800)	0	960

Other Insurance

The County continues to carry commercial insurance for other risks of loss, including other general liability; earth movement; flood; employee health, dental, and life; worker's compensation, unemployment, and long-term disability insurance. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four years.

NOTE 5. COMMITMENTS AND CONTINGENCIES

A. Contingencies Under Grant Provisions

The County participates in federal- and state-assisted programs and is a recipient of several grants. These programs and grants are subject to financial and compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as a result of these audits is not believed to be material. The County has experienced audits of a few programs during the year ended June 30, 2007, which have not resulted in any findings or liabilities. The County does not expect any disallowance of grant expenditures in the future.

NOTE 6. PENSION PLANS

The County maintains two separate single-employer, defined benefit pension plans: one for Sheriff's Office and Communications employees and one for substantially all other full-time County employees. The two pension plans are maintained as Pension Trust Funds. The County does not produce separate comprehensive annual financial reports for the plans. Therefore, all required disclosures for the plans are included within this report. The following are the required statements for the County's Pension Trust Funds:

Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2007

	Sheriff's Office Retirement Plan	County Employees Retirement Plan	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 185,676	\$ 3,647,411	\$ 3,833,087
Interest receivable	146,894	0	146,894
Total current assets	<u>332,570</u>	<u>3,647,411</u>	<u>3,979,981</u>
Investments, at fair value:			
Bond mutual funds	33,674,643	15,753,456	49,428,099
Equity securities	70,871,151	58,547,590	129,418,741
Total investments	<u>104,545,794</u>	<u>74,301,046</u>	<u>178,846,840</u>
Total assets	104,878,364	77,948,457	182,826,821
Liabilities:			
Accrued expenses	<u>0</u>	<u>(39,144)</u>	<u>(39,144)</u>
Net assets:			
Held in trust for pension benefits	<u>\$ 104,878,364</u>	<u>\$ 77,909,313</u>	<u>\$ 182,787,677</u>

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
Year ended June 30, 2007

	Sheriff's Office Retirement Plan	County Employees Retirement Plan	Total
ADDITIONS			
Contributions:			
Employer contributions	\$ 5,457,489	\$ 5,117,249	\$ 10,574,738
Employee contributions	1,821,881	1,732,291	3,554,172
Total contributions	<u>7,279,370</u>	<u>6,849,540</u>	<u>14,128,910</u>
Investment earnings:			
Interest	468,623	2,293,683	2,762,306
Net increase in the fair value of investments	14,430,830	7,465,147	21,895,977
Total investment earnings	14,899,453	9,758,830	24,658,283
Less investment expense	(54,611)	(558,906)	(613,517)
Net investment earnings	<u>14,844,842</u>	<u>9,199,924</u>	<u>24,044,766</u>
Total additions	<u>22,124,212</u>	<u>16,049,464</u>	<u>38,173,676</u>
DEDUCTIONS			
Benefits paid to members	4,324,118	1,490,061	5,814,179
Administrative costs	164,413	13,025	177,438
Total deductions	<u>4,488,531</u>	<u>1,503,086</u>	<u>5,991,617</u>
Changes in net assets	17,635,681	14,546,378	32,182,059
Net assets - beginning of year	87,242,684	63,362,934	150,605,618
Net assets - end of year	<u>\$ 104,878,365</u>	<u>\$ 77,909,312</u>	<u>\$ 182,787,677</u>

A. Sheriff's Office Retirement Plan

Plan Description - The Sheriff's Office Retirement Plan (SORP) is a single-employer defined benefit pension plan. The County administers the plan in accordance with Article 25, Section 3 (g-1) of the Annotated Code of Maryland. The County Commissioners have the power and authority to establish and amend the benefit provisions of the SORP. All full-time employees classified as sworn officers, correctional officers or communications employees are eligible to participate in this plan. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are also provided.

Membership in the plan consisted of the following at July 1, 2006, the date of the last actuarial valuation:

	<u>Sworn Officers</u>	<u>Correctional Officers</u>	<u>Communications Employees</u>
Active plan members	261	123	33
Retirees and beneficiaries receiving benefits	77	7	4
Disabled, receiving benefits	11	0	0
	<u>349</u>	<u>130</u>	<u>37</u>

Prior to July 1, 1995, the County contracted with an insurance company to provide the guaranteed payment of benefits for retirees of the SORP. Beginning July 1, 1995, the County enacted significant changes in the eligible classes of employees and in the investment policies. Currently, the insurance company has responsibility for payment of benefits only for those employees who retired before July 1, 1995. The funding of continued benefits for those pre-7/1/95 retirees comes from the County, based on quarterly calculations made by the insurance company. Assets held by the insurance company for payment of benefits total \$6,177,741 at June 30, 2007, and are classified as fixed income investments. Benefits paid by the insurance company for the year ended June 30, 2007 totaled \$1,055,369.

Summary of Significant Accounting Policies: Basis of Accounting and Valuation of Investments - The statement of plan net assets and the statement of changes in plan net assets are prepared on the accrual basis of accounting. SORP member contributions are recognized when due. The County's employer's contributions are recognized when due and a formal commitment to provide the contributions has been made. Employer-required contributions are calculated by an independent actuarial firm and are paid after formal approval by the County Commissioners. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Market quotations are used for investments traded in an active securities market, and contract values are used for unallocated insurance contracts. Investments are managed by an investment committee which includes an outside investment consultant. The plan is administered by a third-party administrator. Fund assets are held by a custodian. The County does not issue a stand-alone financial report for the Sheriff's Office Retirement Plan, nor is it included in the report of any other entity.

Contributions and Reserves - The County Commissioners have the power and authority to establish and carry out a funding policy and method consistent with the objectives of the Plan. Sworn officers are required to contribute 8% of their base earnings. Correctional officers and communications dispatchers are required to contribute 7% of their base earnings. Base earnings are the employee's earnings as of the first day of the County's fiscal year. Earnings for contribution purposes are adjusted annually, on July 1. The County makes the required employer contributions annually, as actuarially determined. Administrative costs of the Plan are financed through investment earnings and additional contributions of the employer.

Investment Concentrations - At June 30, 2007, net assets were invested in fixed income mutual funds (32%) and Equity mutual funds (68%).

Plan Provisions - The following are the plan provisions of the SORP:

<u>Normal Retirement Age:</u>	25 years of service, or age 60, if earlier. 20 years of service for Sworn Officers hired before 7-1-86.												
<u>Normal Form of Benefit:</u>	Single life annuity with death benefit of undistributed employee contributions plus accumulated interest at 3.0% compounded annually to date of retirement. Other forms are the actuarial equivalent.												
<u>Post-Retirement Cost of Living Increases:</u>	CPI index, but no more than 4% in a year.												
<u>Employee Contributions:</u>	8% of base earnings for Sworn Officers. 7% of base earnings for Correctional and Communications												
<u>Average Compensation:</u>	Three year average of base pay on July 1.												
<u>Benefit Formula:</u>	Sworn Officers - 3% for each of first 20 years and 2% thereafter, to a maximum of 80% of average compensation. Correctional Officers - 2.25 % per year to a maximum of 75% of average compensation. Communications Employees - 2.0% per year to a maximum of 75% of average compensation.												
<u>Service:</u>	Up to three years of military service counts for benefit, but not eligibility. Accumulated sick leave provides an increased benefit percentage of 1% for 500 hours and an additional 0.1% for each additional 100 hours to a maximum of 4.0%.												
<u>Early Retirement:</u>	With at least 20 years of service: <table border="0" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;"><u>Years early</u></th> <th style="text-align: left;"><u>Reduction</u></th> </tr> </thead> <tbody> <tr> <td>1</td> <td>8.4%</td> </tr> <tr> <td>2</td> <td>16.8%</td> </tr> <tr> <td>3</td> <td>25.2%</td> </tr> <tr> <td>4</td> <td>32.4%</td> </tr> <tr> <td>5</td> <td>39.6%</td> </tr> </tbody> </table>	<u>Years early</u>	<u>Reduction</u>	1	8.4%	2	16.8%	3	25.2%	4	32.4%	5	39.6%
<u>Years early</u>	<u>Reduction</u>												
1	8.4%												
2	16.8%												
3	25.2%												
4	32.4%												
5	39.6%												
<u>Termination Prior to Retirement:</u>	Return of employee contributions with 3% interest.												

Line of Duty Disability:

Total and Permanent: 66-2/3% average compensation reduced by 50% of Social Security benefits, 100% of Worker's Compensation benefits and LTD benefits, if any.

Disability from Own Position: A percentage of final 3 years average earnings, based on percentage disability as determined by the Disability Review Board, subject to:

- a) a minimum of 15%
- b) a maximum of 50%
- c) offset of 50% of Social Security
- d) offset of 100% of Workers Compensation
- e) offset by LTD benefits, if any.

Communications Employees are not eligible for this benefit.

Non-Line of Duty Disability: 5 Years of Service is required for this benefit.

Total and Permanent: A percentage of final 3 years average earnings, based on percentage disability as determined by the Disability Review Board, subject to:

- a) a minimum of 15%
- b) a maximum of 40%
- c) offset of 50% of Social Security
- d) offset of 100% of Worker's Compensation
- e) no benefit until LTD benefits, if any, expire.

Disability from Own Position: A percentage of final 3 years average earnings, based on percentage disability as determined by the Disability Review Board, subject to:

- a) a minimum of 15%
- b) a maximum of 40%
- c) offset of 50% of Social Security
- d) offset of 100% of Worker's Compensation
- e) no benefit until LTD benefits, if any, expire.

Disability must be catastrophic (loss of limb, loss of hearing, blindness).
Communications Employees are not eligible for this benefit.

Pre-Retirement Spouse's Benefit:

Line of Duty Death Benefit: 66-2/3% of Participant's average compensation less any survivor benefits paid under Social Security.

Non-Line of Duty Death Benefit: 100% of the normal retirement benefit accrued to date of death, with reduction based on spouse's age.

Other Pre-Retirement Death Benefits:

A Beneficiary will receive employee contributions plus credited interest.

Annual Pension Cost and Net Pension Obligation - The annual pension cost for the year ended June 30, 2007 was equal to the amount of the Annual Required Contribution of \$5,263,564. There was no net pension obligation at June 30, 2007. The Annual Required Contribution for the current year was determined as part of the July 1, 2006 actuarial valuation. The actuarial assumptions and methods included:

Funding Method: Projected unit credit with amortization of the unfunded accrued liability over a period of 20 years as level percentage of pay. Total payroll is assumed to increase 3.5% per year.

Asset Method: Three-year averaging method. Returns on the average market value of assets above or below the assumed 8% return are gradually recognized over a three-year period.

Interest: 8% compounded annually.

Post Retirement COLA Increases: 3% compounded annually, no limit.

Mortality: RP-2000 Blue Collar Mortality. A five-year set-forward is used for post-disability mortality.

Salary Increases: 5.5% compounded annually.

Disability: Sample rates are:

<u>Age</u>	<u>Rate</u>
25	0.19%
35	0.28%
45	0.98%

 Rates are reduced by 50% for corrections and communications employees.

Assumed Disability Benefit: 66-2/3% of average compensation reduced by \$5,000 per year to model the offsetting benefits.

Turnover: Sample rates for those with 0-10 years of service are:

<u>Age</u>	<u>Sworn Officers</u>	<u>Corrections and Communications</u>
25	6.0%	15.4%
35	5.3%	13.7%
45	3.3%	10.3%

The turnover rates for those with 10-15 years of service are assumed to be 50% of those with 0-10 years of service. The rates for those with more than 15 years of service are assumed to be 10% of the base rates for the Deputy Sheriffs and 37.5% of the base rates for the Correctional Officers and Communications Employees.

Retirement: When first eligible for early retirement, the turnover rates above apply (but no adjustments for 10 or more years of service). 50% when first eligible for normal retirement; each year thereafter to age 60, 20%.

Sick Leave: Unused sick leave is assumed to increase 60 hours per year.

Military Service: Actual service.

Loading: A 0.5% expense loading is added to liabilities and normal cost.

Other Methods and Assumptions:

Cost and assets are measured separately for each of the three employee groups. If employees transfer between groups, assets are also transferred. The allocation between each group is intended to be an approximation of the cost and assets as if each had a separate plan. However, there is only one plan and trust fund.

Transferred and purchased service are tracked for each employee. All known and confirmed service is included in the current valuation. The value of remaining employee contributions to purchase service is included in the actuarial value of assets.

The July 2006 valuation determines the cost for fiscal year 2008.

The valuation cost is also the GASB 27 pension expense. The actuary believes that there is no past or current Net Pension Obligation (NPO).

The salary provided is as of July 1, 2006. It is assumed to be the salary for the next 12 months and not part of the accrued benefit when measuring projected benefits. Projected salary is limited to the current 401(a)(17) pay cap.

The Schedule of Employer Contributions and the Schedule of Funding Progress are as follows:

SCHEDULE OF EMPLOYER CONTRIBUTIONS
SHERIFF'S OFFICE RETIREMENT PLAN

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>of ARC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/04	\$ 4,100,000	100%	\$0
6/30/05	\$ 4,150,000	100%	\$0
6/30/06	\$ 4,451,597	100%	\$0

**SCHEDULE OF FUNDING PROGRESS
SHERIFF'S OFFICE RETIREMENT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
Deputy Sheriffs						
7/1/04	\$ 63,700,221	\$ 82,011,919	\$ 18,311,698	77.7%	\$ 13,438,004	136.3%
7/1/05	\$ 71,281,359	\$ 91,951,068	\$ 20,670,709	77.5%	\$ 14,195,503	145.6%
7/1/06*	\$ 80,364,953	\$ 99,525,770	\$ 19,160,817	80.7%	\$ 15,923,523	120.3%
7/1/06	\$ 80,364,953	\$100,619,352	\$ 20,254,399	79.9%	\$ 15,923,523	127.2%
Corrections Officers						
7/1/04	\$ 7,322,494	\$ 9,220,494	\$ 1,898,000	79.4%	\$ 4,612,304	41.2%
7/1/05	\$ 8,536,271	\$ 10,885,333	\$ 2,349,062	78.4%	\$ 5,219,549	45.0%
7/1/06*	\$ 9,974,590	\$ 12,679,170	\$ 2,704,580	78.7%	\$ 6,086,937	44.4%
7/1/06	\$ 9,974,590	\$ 12,841,699	\$ 2,867,109	77.7%	\$ 6,086,937	47.1%
Communications Employees						
7/1/04	\$ 2,674,056	\$ 3,180,222	\$ 506,166	84.1%	\$ 1,145,301	44.2%
7/1/05	\$ 2,998,552	\$ 3,496,802	\$ 498,280	85.8%	\$ 1,175,771	42.4%
7/1/06*	\$ 3,353,839	\$ 3,982,409	\$ 628,570	82.4%	\$ 1,481,266	42.4%
7/1/06	\$ 3,353,839	\$ 4,027,929	\$ 674,090	83.3%	\$ 1,481,266	45.5%
Total						
7/1/04	\$ 73,696,771	\$ 94,412,635	\$ 20,715,864	78.1%	\$ 19,195,609	107.9%
7/1/05	\$ 82,816,152	\$106,333,203	\$ 23,517,051	77.9%	\$ 20,590,823	114.2%
7/1/06*	\$ 93,693,382	\$116,187,349	\$ 22,493,967	80.6%	\$ 23,491,726	95.8%
7/1/06	\$ 93,693,382	\$117,488,980	\$ 23,795,598	79.7%	\$ 23,491,726	101.3%

Note: *Before mortality change.

B. County Employees Retirement Plan

Plan Description - The County Employees Retirement Plan (the County Plan) is a single-employer defined benefit pension plan, established in accordance with Article 25, section 3(g) of the Annotated Code of Maryland. The County Commissioners have the power and authority to establish and amend the benefit provisions of the County Plan. All full-time employees not otherwise eligible for the SORP are eligible to participate in this plan. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are also provided.

Membership in the plan consisted of the following at July 1, 2006, the last date of the last actuarial valuation:

Active plan members	828
Terminated, entitled to but not yet receiving benefits	73
Retirees and beneficiaries receiving benefits	129
	<u>1,030</u>

Summary of Significant Accounting Policies: Basis of Accounting and Investment Valuation -

The statement of plan net assets and the statement of changes in plan net assets are prepared on the accrual basis of accounting. Member contributions are recognized when due. Employer-required contributions are recognized upon formal approval by the County Commissioners. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Market quotations are used for investments traded in an active securities market, and contract values are used for unallocated insurance contracts. Investments are managed by an investment committee which includes an outside investment consultant. The plan is administered by a third-party administrator who also acts as custodian for the fund assets. The County does not issue a stand-alone financial report for the County Employees Retirement Plan, nor is it included in the report of any other entity.

Contributions and Reserves - The County Commissioners have the power and authority to establish and carry out a funding policy and method consistent with the objectives of the Plan. Active non-public safety plan members are required to contribute 4% of their base earnings to the Plan and no contributions are required after 31 years of credited service. Public safety plan members are required to contribute 7% of their base earnings. Base earnings are the employee’s earnings as of the first day of the County’s fiscal year. Earnings for contribution purposes are adjusted only once annually, on July 1. The County normally makes employer contributions annually as actuarially determined. For the year ended June 30, 2007, the County fully funded the ARC of \$5,104,225 to the Plan as recommended in the actuarial as of July 1, 2006. Based on the fiscal year activity, the County’s contribution exceeded the adjusted Annual Pension Cost, which typically would reduce the Net Pension Obligation. However, due to an actuarial adjustment made during the year end review, it was increased as shown on page 84. See the paragraph titled Annual Pension Cost and Net Pension Obligation and the Schedule of Employer Contributions that follow which illustrate. Administrative costs of the Plan are financed through investment earnings and additional contributions of the employer.

Investment Concentrations - At June 30, 2007, the County Plan's net assets were invested in the following types of investments:

Guaranteed Deposit	19%
Fixed Income - Domestic	20%
Large Cap Stock	29%
International Stock - Blend	13%
Special Equity - Real Estate Fund	5%
Mid Cap Stock	6%
Small Cap Stock	8%

Plan Provisions - The following are the plan provisions of the County Plan:

Normal Retirement Date: For non-public safety participants; the first day of the month coinciding with or next following the later of a participant's 62nd birthday or the completion of 5 years of service; for participants in the Plan prior to July 1, 1977, there is an elective normal retirement date of age 60. For public safety participants; the first day of the month coinciding with or next following the earlier of a participant's 60th birthday or 25 hypothetical years of service.

Income Payable: Amount described in (a) or (b) below, whichever applies:

- (a) If participant has a spouse as of his retirement date and does not elect otherwise, retirement income shall be paid on the basis of Joint and Survivor form, as stipulated by ERISA, and will be the amount determined under the benefit formula multiplied by the appropriate factor.
- (b) If participant either has no spouse as of his retirement date or elects to receive his income under the normal form, retirement income will be the amount determined under the benefit formula.

Form of Annuity: Modified cash refund.

Cost of Living Increases: Provides for an annual increase in the annuity benefit in proportion to the last annual increase in the Consumer Price Index. This increase shall not be in excess of 4% per year.

Earnings: Basic compensation received from the employer excluding overtime payments, commissions, bonuses and any other additional compensation; subject to \$200,000 as indexed.

Final Earnings: Highest average rate of earnings on any three consecutive July 1's during the last ten years before retirement date, early retirement, or termination of employment.

Benefit Formula: Employees are entitled to an annual retirement benefit payable monthly for life, calculated as follows:

For non-public safety participants;
Final average earnings X 1.5% X credited years of service 1-5 plus
Final average earnings X 1.75% X credited years of service 5-10 plus
Final average earnings X 2.0% X credited years of service 10-15 plus
Final average earnings X 2.25% X credited years of service 15-20 plus
Final average earnings X 2.5% X credited years of service in excess of 20
To a maximum benefit of 65% of final average earnings.

For public safety participants;
Final average earnings X 2.0% X credited years of service
To a maximum benefit of 75% of final average earnings.

Service: All years of service with the County from date of employment to early retirement, termination of employment, or retirement date.

Credited Service: All years of service with the County while making contributions to the Plan, from the date of employment to early retirement, termination of employment, or retirement date except the first year of service is excluded for participants hired prior to July 1, 1968 if contributions were not made for the first year.

Additional Credited Service: For non-public participants; provides additional credited service due to earned but unused sick leave at the rate of 22 days of sick leave equals one month of additional credited service, provided the employee has a minimum of 5 years of service, with a maximum of 12 months additional credited service.

For public safety participants; 1% of final average earnings for the first 500 hours of unused sick leave plus .1% final average earnings for every 100 hours above 500 up to a maximum additional 4% final average earnings. Additional credited service for military service up to 3 years; if precedes employment, up to 3 years if non-military service is at least 10 years.

Participation Eligibility: Making employee contributions to the plan.

Early Eligibility: For non-public safety participants; ten years early with five years of service.
For public safety participants; twenty years of service.

Early Benefit Amount: For non-public participants; normal retirement benefit accrued to early retirement, actuarially reduced for the number of months annuity commencement date precedes normal retirement date; if service is 20 years or greater, actuarial reduction is from age 60.

For public safety participants; the normal retirement benefit accrued to early retirement, actuarially reduced based on the years of service prior to normal retirement date.

Vesting Schedule: For non-public safety participants; 25% after 2 years, 50% after 3 years, 75% after 4 years, and 100% after 5 years; normal retirement date equals 100% vesting. For employees hired on or after July 1, 1997, 100% after 5 years.

For public safety participants; 100% vesting after 20 years of service.

Vested Benefit: Benefit accrued to date of termination adjusted by the appropriate vesting percentage.

Employee Contributions:

Amount For non-public safety participants: 4% of earnings; no contributions after 31 years of credited service.

For public safety participants: 7% of earnings.

Interest Credited 5% per annum.

Death or Termination Refund

Pre-retirement: Refund of employee contributions with interest to date of termination or death.

Post-retirement: Excess of employee contributions with interest over annuity payments made, unless another form of benefit becomes payable to the beneficiary.

Disability:

Eligibility For public safety participants; no eligibility requirement for line-of-duty; 5 years of service for non-line-of-duty.

Benefit Formula Line-of-duty: Total disability = $66 \frac{2}{3}\%$ final average earnings offset by other income; partial disability = 15% - 50% of final average earnings offset by other incomes.

Non-line-of-duty: 15% - 40% of final average earnings offset by other income.

Pre-Retirement Spouse's Benefit:

For non-public safety participants;

Eligibility (A): Active and attained age 55 and completed five years of service; married one full year prior to death.

Benefit Formula (A): 50% of the pension benefit accrued to date of death.

Eligibility (B): After normal retirement date but before late retirement date and no optional form of payment in effect.

Benefit Formula (B): Pension benefit accrued to date of death payable under the 100% contingent pensioner option.

For public safety participants;

Eligibility (A): Active participant; married one full year prior to death. If no spouse available, benefit payable to dependent child.

Benefit Formula (A): On-duty death: $66 \frac{2}{3}\%$ Final Average Earnings less Social Security benefits.

Not-on-duty death: 100 % of the pension benefit accrued to the date of death.

Eligibility (B): After normal retirement date but before late retirement date and no optional form of payment in effect.
 Benefit Formula (B): Pension benefit accrued to date of death payable under the 100% contingent pensioner option.
 Eligibility (C): Death while receiving disability benefits.
 Benefit Formula (C): 50% of disability benefit payable to spouse or dependent child under age 18.

Annual Pension Cost and Net Pension Obligation - The annual pension cost for the year ended June 30, 2007 was slightly less than the Annual Required Contribution made of \$5,104,225, as shown in the historical chart that follows. As a result, the net pension obligation at June 30, 2007 was increased to a balance of \$608,499. The Annual Required Contribution for the current year was determined as part of the July 1, 2006 actuarial valuation. The actuarial assumptions and methods included:

Funding Method: Frozen Entry Age Normal Actuarial Cost Method with amortization of the unfunded accrued liability using the level percent closed method over 15 years.

Asset Method: Five-year smoothed market retroactive to July 1, 2000. This is a change from the method used in prior years.

Investment Return: 8% compounded annually, net of investment and contract fees.

Post Retirement COLA Increases: 3.25% compounded annually.

Inflation: 3.25%

Mortality: The RP-2000 Mortality Table for males and the RP-2000 Mortality Table for females.

Salary Increases: 5.5% compounded annually.

Termination: For non-public safety participants; the probabilities that participants (male and female) at the indicated ages terminate within the upcoming year are based on the Crocker T-6 mortality table (with mortality removed); sample rates are as follows:

<u>Age</u>	<u>%</u>
20	7.94
25	7.72
30	7.40
35	6.86
40	6.11
45	5.16
50	3.62
55	1.37
60	0.13

For public safety participants, the probabilities that participants at the indicated ages terminate within the upcoming year are as follows:

For those with less than 10 years of services, sample rates are:

<u>Age</u>	<u>%</u>
25	15.4
35	13.7
45	10.3
55	02.7

For those with 10 or more but less than 15 years of services, the rates are assumed to be 50% of those with less than 10 years of services. For those with 15 or more years of service, the rates are 37.5% of the rate for those with less than 10 years of service.

Retirement Age:

For non-public safety participants; the earlier of (a) age 62 with 5 years of service or (b) age 60 with 20 years of service. For participants in the Plan prior to July 1, 1977 the retirement date is assumed to be age 60.

For public safety participants, the retirement date is assumed to be the earlier of age 60 or 25 hypothetical years of service.

Additional Credited Service:

For non-public safety participants; additional credited service at assumed retirement, due to unused sick leave is eight months.

For public safety participants; we assume 1,500 hours of unused sick leave at assumed retirement. Any military services that is provided to us is reflected in calculations.

Estimated Expenses:

Annual expenses expected to be paid from plan assets are assumed to be \$35,000.

Survivor Benefits:

It is assumed that husbands are 3 years older than wives.

For non-public safety participants; 90% of the male participants and 60% of the female participants who are or will become eligible for coverage under the survivor benefit will be survived by an eligible survivor.

For public safety participants; 100% of the participants who are or will become eligible for coverage under the survivor benefit will be survived by an eligible survivor; 5% of deaths would be in line-of-duty and the remainder would be non-services related.

Disability:

The 1952 Disability Study of the Society of Actuaries, Period 2, Benefit 5 rates were used.

For public safety participants; 5% of disabilities would be in the line-of-duty and the remainder would be non-service related.

Calculation of Net Pension Obligation (NPO)

ARC	\$ 5,104,225
Interest on NPO	50,463
ARC Adjustment	(72,756)
Annual Pension Cost	5,081,932
Contribution made	(5,104,225)
Change in NPO	(22,293)
NPO Beginning of Year	265,085
Adjustment to NPO	365,707*
NPO End of Year (6/30/07)	\$ 608,499

*Actuarial change made as the result of review of GASB27, Paragraph 13, that the NPO and ARC use matching amortization periods.

The Schedule of Employer Contributions and the Schedule of Funding Progress are as follows:

SCHEDULE OF EMPLOYER CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT PLAN

Fiscal Year	Annual Required Contribution	Percentage of ARC Contributed	Net Pension Obligation
6/30/05	\$2,955,490	100.1%	\$486,180
6/30/06	\$3,911,688	100.0%	\$265,085
6/30/07	\$5,104,225	100.0%	\$608,499

SCHEDULE OF FUNDING PROGRESS
COUNTY EMPLOYEES RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets * (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
6/30/05	\$54,479,225**	\$62,420,831	\$11,941,606	82.0%	\$31,571,806	37.8%
6/30/06	\$62,164,097**	\$79,752,141	\$17,588,044	77.9%	\$37,819,645	46.5%
6/30/07	\$73,598,316**	\$89,422,315***	\$15,823,999***	82.3%***		

NOTES:

* includes contributions received in July of that year if applicable to that plan year

** based on a 5-year smoothed market method effective July 1, 2000

*** estimated

C. Length of Service Award Program (LOSAP) for Volunteer Firemen and Rescue Squadmen

In accordance with Article 9, Section 130 of the Charles County Code of Public Local Laws of Maryland, a retirement program has been established for qualified active volunteer members of the

Charles County volunteer fire companies and volunteer rescue squads and is administered by the Charles County Commissioners. Beginning on January 1, 1974, any person who has reached the age of sixty and who has completed a minimum of twenty-five years of certified active volunteer service with any Charles County volunteer fire company or rescue squad shall receive benefits in the amount of \$100 per month for life. An additional payment of \$4 per month shall be added for each full year of volunteer service in excess of twenty-five years. Seventy-five percent of the volunteer's benefits shall accrue to his or her surviving spouse and shall terminate upon the death or remarriage of the spouse.

The pension contributions for this plan are not actuarially determined. An actuary was not used to determine the actuarial implications of using a nonactuarial method. The plan is funded from the revenue derived from one cent of the fire and rescue tax levied by the County in accordance with Section 123 of the Article noted above. Contributions made to the program for the year ended June 30, 2007 totaled \$555,600 from the 2006/07 tax levy. The County Commissioners are not obligated to fund the plan, only to administer it. Program assets are held in trust by a custodian. Investment decisions are made by an investment firm appointed by the Board of Fire and Rescue Commissioners. Assets are currently invested in various stocks, bonds and mutual funds. The fair value of net assets available for plan benefits at June 30, 2007 was \$10,688,060 and are not included with the County's financial statement.

NOTE 7. OTHER EMPLOYMENT BENEFITS

A. Deferred Compensation Plan

The County offers its employees three deferred compensation plans, created in accordance with Internal Revenue Code Section 457. The plans are administered by Nationwide Retirement Solutions, Inc., Hartford Life Insurance Companies, and MetLife. The plans, available to all full-time and full-time-reduced-hours employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to these amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries. Therefore, in accordance with GASB No. 32, the deferred compensation investments are not reported in the County's financial statements. The following schedule reflects the basic information regarding the County's program :

	Nationwide	Hartford	MetLife	Total
Participants	177	216	43	436
Plan Assets	\$8,237,019	\$3,371,627	\$2,022,584	\$13,631,230
Annual Employee Contribution	\$782,457	\$586,562	\$194,437	\$1,563,456

B. Other Post-Employment Benefits

Employees who leave County employment after meeting the minimum age and years of service requirements of the County Employees Retirement Plan are eligible to participate in the County's Retirement Health Plan under the following conditions:

- a) they have a minimum of 5 years of service, and
- b) they have passed their 52nd birthday, and
- c) a combination of age and years of service total a minimum of 70 years, and
- d) they have been enrolled in the Health Plan for the 3 plan years preceding retirement.

The County pays a portion of the participant's health care premium in accordance with the following schedule:

<u>Years of Service</u>	<u>% Paid by County</u>
5 years	2% per year (10%)
Years 6 - 10	3% per year (max 25%)
Years 11 - 15	4% per year (max 45%)
Years 16 - 20	4.34% per year (max 66.75%)
Years 21 +	66.7%

For the year ended June 30, 2007, there were 222 and 255 former employees and their family members participating in the Health Care Plan and Dental/Vision Plans respectively. For the fiscal year ended June 30, 2007, the County incurred and recorded \$983,056 in health care expenditures for these participants.

The County has done two assessments of the impact on its financial position and results of operations of implementing GASB Statement No. 45, *Accounting and Reporting by Employers for Post-Employment Benefits Other Than Pensions*. This statement will be effective for the County in fiscal year 2008. It will require prospective recognition of the cost of these benefits as they are earned rather than as a pay-go expenditure in the government-wide and proprietary financial statements. Recognition in the governmental fund financial statements will be on a modified accrual basis. The actuarial study performed for the County indicates an annual required contribution of \$ 6 million assuming the Plan is funded. The study also indicated an unfunded accrued liability of \$ 56 million for the 1,108 eligible employees.

NOTE 8. CLOSURE AND POST-CLOSURE CARE COSTS

A. Pisgah Landfill

State and federal laws and regulations required the County to place a final cover on its Pisgah landfill site when it stopped accepting waste, and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Pisgah landfill stopped accepting waste in September 1994. The majority of closure costs related to the landfill were incurred during Fiscal Year 1997. The landfill was closed in fiscal year 2000 with a final cost of \$6,841,885. Post-closure costs for fiscal year ended June 30, 2007 were \$58,603.

B. Charles County Landfill

State and federal laws and regulations require the County to place a final cover on the County landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The landfill is located on a 70 acre site, estimated to provide nearly 5.3 million cubic yards of landfill space. As of June 30, 2007, approximately 73% of this space remains available for future waste disposal. The County is developing the landfill in sections so that when one section closes another is ready to open. The \$4,687,288 reported as landfill closure and post-closure care liability at June 30, 2007, represents the cumulative amount reported to date of the estimated capacity of the sections that have been opened. The County will recognize the remaining estimated cost of closure and post-closure care as the remaining capacity is filled. The actual costs may be higher due to inflation, changes in technology, or changes in regulations. The County has established a sinking fund reserve for landfill closure costs through the implementation of the user fee rates at the landfill. The County estimates the capacity of the landfill and the future date to begin closure with the assistance of computer models. Construction costs are estimated and a rate is adopted during the budget process to ensure funds are available when needed. Landfill closure costs recognized during the year amounted to \$335,344.

NOTE 9. RELATED PARTIES

As a result of an agreement between the County Commissioners of Charles County and American Community Properties Trust (ACPT), commonly referred to as Docket #90, ACPT is to expedite the building and completion of various road and water and sewer projects in conjunction with the County's portion of an enhanced transportation plan. A former County Commissioner is related to one of the key employees of ACPT. Due to the timing and transition into office during an election year, this former Commissioner held office during the first 6 months of the fiscal year. Over the past four fiscal years, the County has financed the ACPT portion by issuing taxable bonds in its name and holding such funds until requested for reimbursement. This information is reflected in the portions of the notes and financial statements for long-term debt. As of June 30, 2007, aggregate funds of \$10,425,450 are still available for drawdown from the total debt issues of \$27,000,000.

REQUIRED SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Budgeted amounts		Actual amounts budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes - local property	\$ 132,233,600	\$ 132,233,600	\$ 134,614,568	\$ 2,380,968
Taxes - income	85,206,000	85,206,000	80,001,338	(5,204,662)
Taxes - other local	17,766,000	17,766,000	28,223,605	10,457,605
Taxes - state shared	9,748,000	9,748,000	9,489,506	(258,494)
Charges for services	8,455,100	8,455,100	9,527,555	1,072,455
Intergovernmental	4,952,900	4,978,120	4,828,732	(149,388)
Interest income	4,000,000	4,000,000	7,785,758	3,785,758
Other income	282,600	371,950	211,875	(160,075)
Total revenues	<u>262,644,200</u>	<u>262,758,770</u>	<u>274,682,937</u>	<u>11,924,167</u>
Expenditures:				
Education	134,168,300	134,330,600	134,349,392	(18,792)
Public safety	65,589,100	66,915,060	63,943,424	2,971,636
General government (including contingencies)	16,979,600	16,022,170	16,678,540	(656,370)
Public facilities	15,418,100	16,623,340	16,640,828	(17,488)
Financial administration	7,925,700	7,964,040	7,385,324	578,716
Judicial	2,807,800	2,925,000	2,804,579	120,421
Planning and growth management	3,270,400	3,322,120	3,278,534	43,586
Community services	3,888,200	3,988,970	3,859,682	129,288
Health services	2,879,000	2,879,000	2,864,942	14,058
Economic development	1,543,500	1,545,910	1,439,592	106,318
Social services	1,100,100	1,180,700	1,031,638	149,062
Legislative	1,354,100	1,328,900	1,183,037	145,863
Law	851,500	849,480	781,485	67,995
Conservation of natural resources	562,500	577,200	564,896	12,304
Elections	914,800	914,200	738,503	175,697
Debt service				
Interest	5,415,400	5,415,400	5,286,195	129,205
Total expenditures	<u>264,668,100</u>	<u>266,782,090</u>	<u>262,830,591</u>	<u>3,951,499</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,023,900)</u>	<u>(4,023,320)</u>	<u>11,852,346</u>	<u>15,875,666</u>
Other financing sources (uses):				
Proceeds from debt issues	1,664,600	2,697,730	2,786,733	89,003
Transfers in	799,800	799,800	799,800	0
Transfers out	(8,840,500)	(12,047,400)	(11,429,690)	617,710
Total other financing sources (uses)	<u>(6,376,100)</u>	<u>(8,549,870)</u>	<u>(7,843,157)</u>	<u>706,713</u>
Net change in fund balance	(8,400,000)	(12,573,190)	4,009,189	16,582,379
Fund balance - beginning of year	69,349,940	69,349,940	69,349,940	0
Fund balance - end of year	<u>\$ 60,949,940</u>	<u>\$ 56,776,750</u>	<u>\$ 73,359,129</u>	<u>\$ 16,582,379</u>

See independent auditor's report.

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OTHER SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Planning Grants	Judicial Grants	Transportation Grants	Public Safety Grants	Community Development Grants	Housing Assistance
ASSETS:						
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,858,657
Other receivables	27,964	121,796	922,660	314,823	44,170	37,238
Due (to) from other funds	0	0	907,868	0	117,267	0
Other assets	0	0	0	0	0	0
Restricted assets	0	0	0	0	0	0
Total assets	<u>\$ 27,964</u>	<u>\$ 121,796</u>	<u>\$ 1,830,528</u>	<u>\$ 314,823</u>	<u>\$ 161,437</u>	<u>\$ 3,895,895</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts payable	\$ 14,383	\$ 21,894	\$ 862,817	\$ 22,840	\$ 500	\$ 109,367
Accrued expenditures	0	0	0	0	0	0
Deferred revenue	7,750	26,455	0	14,034	4,277	0
Due to other funds	5,831	73,447	0	277,947	0	46,838
Other liabilities	0	0	0	0	0	0
Total liabilities	<u>27,964</u>	<u>121,796</u>	<u>862,817</u>	<u>314,821</u>	<u>4,777</u>	<u>156,205</u>
Fund balance:						
Reserved fund balance	0	0	967,711	2	156,660	3,739,690
Unreserved:						
Designated fund balance	0	0	0	0	0	0
Total fund balance	<u>0</u>	<u>0</u>	<u>967,711</u>	<u>2</u>	<u>156,660</u>	<u>3,739,690</u>
Total liabilities and fund balance	<u>\$ 27,964</u>	<u>\$ 121,796</u>	<u>\$ 1,830,528</u>	<u>\$ 314,823</u>	<u>\$ 161,437</u>	<u>\$ 3,895,895</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING BALANCE SHEET (continued)
 OTHER GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Housing Special Loans	Sheriff's Special Programs	Community Development	Animal Shelter/ Control	Drug Forfeitures
ASSETS:					
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other receivables	0	0	76,732	10,250	0
Due (to) from other funds	279,656	319,818	31,326	90,672	755,139
Other assets	0	0	0	0	0
Restricted assets	0	0	0	0	0
Total assets	<u>\$ 279,656</u>	<u>\$ 319,818</u>	<u>\$ 108,058</u>	<u>\$ 100,922</u>	<u>\$ 755,139</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable	\$ 2,100	\$ 145	\$ 76,732	\$ 8,400	\$ 177,707
Accrued expenditures	0	0	0	0	0
Deferred revenue	0	0	31,326	4,702	0
Due to other funds	0	0	0	0	0
Other liabilities	0	0	0	2,769	0
Total liabilities	<u>2,100</u>	<u>145</u>	<u>108,058</u>	<u>15,871</u>	<u>177,707</u>
Fund balance:					
Reserved fund balance	277,556	319,673	0	85,051	577,432
Unreserved:					
Designated fund balance	0	0	0	0	0
Total fund balance	<u>277,556</u>	<u>319,673</u>	<u>0</u>	<u>85,051</u>	<u>577,432</u>
Total liabilities and fund balance	<u>\$ 279,656</u>	<u>\$ 319,818</u>	<u>\$ 108,058</u>	<u>\$ 100,922</u>	<u>\$ 755,139</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING BALANCE SHEET (continued)
 OTHER GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Agricultural Preservation	Fire and Rescue	Law Library	Tourism Grants	Aging 40 fund
ASSETS:					
Cash and cash equivalents	\$ 0	\$ 0	\$ 100	\$ 0	\$ 0
Other receivables	0	801	510	0	19,466
Due (to) from other funds	1,561,007	2,696,408	168,992	0	31,253
Other assets	0	0	0	0	0
Restricted assets	0	0	0	0	0
Total assets	<u>\$ 1,561,007</u>	<u>\$ 2,697,209</u>	<u>\$ 169,602</u>	<u>\$ 0</u>	<u>\$ 50,719</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable	\$ 0	\$ 2,711	\$ 2,236	\$ 0	\$ 29,691
Accrued expenditures	0	0	0	0	0
Deferred revenue	1,561,007	0	5,105	0	21,028
Due to other funds	0	0	0	0	0
Other liabilities	0	2,278,670	0	0	0
Total liabilities	<u>1,561,007</u>	<u>2,281,381</u>	<u>7,341</u>	<u>0</u>	<u>50,719</u>
Fund balance:					
Reserved fund balance	0	415,828	162,261	0	0
Unreserved:					
Designated fund balance	0	0	0	0	0
Total fund balance	<u>0</u>	<u>415,828</u>	<u>162,261</u>	<u>0</u>	<u>0</u>
Total liabilities and fund balance	<u>\$ 1,561,007</u>	<u>\$ 2,697,209</u>	<u>\$ 169,602</u>	<u>\$ 0</u>	<u>\$ 50,719</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING BALANCE SHEET (continued)
 OTHER GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Aging 43 fund	So MD Justice Academy	Human Services	Cable Franchise	Emergency Management	Total
ASSETS:						
Cash and cash equivalents	\$ 0	\$ 500	\$ 2,850	\$ 0	\$ 0	\$ 3,862,107
Other receivables	95,389	249	504,414	387,232	434,081	2,997,775
Due (to) from other funds	0	8,060	282,110	225,881	0	7,475,457
Other assets	0	0	545	0	0	545
Restricted assets	0	0	0	0	0	0
Total assets	<u>\$ 95,389</u>	<u>\$ 8,809</u>	<u>\$ 789,919</u>	<u>\$ 613,113</u>	<u>\$ 434,081</u>	<u>\$ 14,335,884</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts payable	\$ 29,130	\$ 5,136	\$ 30,529	\$ 0	\$ 11,669	\$ 1,407,987
Accrued expenditures	0	0	0	0	0	0
Deferred revenue	0	0	621,055	0	0	2,296,739
Due to other funds	66,259	0	0	0	387,412	857,734
Other liabilities	0	0	0	0	0	2,281,439
Total liabilities	<u>95,389</u>	<u>5,136</u>	<u>651,584</u>	<u>0</u>	<u>399,081</u>	<u>6,843,899</u>
Fund balance:						
Reserved fund balance	0	3,673	138,335	613,113	35,000	7,491,985
Unreserved:						
Designated fund balance	0	0	0	0	0	0
Total fund balance	<u>0</u>	<u>3,673</u>	<u>138,335</u>	<u>613,113</u>	<u>35,000</u>	<u>7,491,985</u>
Total liabilities and fund balance	<u>\$ 95,389</u>	<u>\$ 8,809</u>	<u>\$ 789,919</u>	<u>\$ 613,113</u>	<u>\$ 434,081</u>	<u>\$ 14,335,884</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 OTHER GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Planning Grants	Judicial Grants	Transportation Grants	Public Safety Grants	Community Development Grants	Housing Assistance
REVENUES:						
Taxes - local property	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Charge for services	0	0	533,299	0	0	459,073
Intergovernmental	82,479	728,034	2,843,554	1,331,474	240,148	9,147,846
Interest income	0	1,443	0	0	0	34,691
Other income	6,000	115	33,274	0	0	0
Total revenues	88,479	729,591	3,410,127	1,331,474	240,148	9,641,610
EXPENDITURES:						
Education	0	0	0	0	0	0
Public safety	0	0	0	2,653,404	0	0
Community services	0	0	4,306,893	0	240,312	7,569,427
Judicial	0	968,443	0	0	0	0
Planning & growth mgmt.	88,479	0	0	0	0	0
Health	0	0	0	0	0	0
Economic development	0	0	0	0	0	0
Social services	0	0	0	0	0	0
Legislative	0	0	0	0	0	0
Total expenditures	88,479	968,443	4,306,893	2,653,404	240,312	7,569,427
Excess (deficiency) of revenues over (under) expenditures	(0)	(238,852)	(896,766)	(1,321,930)	(164)	2,072,183
Other financing sources:						
Issuance of debt	0	0	0	0	0	0
Transfers in	0	238,852	1,096,642	1,321,930	0	0
Transfers out	0	0	0	0	0	0
	0	238,852	1,096,642	1,321,930	0	0
Net change in fund balance	(0)	0	199,876	0	(164)	2,072,183
Fund balance - beginning of year	0	0	767,835	2	156,824	1,667,507
Fund balance - end of year	\$ (0)	\$ 0	\$ 967,711	\$ 2	\$ 156,660	\$ 3,739,690

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE (continued)
 OTHER GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Housing Special Loans	Sheriff's Special Programs	Community Development	Animal Shelter/ Control	Drug Forfeitures	Agricultural Preservation
REVENUES:						
Taxes - local property	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 770,310
Charge for services	486,336	270,306	0	92,717	116,210	0
Intergovernmental	0	0	170,403	4,569	0	0
Interest income	0	0	26	0	8,273	0
Other income	0	500	0	16,535	0	0
Total revenues	486,336	270,806	170,429	113,821	124,483	770,310
EXPENDITURES:						
Education	0	0	0	0	0	0
Public safety	0	193,545	0	123,460	289,992	0
Community services	527,491	0	119,649	0	0	0
Judicial	0	0	0	0	0	0
Planning & growth mgmt.	0	0	0	0	0	812,062
Health	0	0	0	0	0	0
Economic development	0	0	50,780	0	0	0
Social services	0	0	0	0	0	0
Legislative	0	0	0	0	13,928	0
Total expenditures	527,491	193,545	170,429	123,460	303,920	812,062
Excess (deficiency) of revenues over (under) expenditures	(41,155)	77,261	0	(9,639)	(179,437)	(41,752)
Other financing sources:						
Issuance of debt	0	0	0	0	0	0
Transfers in	0	0	0	0	0	41,752
Transfers out	0	0	0	0	0	0
	0	0	0	0	0	41,752
Net change in fund balance	(41,155)	77,261	0	(9,639)	(179,437)	(0)
Fund balance - beginning of year	318,711	242,412	0	94,690	756,869	0
Fund balance - end of year	\$ 277,556	\$ 319,673	\$ 0	\$ 85,051	\$ 577,432	\$ (0)

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE (continued)
 OTHER GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Fire and Rescue	Law Library	Tourism Grants	Aging 40 fund	Aging 43 fund
REVENUES:					
Taxes - local property	\$ 8,957,314	\$ 0	\$ 0	\$ 0	\$ 0
Charge for services	0	50,480	0	0	460,091
Intergovernmental	231,442	24,630	62,224	284,855	0
Interest income	240,552	945	0	0	0
Other income	0	937	0	52,176	0
Total revenues	<u>9,429,308</u>	<u>76,992</u>	<u>62,224</u>	<u>337,031</u>	<u>460,091</u>
EXPENDITURES:					
Education	0	0	0	0	0
Public safety	9,221,763	0	0	0	0
Community services	0	0	0	0	0
Judicial	0	107,373	0	0	0
Planning & growth mgmt.	0	0	0	0	0
Health	0	0	0	0	0
Economic development	0	0	62,224	0	0
Social services	0	0	0	337,031	460,091
Legislative	0	0	0	0	0
Total expenditures	<u>9,221,763</u>	<u>107,373</u>	<u>62,224</u>	<u>337,031</u>	<u>460,091</u>
Excess (deficiency) of revenues over (under) expenditures	<u>207,545</u>	<u>(30,381)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other financing sources:					
Issuance of debt	0	0	0	0	0
Transfers in	158,905	0	0	0	0
Transfers out	0	0	0	0	0
	<u>158,905</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balance	366,450	(30,381)	0	0	0
Fund balance - beginning of year	49,378	192,642	0	0	0
Fund balance - end of year	<u>\$ 415,828</u>	<u>\$ 162,261</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE (continued)
 OTHER GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	So MD Justice Academy	Human Services	Cable Franchise	Emergency Management	Total
REVENUES:					
Taxes - local property	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,727,624
Charge for services	26,123	0	1,449,819	0	3,944,454
Intergovernmental	52,000	2,754,069	0	669,620	18,627,347
Interest income	0	17,755	0	0	303,685
Other income	119	3,436	0	0	113,092
Total revenues	78,242	2,775,260	1,449,819	669,620	32,716,202
EXPENDITURES:					
Education	0	0	1,217,514	0	1,217,514
Public safety	114,999	0	0	725,820	13,322,983
Community services	0	0	0	0	12,763,772
Judicial	0	0	0	0	1,075,816
Planning & growth mgmt.	0	0	0	0	900,541
Health	0	2,775,260	0	0	2,775,260
Economic development	0	0	0	0	113,004
Social services	0	0	0	0	797,121
Legislative	0	0	0	0	13,928
Total expenditures	114,999	2,775,260	1,217,514	725,820	32,979,939
Excess (deficiency) of revenues over (under) expenditures	(36,757)	0	232,305	(56,200)	(263,737)
Other financing sources:					
Issuance of debt	0	0	0	0	0
Transfers in	26,000	0	0	91,200	2,975,280
Transfers out	0	0	(200,000)	0	(200,000)
	26,000	0	(200,000)	91,200	2,775,280
Net change in fund balance	(10,757)	0	32,305	35,000	2,511,543
Fund balance - beginning of year	14,430	138,335	580,808	0	4,980,442
Fund balance - end of year	\$ 3,673	\$ 138,335	\$ 613,113	\$ 35,000	\$ 7,491,985

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF NET ASSETS
 OTHER PROPRIETARY FUNDS
 JUNE 30, 2007

	Inspections and Review	County Parks Operations	Recreation Programs	Solid Waste Management
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 0	\$ 3,835	\$ 104,822	\$ 800
Other receivables	181,712	5,286	4,977	568,095
Due (to) from other funds	2,846,639	0	0	15,181,663
Inventory	0	41,597	0	0
Other current assets	0	0	24,052	0
Total current assets	<u>3,028,351</u>	<u>50,718</u>	<u>133,851</u>	<u>15,750,558</u>
Noncurrent assets:				
Net capital assets	58,670	460,108	9,632,991	8,440,423
Restricted assets	0	0	0	112,277
Total noncurrent assets	<u>58,670</u>	<u>460,108</u>	<u>9,632,991</u>	<u>8,552,700</u>
Total assets	<u>3,087,021</u>	<u>510,826</u>	<u>9,766,842</u>	<u>24,303,258</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	133,354	16,407	157,733	98,516
Accrued expenses	7,995	20,751	115,944	27,660
Due to other funds	0	136,998	1,144,649	0
Net bond issue premiums	0	(3,500)	143,708	(10,858)
Unearned revenue	28,659	0	311,035	0
Current portion of long-term debt	22,602	51,982	465,534	177,289
Total current liabilities	<u>192,610</u>	<u>222,638</u>	<u>2,338,603</u>	<u>292,607</u>
Noncurrent liabilities:				
Other liabilities	0	0	0	112,277
Bonds payable	0	166,950	7,654,984	0
Long-term debt	87,397	46,114	60,254	4,817,472
Capital lease obligation	34,055	38,988	0	0
Total noncurrent liabilities	<u>121,452</u>	<u>252,052</u>	<u>7,715,238</u>	<u>4,929,748</u>
Total liabilities	<u>314,062</u>	<u>474,690</u>	<u>10,053,842</u>	<u>5,222,356</u>
NET ASSETS:				
Invested in capital assets, net of related debt	11,771	207,466	1,518,636	8,278,923
Unrestricted	2,761,188	(171,330)	(1,805,635)	10,801,979
Total net assets	<u>\$ 2,772,959</u>	<u>\$ 36,136</u>	<u>\$ (286,999)</u>	<u>\$ 19,080,902</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF NET ASSETS
 OTHER PROPRIETARY FUNDS (continued)
 JUNE 30, 2007

	Environmental Services	Vending Machines	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 0	\$ 39,251	\$ 148,708
Other receivables	18,325	0	778,395
Due (to) from other funds	1,764,402	6,988	19,799,692
Inventory	0	0	41,597
Other current assets	0	0	24,052
Total current assets	1,782,727	46,239	20,792,444
Noncurrent assets:			
Net capital assets	2,261,971	0	20,854,163
Restricted assets	0	0	112,277
Total noncurrent assets	2,261,971	0	20,966,440
Total assets	4,044,698	46,239	41,758,884
LIABILITIES:			
Current liabilities:			
Accounts payable	560,626	0	966,637
Accrued expenses	45,979	0	218,329
Due to other funds	0	0	1,281,648
Net bond issue premiums	20,566	0	149,916
Unearned revenue	0	0	339,693
Current portion of long-term debt	134,304	0	851,711
Total current liabilities	761,475	0	3,807,934
Noncurrent liabilities:			
Other liabilities	0	0	112,277
Bonds payable	1,185,836	0	9,007,769
Long-term debt	96,397	0	5,107,634
Capital lease obligation	94,188	0	167,232
Total noncurrent liabilities	1,376,422	0	14,394,912
Total liabilities	2,137,896	0	18,202,846
NET ASSETS:			
Invested in capital assets, net of related debt	854,941	0	10,871,737
Unrestricted	1,051,860	46,239	12,684,300
Total net assets	\$ 1,906,801	\$ 46,239	\$ 23,556,037

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS
 OTHER PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Inspections and Review	County Parks Operations	Recreation Programs	Solid Waste Management
Operating revenues:				
Charge for services	\$ 3,538,665	\$ 858,122	\$ 3,123,033	\$ 4,231,311
Other income	0	100,289	92,827	739
Total operating revenue	<u>3,538,665</u>	<u>958,411</u>	<u>3,215,860</u>	<u>4,232,051</u>
Operating expenses:				
Personnel services	921,741	517,824	1,378,636	1,672,777
Utilities	0	42,777	342,020	41,774
Repairs and maintenance	4,237	40,843	78,674	212,616
Insurance costs	3,984	5,220	0	15,288
Indirect costs	17,800	0	0	149,000
Supplies	33,007	249,107	440,022	163,998
Contract services	2,236,921	2,406	876,588	98,276
Other operating costs	20,373	23,195	79,238	402,799
Depreciation	11,855	66,409	334,770	508,879
Total operating expenses	<u>3,249,918</u>	<u>947,781</u>	<u>3,529,948</u>	<u>3,265,407</u>
Operating income (loss)	<u>288,747</u>	<u>10,630</u>	<u>(314,088)</u>	<u>966,643</u>
Nonoperating revenues (expenses)				
Interest income	0	0	1,883	598,091
Intergovernmental	0	0	24,426	0
Interest expense	(1,562)	(9,669)	(398,030)	(13,423)
Gain on disposal of capital assets	0	0	0	79,057
Total nonoperating revenue (expenses)	<u>(1,562)</u>	<u>(9,669)</u>	<u>(371,721)</u>	<u>663,725</u>
Income (loss) before transfers	<u>287,185</u>	<u>961</u>	<u>(685,809)</u>	<u>1,630,368</u>
Transfers in	0	29,559	0	0
Transfers out	0	0	0	(599,800)
Change in net assets	<u>287,185</u>	<u>30,520</u>	<u>(685,809)</u>	<u>1,030,568</u>
Net assets - beginning of year	<u>2,485,773</u>	<u>5,616</u>	<u>398,808</u>	<u>18,050,335</u>
Net assets - end of year	<u>\$ 2,772,958</u>	<u>\$ 36,136</u>	<u>\$ (287,001)</u>	<u>\$ 19,080,903</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS (continued)
 OTHER PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Environmental Services	Vending Machines	Total
Operating revenues:			
Charge for services	\$ 3,052,469	\$ 89,104	\$ 14,892,705
Other income	740	0	194,595
Total operating revenue	<u>3,053,209</u>	<u>89,104</u>	<u>15,087,300</u>
Operating expenses:			
Personnel services	857,937	0	5,348,915
Utilities	13,228	0	439,799
Repairs and maintenance	97,435	0	433,805
Insurance costs	16,982	0	41,474
Indirect costs	0	0	166,800
Supplies	213,617	0	1,099,751
Contract services	1,161,416	0	4,375,607
Other operating costs	268,630	102,465	896,700
Depreciation	421,526	0	1,343,439
Total operating expenses	<u>3,050,771</u>	<u>102,465</u>	<u>14,146,290</u>
Operating income (loss)	<u>2,439</u>	<u>(13,361)</u>	<u>941,010</u>
Nonoperating revenues (expenses)			
Interest income	9,152	0	609,127
Intergovernmental	0	0	24,426
Interest expense	(31,311)	0	(453,996)
Gain on disposal of capital assets	2,470	0	81,527
Total nonoperating revenue (expenses)	<u>(19,689)</u>	<u>0</u>	<u>261,083</u>
Income (loss) before transfers	<u>(17,250)</u>	<u>(13,361)</u>	<u>1,202,094</u>
Transfers in	0	0	29,559
Transfers out	0	0	(599,800)
Change in net assets	<u>(17,250)</u>	<u>(13,361)</u>	<u>631,853</u>
Net assets - beginning of year	<u>1,924,052</u>	<u>59,600</u>	<u>22,924,184</u>
Net assets - end of year	<u>\$ 1,906,802</u>	<u>\$ 46,239</u>	<u>\$ 23,556,037</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF CASH FLOWS
 OTHER PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Inspections and Review	County Parks Operations	Recreation Programs	Solid Waste Management
Cash flows from operating activities:				
Cash received from customers	\$ 3,396,941	\$ 955,243	\$ 3,234,074	\$ 4,144,040
Cash paid to suppliers	(2,375,926)	(356,378)	(1,792,839)	(1,016,721)
Cash paid to employees	(909,254)	(531,875)	(1,342,875)	(1,705,932)
Net cash provided by (used in) operating activities	<u>111,761</u>	<u>66,990</u>	<u>98,360</u>	<u>1,421,387</u>
Cash flows from investing activities:				
Interest received	0	0	1,883	598,091
Net cash provided by investing activities	<u>0</u>	<u>0</u>	<u>1,883</u>	<u>598,091</u>
Cash flows from noncapital financing activities:				
Intergovernmental	0	0	24,426	0
Transfers in (out)	0	29,559	0	(599,800)
Receipts from interfund loans	(91,482)	0	0	(588,614)
Repayment of interfund loans	0	(1,891)	234,607	0
Net cash provided by (used in) noncapital financing activities	<u>(91,482)</u>	<u>27,668</u>	<u>259,032</u>	<u>(1,188,414)</u>
Cash flows from capital and related financing activities:				
Proceeds from issuance of bonds	0	0	6,590,459	0
Proceeds from new loans	34,304	3,639	0	396,551
Principal payments on bonds payable	0	(20,589)	0	(155,253)
Principal payments on capital lease obligations	0	0	0	0
Principal payments on loans	(27,000)	0	(6,515,645)	(5,412)
Interest paid	(1,562)	(9,669)	(398,030)	(13,423)
Proceeds from disposal of assets	0	0	0	79,057
Cash (paid) received for capital expenses	(26,021)	(68,039)	(8,618)	(1,132,584)
Net cash used in capital and related financing activities	<u>(20,279)</u>	<u>(94,658)</u>	<u>(331,834)</u>	<u>(831,064)</u>
Net increase (decrease) in cash and cash equivalents	0	(0)	27,441	(0)
Cash and cash equivalents - beginning of year	0	3,835	77,380	800
Cash and cash equivalents - end of year	<u>\$ 0</u>	<u>\$ 3,835</u>	<u>\$ 104,821</u>	<u>\$ 800</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF CASH FLOWS - (continued)
 OTHER PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Inspections and Review	County Parks Operations	Recreation Programs	Solid Waste Management
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 288,747	\$ 10,630	\$ (314,088)	\$ 966,643
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	11,855	66,409	334,770	508,879
Increase (decrease) in compensation-related liabilities included in long-term debt	27,000	0	0	0
(Increase) decrease in other receivables	(139,781)	(3,168)	14,098	(88,011)
(Increase) decrease in inventories	0	(4,134)	0	0
(Increase) decrease in other current assets	0	0	15,900	0
(Increase) decrease in restricted assets	0	0	0	(5,412)
Increase (decrease) in accounts payable	(59,604)	11,305	7,802	67,031
Increase (decrease) in accrued expenses	(14,513)	(14,052)	35,762	(33,155)
Increase (decrease) in other liabilities	0	0	0	5,412
Increase (decrease) in deferred revenue	(1,943)	0	4,116	0
Net cash provided by operating activities	<u>\$ 111,761</u>	<u>\$ 66,990</u>	<u>\$ 98,360</u>	<u>\$ 1,421,387</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	Inspections and Review	County Parks Operations	Recreation Programs	Solid Waste Management
Borrowing under capital lease	34,055	38,988	0	0

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF CASH FLOWS - (continued)
 OTHER PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Environmental Services	Vending Machines	Total
Cash flows from operating activities:			
Cash received from customers	\$ 3,056,607	\$ 89,104	\$ 14,876,009
Cash paid to suppliers	(1,383,377)	(102,465)	(7,027,706)
Cash paid to employees	(861,788)	0	(5,351,724)
Net cash provided by (used in) operating activities	<u>811,442</u>	<u>(13,361)</u>	<u>2,496,579</u>
Cash flows from investing activities:			
Interest received	9,152	0	609,127
Net cash provided by investing activities	<u>9,152</u>	<u>0</u>	<u>609,127</u>
Cash flows from noncapital financing activities:			
Intergovernmental	0	0	24,426
Transfers in (out)	0	0	(570,241)
Receipts from interfund loans	(785,083)	13,852	(1,451,327)
Repayment of interfund loans	0	0	232,716
Net cash provided by (used in) noncapital financing activities	<u>(785,083)</u>	<u>13,852</u>	<u>(1,764,427)</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of bonds	948,321	0	7,538,780
Proceeds from new loans	41,095	0	475,589
Principal payments on bonds payable	0	0	(175,842)
Principal payments on capital lease obligations	(50,598)	0	(50,598)
Principal payments on loans	(23,610)	0	(6,571,667)
Interest paid	(31,311)	0	(453,996)
Proceeds from disposal of assets	2,470	0	81,527
Cash paid for capital expenses	(921,878)	0	(2,157,140)
Net cash used in capital and related financing activities	<u>(35,511)</u>	<u>0</u>	<u>(1,313,347)</u>
Net increase in cash and cash equivalents	0	491	27,932
Cash and cash equivalents - beginning of year	0	38,760	120,775
Cash and cash equivalents - end of year	<u>\$ 0</u>	<u>\$ 39,251</u>	<u>\$ 148,707</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND
 COMBINING STATEMENT OF CASH FLOWS - (continued)
 OTHER PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Environmental Services	Vending Machines	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 2,439	\$ (13,361)	\$ 941,010
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	421,526	0	1,343,438
Increase (decrease) in compensation-related liabilities included in long-term debt	9,504	0	36,504
(Increase) decrease in other receivables	3,399	0	(213,463)
Increase in inventories	0	0	(4,134)
Increase in other current assets	190	0	16,090
Increase in restricted assets	0	0	(5,412)
Increase (decrease) in accounts payable	387,740	0	414,274
Increase in accrued expenses	(13,356)	0	(39,314)
Increase in other liabilities	0	0	5,412
Decrease in deferred revenue	0	0	2,173
Net cash provided by (used in) operating activities	<u>\$ 811,442</u>	<u>\$ (13,361)</u>	<u>\$ 2,496,578</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	Environmental Services	Vending Machines	Total
Borrowing under capital lease	94,188	0	167,231