

**THE COUNTY COMMISSIONERS  
OF CHARLES COUNTY  
Charles County, Maryland**

**FINANCIAL STATEMENTS  
June 30, 2010**

**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 - 95
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget to Actual - General Fund	98
Other Supplementary Information	
Other Governmental Funds	
Combining Balance Sheet	101-102
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	103-104
Other Proprietary Funds	
Combining Statement of Net Assets	105
Combining Statement of Revenues, Expenses and Changes in Net Assets	106
Combining Statement of Cash Flows	107-108

## Independent Auditor's Report

The County Commissioners of Charles County  
La Plata, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The County Commissioners of Charles County (the County), as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Library Trustees for Charles County, Maryland, a discretely presented component unit, which represent .35 percent of the assets, (.10) percent of the net assets, and 1.08 percent of the revenues of the aggregate discretely presented components units. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as they relate to the amounts included for the Board of Library Trustees for Charles County, Maryland are based solely on the report of the other auditors.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2010, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

11710 Beltsville Drive  
Suite 300  
Calverton, Maryland 20705  
tel: 301-931-2050  
fax: 301-931-1710

The management's discussion and analysis and budgetary information as listed on the table of contents and the schedule of employer contributions and schedule of funding progress for the sheriff's office retirement plan and schedule of employer contributions and schedule of funding progress for the county employees retirement plan included in note 6 and schedule of funding progress and schedule of employer contributions to the OPEB plan included in note 7 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Clifton Gundersen LLP*

Calverton, Maryland  
October 29, 2010

## 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, 2010. 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).

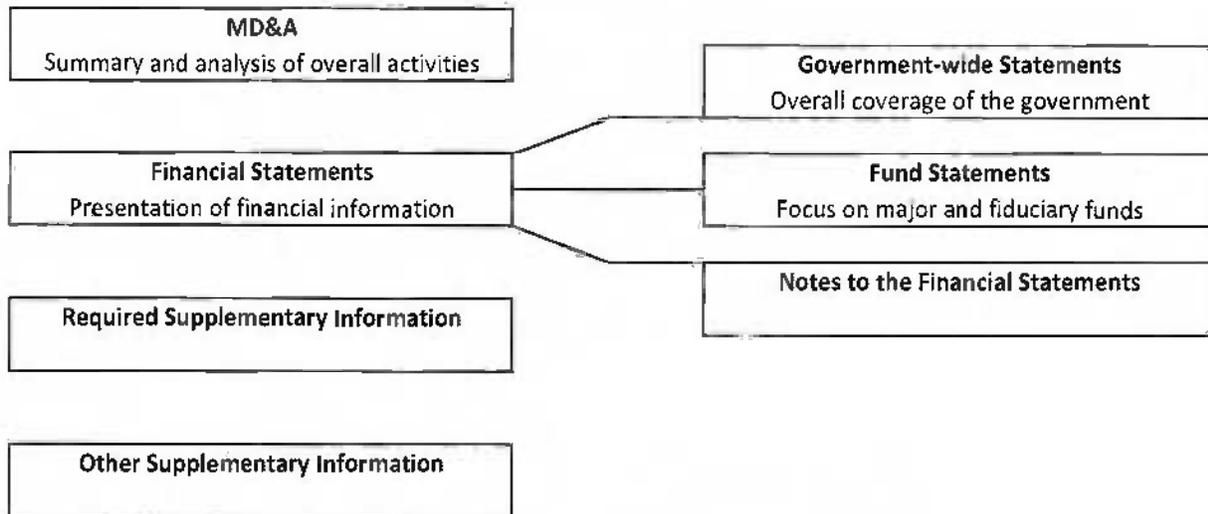
### Financial Highlights

- ★ The government-wide assets of Charles County exceeded liabilities at the close of the current fiscal year by \$397.9 million (*net assets*). A decrease in assets is primarily due to a revenue budget shortfall from lower than expected income tax and interest income earnings. The economic recession has directly impacted many of the County's revenue sources.
- ★ The County's change in net assets was a reduction of \$1.6 million.
- ★ As of the close of the current fiscal year, Charles County's governmental funds reported a combined ending fund balances of \$67.5 million, a decrease of \$9.8 million from the prior year. Approximately 67% of this total amount, or \$45.1 million, is classified as unreserved fund balance. However, 95% of this unreserved fund balance, or \$42.9 million is designated due to policy and operations. The smallest portion of fund balance available for spending at the government's discretion is unreserved and undesignated fund balance of \$2.2 million.
- ★ Unreserved undesignated fund balance for the General Fund was \$2.2 million or less than 1% of General Fund expenditures at June 30, 2010. The County's revenue policy sets a goal to establish fund balance at a minimum of 8% of operating revenues. For FY2010, \$23.3 million of fund balance is designated as Policy Target of the total \$45.3 million.
- ★ The County maintains a long-term financial plan that calls for the reinvestment of fund balance over the course of the next five years of approximately \$3 million to fund capital projects, another \$6 million to fund debt service associated with new schools, and \$2 million to stabilize future health care costs.

### 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 these 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, vending, 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 state and other 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 much narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Charles County Government maintains twenty-four 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 twenty-one 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 21-23 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, some recreational programs, vending 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 and Solid Waste Fund, which are considered major funds of the County. The remaining five 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 or private-purpose trusts. The three trust funds maintained by the County are the Sheriff's Office Retirement Plan, the County Employees Retirement Plan, and the Other Post Employment Benefit (OPEB) Trust plan. The single agency fund that the County maintains is the Volunteer Emergency Services Length Of Services Awards Program (LOSAP) 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 36-95 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 98 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 non-major 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 non-major proprietary funds. These reports can be found on pages 101-108 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 \$397.9 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, \$388 million (97%), 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 (5%) represents resources that are subject to external restrictions on how they may be used.

**Net Assets**  
**June 30, 2010 and 2009**  
(amounts are presented in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 190,713	\$ 199,080	\$ 40,875	\$ 32,708	\$ 231,588	\$ 231,788
Capital assets, net of depreciation	444,011	432,516	186,057	184,670	630,068	617,186
Total assets	<u>634,724</u>	<u>631,596</u>	<u>226,932</u>	<u>217,378</u>	<u>861,656</u>	<u>848,974</u>
Non-current liabilities	303,164	298,865	98,038	85,230	401,202	384,095
Other liabilities	58,127	57,394	4,490	8,046	62,617	65,440
Total liabilities	<u>361,291</u>	<u>356,259</u>	<u>102,528</u>	<u>93,276</u>	<u>463,819</u>	<u>449,535</u>
Net assets:						
Invested in capital assets, net of related debt	286,448	277,294	101,484	109,407	387,932	386,701
Restricted net assets	21,247	21,012	0	0	21,247	21,012
Unrestricted net assets	<u>(34,262)</u>	<u>(22,969)</u>	<u>22,920</u>	<u>14,695</u>	<u>(11,342)</u>	<u>(8,274)</u>
Total net assets	<u>\$ 273,433</u>	<u>\$ 275,337</u>	<u>\$ 124,404</u>	<u>\$ 124,102</u>	<u>\$ 397,837</u>	<u>\$ 399,439</u>

Changes in Net Assets  
 Years ended June 30, 2010 and 2009  
 (amounts are presented in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
Program revenues:						
Charges for services	\$ 14,958	\$ 13,471	\$ 38,787	\$ 36,245	\$ 53,745	\$ 49,716
Operating grants	31,458	30,173	0	0	31,458	30,173
Capital grants	3,632	4,556	1,040	923	4,672	5,479
General revenues:					0	0
Property taxes	190,132	181,396	0	0	190,132	181,396
Other taxes	101,640	95,158	0	0	101,640	95,158
Other	9,593	19,706	453	6,136	10,046	25,842
Total revenues	<u>351,413</u>	<u>344,460</u>	<u>40,280</u>	<u>43,304</u>	<u>391,693</u>	<u>387,764</u>
Program expenses:						
General government	11,606	9,410	0	0	11,606	9,410
Public safety	92,357	95,922	0	0	92,357	95,922
Education	172,482	167,951	0	0	172,482	167,951
Judicial	9,590	11,545	0	0	9,590	11,545
Health	9,229	8,698	0	0	9,229	8,698
Social services	1,834	1,848	0	0	1,834	1,848
Community services	20,240	19,108	0	0	20,240	19,108
Economic development	1,281	1,505	0	0	1,281	1,505
Public facilities	16,647	14,534	0	0	16,647	14,534
Water and sewer	0	0	25,146	23,618	25,146	23,618
Solid Waste	0	0	3,577	3,557	3,577	3,557
Other	18,581	21,278	10,725	10,663	29,306	31,941
Total expenses	<u>353,847</u>	<u>351,799</u>	<u>39,448</u>	<u>37,838</u>	<u>393,295</u>	<u>389,637</u>
Excess(deficit) before transfers	(2,434)	(7,339)	832	5,466	(1,602)	(1,873)
Net transfers	530	498	(530)	(498)	0	0
Change in net assets	(1,904)	(6,841)	302	4,968	(1,602)	(1,873)
Net assets - beginning of year	275,337	282,178	124,102	119,134	399,439	401,312
Net assets - end of year	<u>\$ 273,433</u>	<u>\$ 275,337</u>	<u>\$ 124,404</u>	<u>\$ 124,102</u>	<u>\$ 397,837</u>	<u>\$ 399,439</u>

Overall, the financial position of Charles County remained relatively constant compared to FY2009. As shown on the table on page 8, total revenues increased from \$388 million in FY2009 to \$392 million in FY2010, an increase of less than 1%. Property and other taxes increased by \$15.5 million, however, due in part to State budget reductions for local government aid, other funding declined by \$13.3 million. Program revenues experienced a 5% increase approximating \$4.5 million more than FY2009.

Program expenses increased from \$390 million in FY2009 to \$393 million in FY2010. The increase of \$6.1 million was mainly due to Education which grew by \$4.5 million. The second largest increase was for Public Facilities which increased \$3.8 million, however, abnormal snow storms generated a \$3 million increase in Public Facility expenditures compared to FY2009. Lower revenues from income tax and interest income combined with less State aid for roads and public safety resulted in budget cuts to County programs which included a hiring freeze, an early retirement program, 10 days of furlough, staff reductions from attrition, and layoffs.

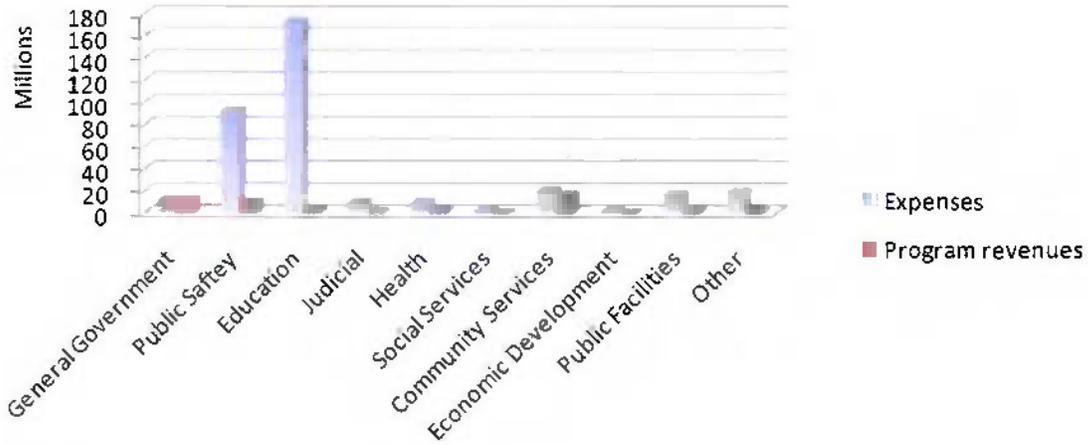
**Governmental activities.** To aid in the understanding of the Statement of Activities (pg 18), some additional explanation is given. Of particular interest is the format of this statement. You will notice that expenses are listed in the first column with revenues from that particular program reported 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.

A decrease in net assets of \$1.6 million was experienced when all funds are combined, as indicated on page 19. Total expenditures of \$396 million were partially offset by program related service fees, grants, and other contributions of nearly \$90 million. The remaining \$306 million in expenditures were funded through non-program revenue sources, primarily property and income taxes.

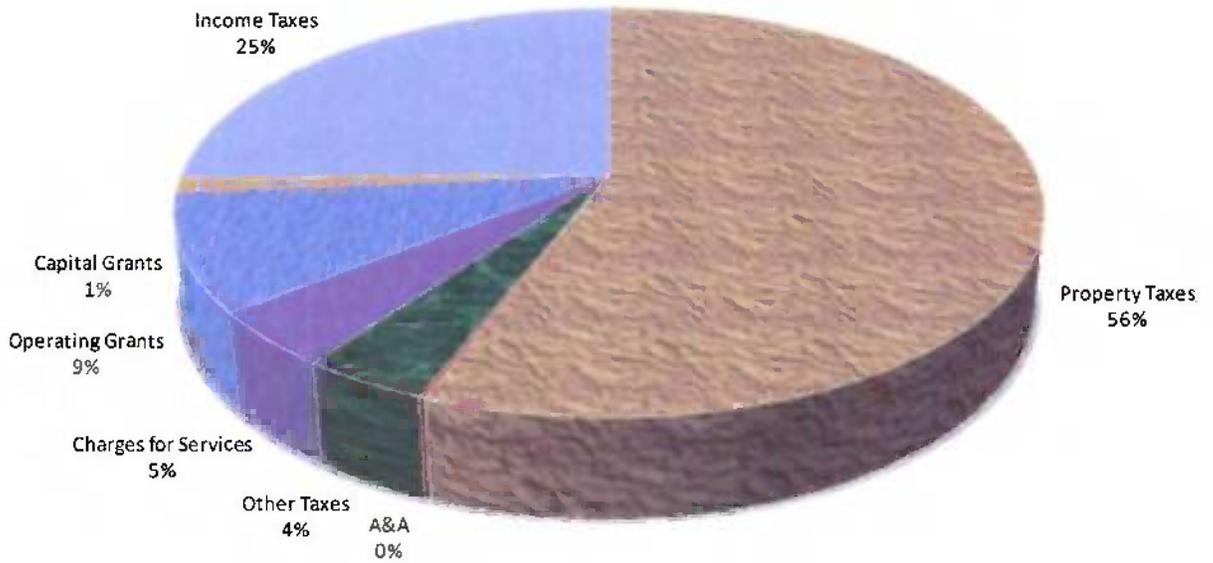
Governmental-type activities, as expected, operated at a \$305.5 million loss, primarily due to Education and Public Safety. As depicted in the bar chart on page 10, Education and Public Safety programs typically have little program revenue, and therefore, rely heavily upon tax revenues to fund the operations. Education and Public Safety required approximately \$253 million in non-program revenue.

The County operates many programs on a fee for service basis (business-type activities) in order to help keep the burden on the taxpayer down. Business-type activities account for \$40.2 million of the total \$396 million expended, or approximately 10% of the total, and finished the fiscal year with an operating loss of \$387,349. Of that operating loss, \$1.2 million was sustained in the Inspection & Review Fund which had built up a healthy fund balance in prior years to offset the loss.

Expenses and Program Revenues - Governmental Activities (Year Ended June 30, 2010)



General Governmental Revenues by Source - Governmental Activities (Year Ended June 30, 2010)

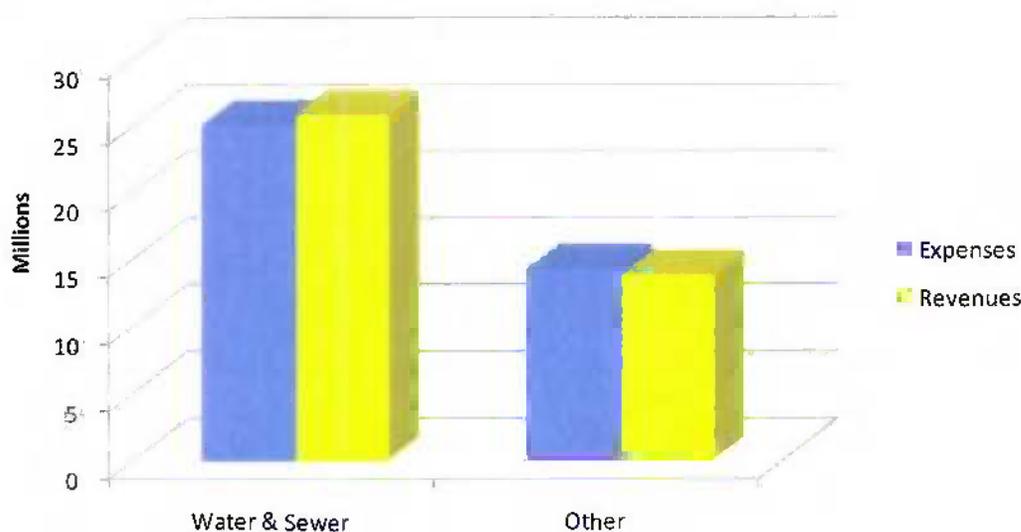


**Business-type activities.** The Water and Sewer Fund is considered a major fund for reporting purposes. For Fiscal Year 2010, the water user fee was increased by sixty-one cents per thousand gallons of water consumed, and the sewer user fee was increased by thirty cents per thousand gallons of water consumed, for a combined water and sewer user fee rate of \$8.51 per thousand gallons of water consumed. The combined rate increase was slightly above 12% and was needed to fund the increased costs for labor and other operating costs.

The Solid Waste Fund is considered a major fund for reporting purposes. The County owns and operates a landfill. The primary source of revenue is derived from tipping fees. The fee of \$70 per ton for commercial and residential refuse was unchanged compared to FY2009. The County recently completed its third expansion of the existing landfill site to accommodate local county waste.

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 \$68 assessed on each improved property in the County, an increase of \$5 compared to fiscal year 2009. 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.



## 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 \$67.5 million, a decrease of \$9.8 million in comparison with the prior year. The general fund and capital projects fund reflected decreases of \$6.1 and \$6.2 for the fiscal year. The debt service and special revenue funds increased \$1.5 million and \$875,000 respectively. The County's governmental fund balances at June 30, 2010 includes \$1.5 million reserved for inventory and \$13.7 for capital outlay with the balance of \$6.7 reserved in debt service and special revenue funds as indicated on page 70. The governmental fund balances of the County that are designated and the largest components include (1) \$1.9 million for health insurance, (2) \$11.7 million for infrastructure, (3) \$4.9 million for CIP and operations, and (4) \$23.3 million as the policy target for bond rating. The un-designated and un-reserved fund balance for the County at year end was \$2.2 million. This amount can be used for non-recurring items, emergencies or to offset potential State budget cuts in FY11 and beyond.

The General Fund is the chief operating fund of the Charles County Government. At the end of the current fiscal year, reserved fund balance was \$2.5 million, unreserved but designated fund balance was \$36.5 million, and unreserved and undesignated fund balance of \$2.2 million for a total fund balance of \$41.2 million.

The Capital Project Fund experienced a decrease of \$6.2 million during the current fiscal year. The decrease in fund balance was primarily due to planned transfers of funds to the Debt Service Fund and the General Fund. A transfer of \$5.4 million to the Debt Service Fund was made to assist in the payment of debt service associated with school construction. Those funds originated from developer contributions that were reserved by the county for school construction. A Capital Project Fund transfer of \$6.1 million was also made to return surplus pay-go funds from completed capital projects back to the General Fund. The remaining difference in fund balance is due to the timing of when capital project bonds are issued and the spending of those bond funds based on the projects' work-in-progress.

The fund balance of the County's Debt Service Fund increased by \$1.5 million during the current fiscal year. This increase is due primarily to the early pay off of \$1.1 million in a note receivable from the Charles County Nursing Home. The early receipt of funds was in exchange for land and property held by the County.

**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 \$16.3 million. The unrestricted net assets for the County's Solid Waste Fund was \$8.4 million. Unrestricted net assets of all proprietary funds were \$22.9 million. There was a total increase in net assets for all proprietary funds in the amount of \$302,000. 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 FY2010 General Fund Operating Budget was adopted at \$311 million with budget amendments approved during the year that netted to a \$4 million decrease and an amended budget of \$307 million. The extended period of the economic recession affected the County revenues in two ways.

Early in the fiscal year the State of Maryland enacted budget cuts including reductions in state aid for local jurisdictions in order to balance their budget. The County took immediate budget action by reducing local government expenditure budgets by \$5.3 million in November. Later in the fiscal year, County income tax and interest income revenues were estimated to fall short of budget by nearly \$3 million creating a second round of budget cuts equal to \$2.8 million. Although many of the revenues experienced declines, overall operating revenues completed the fiscal year flat compared to FY2009. Fund transfers from the Capital Project Fund of \$6.1 million and from a Special Revenue Fund of \$700 thousand assisted in balancing the FY2010 General Fund budget.

Total expenditures increased by nearly \$5 million compared to FY2009, including \$3 million more due to unexpected snow removal. Supplemental funding from FEMA of \$1.6 million helped offset the snow removal costs. The County met the State mandated funding effort known as Maintenance of Effort, which provided the Board of Education nearly \$7 million more in public school funding or 5% greater than FY2009. Principal and interest on long term debt increased by \$800 thousand as additional bonds were issued to pay for new and improved infrastructure. Pay-as-you-go funding for capital projects increased by nearly \$500 thousand, while all other programs spent less than the FY2009 actual.

Despite a 2% increase in actual expenditures, the FY2010 Budget was originally adopted at \$311 million. Actual spending was limited to \$304.6 million. Formal budget cuts of \$7.6 million significantly offset the revenue shortfalls from the State and lower local revenues due to the recession. Two separate budget reduction plans were established during the year to counter the revenue shortfalls, therefore, savings were achieved throughout County government. The budget cuts included reduction in authorized positions through attrition, layoffs, furloughs, and an early retirement incentive offering. No direct public service levels were terminated. Significant snow removal costs due to a severe Winter resulted in nearly \$3.5 million in supplemental funds that were added to the budget, \$1.6 million from FEMA and \$1.9 million from fund balance.

## 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, 2010, amounts to \$630.1 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 2% (a 1% increase for governmental activities and a 1% increase for business-type activities).

**Capital Assets**  
(net of depreciation)  
**June 30, 2010 and 2009**  
(amounts are presented in thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land (not depreciated)	\$ 53,576	\$ 47,566	\$ 2,174	\$ 2,174	\$ 55,750	\$ 49,740
Construction in progress (not depreciated)	133,785	184,186	40,618	79,891	174,403	264,077
Land improvements	6,867	5,621	4,649	4,854	11,516	10,475
Infrastructure	148,805	102,702	96,704	82,943	245,509	185,645
Buildings and improvements	71,852	60,985	10,346	10,616	82,198	71,601
Machinery and equipment	23,628	25,027	30,752	2,938	54,380	27,965
Vehicles	5,498	6,429	814	1,254	6,312	7,683
<b>Total</b>	<b>444,011</b>	<b>432,516</b>	<b>186,057</b>	<b>184,670</b>	<b>630,068</b>	<b>617,186</b>

Additional information on the County's capital assets can be found in Note 3 on pages 56-58 of this report.

**Long-term debt.** At the end of the current fiscal year, the County had notes and bonds outstanding of \$327.7 million, which are backed by the full faith and credit of the County.

**Outstanding Debt**  
**General Obligation Bonds and Notes Payable**  
**June 30, 2010 and 2009**  
(amounts are presented in thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 248,379	\$ 258,422	\$ 66,021	\$ 55,678	\$ 314,400	\$ 314,100
Notes payable	1,148	1,657	12,222	13,031	13,370	14,688
<b>Total</b>	<b>249,527</b>	<b>260,079</b>	<b>78,243</b>	<b>68,709</b>	<b>327,770</b>	<b>328,788</b>

The County's total debt during the current fiscal year decreased by \$1 million. The issuance of bonds at favorable interest rates combined with the County's strategic long term financial policy of primary 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 \$36.1 million of general obligation bonds, of which \$11.4 million are Taxable Build America Bonds.

The County continues to maintain an "AA" rating from Standard & Poor's. As of April 30, 2010, Fitch Investors Service recalibrated and assigned the County a much coveted "AAA" rating. According to the press release issued by Fitch, the rating reflects the County's strong and expanding tax base, sustained growth, robust local wealth and employment levels. Effective May 3, 2010, Charles County's "Aa2" rating from Moody's Investors Service was recalibrated to an "Aa1" as part of its efforts to align governments and corporations on the same rating scale. All three ratings led to a historically low interest rate for Charles County's bond sale in April 2010.

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 \$119,691,100 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 \$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 64-68 of this report.

#### **Economic Factors and Next Year's Budgets and Rates**

- ★ The FY2011 General Fund Budget was adopted at \$305,018,610. The budget was adopted below the FY2010 adjusted budget level of \$307,029,180.
- ★ In FY2011, the County's largest revenue source, Property Tax, was budgeted with an increase of 3.3% compared to the FY2010 Adjusted Budget. The second largest revenue source, Income Tax, is expected to remain flat. Other revenues are budgeted near or below the FY2010 budget level with the exception of transfers from other funds. Transfers are \$6 million less than FY2010 reflecting the one-time nature of these funding sources.
- ★ Overall property tax revenue is estimated to increase by 3.3% despite lower property values. In Maryland owner-occupied residential property taxes are limited by a tax regulator known as the Homestead Tax Credit. The tax credit limits the increase to local governments' property tax revenue during times of increasing assessments in the value of the property. The tax credit also helps local governments during times of decreasing assessments. Since the tax credit limits the increase in a tax bill, homeowners have been paying taxes well below their actual assessed value, therefore, even in decreasing assessment markets the tax liability continues to increase to meet the current tax assessment level.
- ★ Income tax revenue is budgeted 1% less than FY2010 due to the slow economic recovery. The local tax rate remained the same.

- ★ Expense budgets were approved at the FY2010 level in order to balance the General Fund budget. As in FY2010, the County met the State mandated funding requirement for the public school education system known as the “Maintenance of Effort”, which essentially provides the same level of funding from the prior year adjusted for student enrollment growth. The largest increase in expenditures is a transfer of funds to the Debt Service Fund of \$3.6 million which will assist in the payment for borrowing costs associated with public school construction.

These factors, as well as many others, were considered in preparing the County’s budget for Fiscal Year 2011.

### **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](http://www.charlescounty.org)

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 17,366,911	\$ 1,744,949	\$ 19,111,860	\$ 43,970,808
Short-term investments	88,914,781	0	88,914,781	437,774
Other receivables	34,785,873	5,807,000	40,592,873	7,968,854
Notes receivable	0	300,812	300,812	0
Excise tax receivable	31,563,768	0	31,563,768	0
Taxes receivable	2,419,559	0	2,419,559	0
Internal balances	(32,185,562)	32,185,562	0	0
Inventory	1,528,416	632,482	2,160,898	850,656
Other current assets	196,925	82,463	279,388	6,653,040
Restricted assets	46,122,534	122,273	46,244,807	0
Capital assets, net of accumulated depreciation:				
Land	53,575,910	2,174,186	55,750,096	16,687,486
Construction in progress	133,784,963	40,618,204	174,403,167	9,221,764
Land improvements	6,866,753	4,648,892	11,515,645	2,305,286
Infrastructure	148,805,330	96,703,817	245,509,147	0
Buildings and improvements	71,851,553	10,346,301	82,197,854	231,591,094
Machinery and equipment	23,628,009	30,751,523	54,379,532	7,996,099
Vehicles	5,498,099	813,949	6,312,048	0
Total assets	<u>634,723,822</u>	<u>226,932,413</u>	<u>861,656,235</u>	<u>327,682,861</u>
<b>LIABILITIES:</b>				
Accounts payable	7,597,921	1,982,243	9,580,164	9,475,731
Accrued expenses	3,514,382	1,394,931	4,909,313	26,167,651
Unearned revenue	35,839,241	366,531	36,205,772	2,505,974
Other liabilities	11,175,614	745,993	11,921,607	283,207
Noncurrent liabilities:				
Due within one year	29,159,679	7,162,760	36,322,439	730,000
Due in more than one year	268,366,048	89,029,755	357,395,803	66,736,606
Net deferred bond issue premiums	5,638,415	1,845,925	7,484,340	0
Total liabilities	<u>361,291,300</u>	<u>102,528,138</u>	<u>463,819,438</u>	<u>105,899,169</u>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	286,447,650	101,483,715	387,931,365	267,801,729
Restricted for:				
Capital projects	14,535,191	0	14,535,191	0
Public housing	3,295,119	0	3,295,119	0
Public safety	935,536	0	935,536	0
Other purposes	2,481,170	0	2,481,170	0
Unrestricted	(34,262,144)	22,920,560	(11,341,584)	(46,018,037)
Total net assets	<u>\$ 273,432,522</u>	<u>\$ 124,404,275</u>	<u>\$ 397,836,797</u>	<u>\$ 221,783,692</u>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
Legislative	\$ 1,939,759	\$ 0	\$ 0	\$ 0
Judicial	9,589,759	73,114	807,669	0
Law	896,496	0	0	0
General government	11,602,410	1,574,048	9,646,686	0
Elections	535,401	0	0	0
Public safety	92,357,073	6,054,547	3,542,395	69,596
Planning and growth management	3,736,711	2,466,319	119,437	30,527
Health	9,228,755	215,169	3,142,978	0
Social services	1,833,744	0	0	0
Community services	20,239,786	1,889,243	14,184,130	3,496
Public facilities	16,646,652	652,970	0	3,528,279
Economic development	1,280,857	0	14,291	0
Education	172,482,312	2,032,142	0	0
Conservation of natural resources	554,157	0	0	0
Interest expense on long term debt	10,922,423	0	0	0
<b>Total governmental activities</b>	<b>353,846,295</b>	<b>14,957,552</b>	<b>31,457,586</b>	<b>3,631,898</b>
Business-type activities:				
Water and sewer	25,146,157	24,940,407	0	982,611
Inspection and review	3,370,382	2,123,971	0	0
County parks	867,498	758,158	0	0
Recreation	3,045,137	2,682,359	0	24,474
Solid waste	3,577,336	4,583,739	0	0
Environmental services	3,312,126	3,565,524	0	32,898
Vending machines	129,239	133,074	0	0
<b>Total business-type activities</b>	<b>39,447,875</b>	<b>38,787,232</b>	<b>0</b>	<b>1,039,983</b>
<b>Total primary government</b>	<b>\$ 393,294,170</b>	<b>\$ 53,744,784</b>	<b>\$ 31,457,586</b>	<b>\$ 4,671,881</b>
<b>COMPONENT UNITS:</b>				
Board of Education of Charles County, Maryland	375,808,638	7,043,453	88,462,485	17,170,266
Board of Library Trustees for Charles County	4,334,837	158,998	49,841	0
<b>Total component units</b>	<b>\$ 380,143,475</b>	<b>\$ 7,202,451</b>	<b>\$ 88,512,326</b>	<b>\$ 17,170,266</b>

General revenues:

Taxes:

- Local property taxes
- Local taxes - Excise
- Local taxes - Admissions & Amusement
- Local taxes - Recordation
- Local taxes - Hotel/Motel
- Income taxes
- State shared

County and state appropriations

Other income

Interest and investment earnings

Net transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

Net (Expenses)Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (1,939,759)	\$ 0	\$ (1,939,759)	\$ 0
(8,708,976)	0	(8,708,976)	0
(896,496)	0	(896,496)	0
(381,676)	0	(381,676)	0
(535,401)	0	(535,401)	0
(82,690,535)	0	(82,690,535)	0
(1,120,428)	0	(1,120,428)	0
(5,870,608)	0	(5,870,608)	0
(1,833,744)	0	(1,833,744)	0
(4,162,917)	0	(4,162,917)	0
(12,465,403)	0	(12,465,403)	0
(1,266,566)	0	(1,266,566)	0
(170,450,170)	0	(170,450,170)	0
(554,157)	0	(554,157)	0
(10,922,423)	0	(10,922,423)	0
<u>(303,799,259)</u>	<u>0</u>	<u>(303,799,259)</u>	<u>0</u>
0	776,861	776,861	0
0	(1,246,411)	(1,246,411)	0
0	(109,340)	(109,340)	0
0	(338,304)	(338,304)	0
0	1,006,403	1,006,403	0
0	286,296	286,296	0
0	3,835	3,835	0
0	<u>379,340</u>	<u>379,340</u>	<u>0</u>
<u>(303,799,259)</u>	<u>379,340</u>	<u>(303,419,919)</u>	<u>0</u>
0	0	0	(263,132,434)
0	0	0	(4,125,998)
0	0	0	(267,258,432)
190,131,537	0	190,131,537	0
4,154,235	0	4,154,235	0
804,476	0	804,476	0
9,500,396	0	9,500,396	0
958,717	0	958,717	0
85,784,762	0	85,784,762	0
437,492	0	437,492	0
0	0	0	253,055,773
5,695,001	376,834	6,071,835	170,914
3,898,008	75,594	3,973,602	66,294
530,182	(530,182)	(0)	0
<u>301,894,806</u>	<u>(77,754)</u>	<u>301,817,052</u>	<u>253,292,981</u>
(1,904,453)	301,586	(1,602,867)	(13,963,562)
275,336,975	124,102,689	399,439,664	235,747,254
<u>\$ 273,432,522</u>	<u>\$ 124,404,275</u>	<u>\$ 397,836,797</u>	<u>\$ 221,783,692</u>

See accompanying notes

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	General Fund	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 14,748,958	\$ 0	\$ 0	\$ 2,617,953	\$ 17,366,911
Investments	88,914,781	0	0	0	88,914,781
Other receivables	30,089,827	1,274,187	7,236	3,414,623	34,785,873
Excise tax receivable	0	0	31,563,768	0	31,563,768
Taxes receivable	2,419,559	0	0	0	2,419,559
Due from other funds <sup>1</sup>	0	24,645,679	126,205	7,424,541	32,196,425
Inventory	1,528,416	0	0	0	1,528,416
Other assets	196,763	0	0	163	196,926
Restricted assets	1,965,285	0	44,157,249	0	46,122,534
<b>Total assets</b>	<b>\$ 139,863,589</b>	<b>\$ 25,919,866</b>	<b>\$ 75,854,458</b>	<b>\$ 13,457,280</b>	<b>\$ 255,095,193</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
Accounts payable	\$ 2,224,958	\$ 3,670,567	\$ 0	\$ 1,702,396	\$ 7,597,921
Accrued expenditures	2,768,794	0	0	5,455	2,774,249
Deferred revenue	21,672,724	2,645,870	75,715,387	1,631,016	101,664,997
Due to other funds	63,572,556	0	0	809,431	64,381,987
Other liabilities	6,474,099	0	0	2,736,230	9,210,329
Payable from restricted assets	1,965,285	0	0	0	1,965,285
<b>Total liabilities</b>	<b>98,678,416</b>	<b>6,316,437</b>	<b>75,715,387</b>	<b>6,884,528</b>	<b>187,594,768</b>
<b>Fund balances:</b>					
Reserved fund balance	2,531,035	13,387,539	139,071	6,322,752	22,380,397
Unreserved:					
Designated fund balance	36,482,307	6,215,890	0	250,000	42,948,197
Undesignated fund balance (deficit)	2,171,831	0	0	0	2,171,831
Sub-total Unreserved fund balance	38,654,138	6,215,890	0	250,000	45,120,028
<b>Total fund balances (deficit)</b>	<b>41,185,173</b>	<b>19,603,429</b>	<b>139,071</b>	<b>6,572,752</b>	<b>67,500,425</b>
<b>Total liabilities &amp; fund balances</b>	<b>\$ 139,863,589</b>	<b>\$ 25,919,866</b>	<b>\$ 75,854,458</b>	<b>\$ 13,457,280</b>	<b>\$ 255,095,193</b>

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
 TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
 JUNE 30, 2010

Total Governmental Fund Balance	\$	67,500,425
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		444,010,617
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		(248,379,002)
Loans and notes payable		(76,845)
Capital leases payable		(4,098,081)
Landfill closure costs		(1,070,840)
Health insurance claims		(740,138)
Net pension obligation		(410,212)
Net OPEB obligation		(30,014,542)
Unearned revenue		65,825,756
Unamortized deferred charges		(5,638,413)
Compensated absences which are not due and payable in the current period and therefore are not reported in the funds		<u>(13,476,203)</u>
Net assets of Governmental Activities	\$	<u>273,432,522</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	General Fund	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes - local property	\$ 177,986,438	\$ 0	\$ 0	\$ 12,145,099	\$ 190,131,537
Taxes - income	86,513,316	0	0	0	86,513,316
Taxes - Excise	0	0	4,154,235	0	4,154,235
Taxes - Admissions and Amusement	804,476	0	0	0	804,476
Taxes - Recordation	9,500,396	0	0	0	9,500,396
Taxes - Hotel/Motel	958,717	0	0	0	958,717
Taxes - state shared	437,492	0	0	0	437,492
Charges for services	6,950,804	2,004,000	0	4,750,453	13,705,262
Intergovernmental	3,304,549	11,406,254	0	20,378,681	35,089,484
Interest income	339,568	0	3,536,698	21,742	3,898,008
Other income	2,332,236	0	4,100,177	514,880	6,947,293
<b>Total revenues</b>	<b>289,127,992</b>	<b>13,410,254</b>	<b>11,791,110</b>	<b>37,810,860</b>	<b>352,140,216</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Education	156,434,735	6,579,357	0	1,190,584	164,204,676
Public safety	71,598,070	659,195	0	15,578,650	87,835,915
Other general government	19,226,752	0	1,218	0	19,227,970
Public facilities	19,171,226	9,353,461	0	0	28,524,687
Financial administration	8,016,417	0	0	0	8,016,417
Community services	3,558,418	19,054	0	17,130,059	20,707,531
Judicial	3,099,199	5,269,775	0	1,180,816	9,549,790
Planning and growth management	3,137,525	464,063	0	194,675	3,796,263
Health	3,146,535	1,729,790	0	3,281,872	8,158,197
Economic development	1,281,413	0	0	14,291	1,295,704
Social services	1,038,689	0	0	795,055	1,833,744
Legislative	1,815,035	0	0	5,170	1,820,205
Law	884,268	0	0	0	884,268
Conservation of natural resources	551,419	0	0	0	551,419
Elections	535,143	0	0	0	535,143
<b>Debt service:</b>					
Principal	0	0	11,243,409	0	11,243,409
Interest	6,487,255	0	4,435,168	0	10,922,423
<b>Total expenditures</b>	<b>299,982,099</b>	<b>24,074,695</b>	<b>15,679,795</b>	<b>39,371,172</b>	<b>379,107,761</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(10,854,107)</b>	<b>(10,664,441)</b>	<b>(3,888,685)</b>	<b>(1,560,312)</b>	<b>(26,967,545)</b>
<b>Other financing sources (uses):</b>					
Issuance of debt	621,497	15,000,000	0	0	15,621,497
Premium on issuance of debt	1,358,311	0	0	0	1,358,311
Bond Proceeds from debt refunding	4,853,935	0	0	0	4,853,935
Defeased Bonds	(5,276,540)	0	0	0	(5,276,540)
Transfers in	7,395,000	1,025,000	5,437,700	3,154,508	17,012,208
Transfers out	(4,229,698)	(11,532,900)	0	(719,428)	(16,482,026)
<b>Total other financing sources (uses)</b>	<b>4,722,505</b>	<b>4,492,100</b>	<b>5,437,700</b>	<b>2,435,080</b>	<b>17,087,385</b>
<b>Net change in fund balance</b>	<b>(6,131,602)</b>	<b>(6,172,341)</b>	<b>1,549,015</b>	<b>874,768</b>	<b>(9,880,160)</b>
<b>Fund balance (deficit) - beginning of year</b>	<b>47,316,775</b>	<b>25,775,770</b>	<b>(1,409,944)</b>	<b>5,697,984</b>	<b>77,380,585</b>
<b>Fund balance (deficit) - end of year</b>	<b>\$ 41,185,173</b>	<b>\$ 19,603,429</b>	<b>\$ 139,071</b>	<b>\$ 6,572,752</b>	<b>\$ 67,500,425</b>

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, 2010

Net change in fund balance - Governmental Funds	\$	(9,880,160)
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.		
		26,386,169
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.		
		(141,092)
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.		
		1,720,496
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.		
		7,605,207
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.		
		367,480
Governmental funds report revenues based on the availability of the funds. However, in the government-wide statements revenues are recorded based on collectibility.		
		(271,057)
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		(16,471,438)
Amortization of deferred charges		(596,534)
Compensated absences		(786,427)
Self-insurance Claims - IBNR		(175,618)
Net pension obligation		17,395
Net OPEB obligation		(9,678,874)
		(19,580,412)
Change in Net Assets of Governmental Activities	\$	(1,904,453)

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2010

	Business-type activities			Total
	Water and Sewer Fund	Solid Waste Fund	Other Proprietary Funds	
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 200	\$ 2,000	\$ 1,742,749	\$ 1,744,949
Other receivables	5,111,709	575,820	119,471	5,807,000
Notes receivable	300,812	0	0	300,812
Due from other funds	19,911,901	13,825,058	3,069,605	36,806,564
Inventory	576,081	0	56,401	632,482
Other current assets	2,559	0	79,903	82,462
<b>Total current assets</b>	<b>25,903,262</b>	<b>14,402,878</b>	<b>5,068,129</b>	<b>45,374,269</b>
Noncurrent assets:				
Net capital assets	162,199,686	11,195,997	12,661,189	186,056,872
Restricted assets	0	122,273	0	122,273
<b>Total noncurrent assets</b>	<b>162,199,686</b>	<b>11,318,270</b>	<b>12,661,189</b>	<b>186,179,145</b>
<b>Total assets</b>	<b>188,102,948</b>	<b>25,721,148</b>	<b>17,729,318</b>	<b>231,553,414</b>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable	1,532,391	51,856	397,996	1,982,243
Accrued expenses	1,138,338	26,183	230,410	1,394,931
Due to other funds	0	0	4,621,002	4,621,002
Unearned revenue	1,888	0	364,643	366,531
Current portion of long-term debt	6,285,802	47,995	828,963	7,162,760
<b>Total current liabilities</b>	<b>8,958,419</b>	<b>126,034</b>	<b>6,443,014</b>	<b>15,527,467</b>
Noncurrent liabilities:				
Other liabilities	624,093	121,900	0	745,993
Bonds payable	52,035,120	0	8,553,112	60,588,232
Net deferred bond issue premiums	1,669,859	(4,185)	180,251	1,845,925
Long-term debt	12,406,139	5,349,117	289,527	18,044,783
Net pension obligation	92,035	13,955	25,884	131,874
Net OPEB obligation	3,351,564	528,491	757,272	4,637,327
Capital lease obligation	5,361,098	72,708	193,732	5,627,538
<b>Total noncurrent liabilities</b>	<b>75,539,908</b>	<b>6,081,986</b>	<b>9,999,778</b>	<b>91,621,672</b>
<b>Total liabilities</b>	<b>84,498,327</b>	<b>6,208,020</b>	<b>16,442,792</b>	<b>107,149,139</b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	87,263,818	11,095,997	3,123,900	101,483,715
Unrestricted	16,340,803	8,417,131	(1,837,374)	22,920,560
<b>Total net assets</b>	<b>\$ 103,604,621</b>	<b>\$ 19,513,128</b>	<b>\$ 1,286,526</b>	<b>\$ 124,404,275</b>

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, 2010

	Business-type activities			Total
	Water and Sewer Fund	Solid Waste Fund	Other Proprietary Funds	
<b>Operating revenues:</b>				
Charges for services	\$ 24,940,407	\$ 4,583,739	\$ 9,256,011	\$ 38,780,157
Other income	304,666	2,797	69,371	376,834
<b>Total operating revenues</b>	<b>25,245,073</b>	<b>4,586,536</b>	<b>9,325,382</b>	<b>39,156,991</b>
<b>Operating expenses:</b>				
Personnel services	10,266,004	1,960,867	4,644,283	16,871,154
Utilities	3,569,600	50,492	410,992	4,031,084
Repairs and maintenance	675,190	114,050	251,730	1,040,970
Insurance costs	333,520	14,380	55,769	403,669
Indirect costs	384,000	184,000	20,770	588,770
Supplies	1,321,890	166,807	589,104	2,077,801
Contract services	359,300	77,395	3,273,133	3,709,828
Other operating costs	1,043,089	310,887	346,931	1,700,907
Depreciation	5,650,377	697,830	752,695	7,100,902
<b>Total operating expenses</b>	<b>23,602,970</b>	<b>3,576,708</b>	<b>10,345,407</b>	<b>37,525,085</b>
<b>Operating income (loss)</b>	<b>1,642,103</b>	<b>1,009,828</b>	<b>(1,020,025)</b>	<b>1,631,906</b>
<b>Nonoperating revenues (expenses):</b>				
Interest income	37,522	24,653	13,419	75,594
Intergovernmental	982,611	0	57,372	1,039,983
Interest expense	(2,309,876)	(628)	(378,975)	(2,689,479)
Gain on disposal of capital assets	0	0	7,075	7,075
<b>Total nonoperating revenues (losses)</b>	<b>(1,289,743)</b>	<b>24,025</b>	<b>(301,109)</b>	<b>(1,566,827)</b>
<b>Income before transfers</b>	<b>352,360</b>	<b>1,033,853</b>	<b>(1,321,134)</b>	<b>65,079</b>
Donations - noncash transactions	766,689	0	0	766,689
Transfers in	0	0	69,618	69,618
Transfers out	0	(599,800)	0	(599,800)
<b>Change in net assets</b>	<b>1,119,049</b>	<b>434,053</b>	<b>(1,251,516)</b>	<b>301,586</b>
<b>Net assets - beginning of year</b>	<b>102,485,572</b>	<b>19,079,075</b>	<b>2,538,042</b>	<b>124,102,689</b>
<b>Net assets - end of year</b>	<b>\$ 103,604,621</b>	<b>\$ 19,513,128</b>	<b>\$ 1,286,526</b>	<b>\$ 124,404,275</b>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	Business-type activities			
	Water and Sewer Fund	Solid Waste Fund	Other Proprietary Funds	Total
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 25,172,477	\$ 4,419,986	\$ 9,354,216	\$ 38,946,679
Cash paid to suppliers	(8,316,161)	(390,255)	(4,765,896)	(13,472,312)
Cash paid to employees	(10,053,178)	(2,383,834)	(4,691,982)	(17,128,994)
Net cash provided by operating activities	<u>6,803,138</u>	<u>1,645,897</u>	<u>(103,662)</u>	<u>8,345,373</u>
<b>Cash flows from investing activities:</b>				
Interest received	37,522	24,653	13,419	75,594
Net cash provided by investing activities	<u>37,522</u>	<u>24,653</u>	<u>13,419</u>	<u>75,594</u>
<b>Cash flows from noncapital financing activities:</b>				
Intergovernmental	982,611	0	57,372	1,039,983
Transfers in (out)	0	(599,800)	69,618	(530,182)
Receipts from interfund loans	(8,924,647)	(1,219,509)	1,118,848	(9,025,308)
Repayments of interfund loans	0	0	310,975	310,975
Net cash used by (used in) noncapital financing activities	<u>(7,942,036)</u>	<u>(1,819,309)</u>	<u>1,556,813</u>	<u>(8,204,532)</u>
<b>Cash flows from capital and related financing activities:</b>				
Proceeds from issuance of bonds	15,139,080	0	1,151,985	16,291,065
Proceeds from new loan	434,000	100,000	39,900	573,900
Principal payments on bonds payable	(4,662,708)	0	(629,747)	(5,292,455)
Principal payments on capital lease obligations	(593,959)	0	(152,405)	(746,364)
Principal payments on loans	(809,031)	0	(51,972)	(861,003)
Interest paid	(2,309,876)	(628)	(378,975)	(2,689,479)
Proceeds from disposal of assets	0	0	7,075	7,075
Cash paid for capital expenses	(6,096,130)	49,387	(902,479)	(6,949,222)
Net cash used in capital and related financing activities	<u>1,101,376</u>	<u>148,759</u>	<u>(916,618)</u>	<u>333,517</u>
Net increase in cash and cash equivalents	0	0	549,952	549,952
Cash and cash equivalents - beginning of year	200	2,000	1,192,797	1,194,997
Cash and cash equivalents - end of year	<u>\$ 200</u>	<u>\$ 2,000</u>	<u>\$ 1,742,749</u>	<u>\$ 1,744,949</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
STATEMENT OF CASH FLOWS (continued)  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	Business-type activities			Total
	Water and Sewer Fund	Solid Waste Fund	Other Proprietary Funds	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,642,103	\$ 1,009,828	\$ (1,020,025)	\$ 1,631,906
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	5,650,377	697,830	752,695	7,100,902
Increase (decrease) in compensation-related liabilities included in long-term debt	63,389	(19,973)	(48,318)	(4,902)
Increase in landfill closure liabilities included in long-term debt	0	0	0	0
(Increase) decrease in other receivables	(110,993)	(166,550)	(16,944)	(294,487)
(Increase) decrease in notes receivable	38,928	0	0	38,928
(Increase) decrease in inventories	8,695	0	347	9,042
(Increase) decrease in other current assets	(899)	0	26,135	25,236
(Increase) decrease in restricted assets	0	(422)	0	(422)
(Increase) decrease in deferred bond issue costs	(765,767)	0	0	(765,767)
Increase (decrease) in accounts payable	(1,522,011)	(14,690)	(78,300)	(1,615,001)
Increase (decrease) in accrued expenses	149,437	4,351	616	154,404
Increase (decrease) in other liabilities	765,767	49	0	765,816
Increase (decrease) in Net Pension Obligation	(7,118)	(1,121)	4,018	(4,221)
Increase (decrease) in Net OPEB Obligation	891,761	136,595	230,336	1,258,692
Increase (decrease) in deferred revenue	(531)	0	45,778	45,247
Net cash provided by operating activities	<u>\$ 6,803,138</u>	<u>\$ 1,645,897</u>	<u>\$ (103,662)</u>	<u>\$ 8,345,373</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	Water and Sewer Fund	Solid Waste Fund	Other Proprietary Funds	Total
Borrowing under capital lease	434,000	100,000	39,900	573,900
Non-cash donations - developers	766,689	0	0	766,689

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 STATEMENT OF FIDUCIARY NET ASSETS  
 JUNE 30, 2010

	Pension and OPEB Trust Funds
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents	\$ 3,445,244
Interest receivable	111,844
Total current assets	3,557,088
Investments at fair value:	
Bond mutual funds	52,204,106
Equity securities	148,892,161
Total investments	201,096,267
Total assets	204,653,355
<b>LIABILITIES:</b>	
Accrued expenses	(48,568)
<b>NET ASSETS:</b>	
Held in trust for pension benefits	\$ 204,604,787

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED JUNE 30, 2010

	Pension and OPEB Trust Funds
<b>ADDITIONS:</b>	
Contributions:	
Employer contributions	\$ 14,502,323
Employee contributions	4,226,892
Total contributions	18,729,215
Investment earnings:	
Interest	5,776,401
Net change in fair value of investments	17,625,011
Total investment earnings	23,401,412
Less investment expenses	(1,501,296)
Net investment earnings	21,900,116
Total additions	40,629,331
<b>DEDUCTIONS:</b>	
Benefits paid to members	8,239,662
Administrative costs	816,119
Total deductions	9,055,781
Changes in net assets	31,573,550
Net assets - beginning of year	173,031,237
Net assets - end of year	\$ 204,604,787

See accompanying notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING STATEMENT OF NET ASSETS  
 COMPONENT UNITS  
 JUNE 30, 2010

	Board of Education of Charles County, Maryland	Board of Library Trustees for Charles County	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 43,877,924	\$ 92,884	\$ 43,970,808
Short-term investments	0	437,774	437,774
Accounts receivable	7,959,202	9,652	7,968,854
Inventory	850,656	0	850,656
Other assets	6,616,895	36,145	6,653,040
Capital assets			
Land	16,687,486	0	16,687,486
Construction in progress	9,221,764	0	9,221,764
Land improvements	2,305,286	0	2,305,286
Buildings	231,591,094	0	231,591,094
Machinery and equipment	7,440,544	555,555	7,996,099
Total assets	<u>326,550,851</u>	<u>1,132,010</u>	<u>327,682,861</u>
<b>LIABILITIES:</b>			
Accounts payable	9,454,283	21,448	9,475,731
Accrued expenses	25,843,230	324,421	26,167,651
Unearned revenue	2,505,974	0	2,505,974
Other liabilities	283,207	0	283,207
Non-current liabilities:			
Due within one year	730,000	0	730,000
Due in more than one year	65,737,978	998,628	66,736,606
Total liabilities	<u>104,554,672</u>	<u>1,344,497</u>	<u>105,899,169</u>
Invested in capital assets, net of related debt	267,246,174	555,555	267,801,729
Unrestricted assets	(45,249,995)	(768,042)	(46,018,037)
Total net assets	<u>\$ 221,996,179</u>	<u>\$ (212,487)</u>	<u>\$ 221,783,692</u>

See accompanying notes.

*This page is intentionally left blank.*

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING STATEMENT OF ACTIVITIES  
 COMPONENT UNITS  
 YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>COMPONENT UNITS:</b>				
Board of Education of Charles County, MD	\$ 375,808,638	\$ 7,043,453	\$ 88,462,485	\$ 17,170,266
Board of Library Trustees for Charles County	4,334,837	158,998	49,841	0
<b>Total component units</b>	<b>\$ 380,143,475</b>	<b>\$ 7,202,451</b>	<b>\$ 88,512,326</b>	<b>\$ 17,170,266</b>

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

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
\$ (263,132,434)	\$ 0	\$ (263,132,434)
0	(4,125,998)	(4,125,998)
<u>(263,132,434)</u>	<u>(4,125,998)</u>	<u>(267,258,432)</u>
249,362,908	3,692,865	253,055,773
0	0	0
64,828	1,466	66,294
131,192	41,611	170,914
<u>249,558,928</u>	<u>3,735,942</u>	<u>253,292,981</u>
(13,573,506)	(390,056)	(13,963,562)
235,569,685	177,569	235,747,254
<u>\$ 221,996,179</u>	<u>\$ (212,487)</u>	<u>\$ 221,783,692</u>

**THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010**

**INDEX**

		<u>Page</u>
NOTE 1	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	36
	A. Reporting Entity	36
	B. Basic Financial Statements	37
	Government-wide Statements	38
	Fund Financial Statements	39
	C. Basis of Accounting and Measurement Focus	41
	Basis of Accounting	41
	Measurement Focus	42
	D. Financial Statement Amounts	42
NOTE 2	STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY	49
	A. Budgets and Budgetary Accounting	49
	B. Deficit Fund Equity	49
NOTE 3	DETAILED NOTES ON ALL FUNDS	50
	A. Cash Deposits and Investments	50
	B. Receivables	53
	C. Property Taxes Receivable	54
	D. Notes Receivable	54
	E. Capital Assets	56
	F. Interfund Receivables, Payables, and Transfers	61
	G. Leases	62
	H. Long-Term Debt	64
	I. Restricted Assets	69
	J. Fund Balance Analysis	70
NOTE 4	RISK MANAGEMENT	71
NOTE 5	COMMITMENTS AND CONTINGENCIES	72
	A. Contingencies Under Grant Provisions	72
	B. Litigation	72

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010

INDEX  
(continued)

		<u>Page</u>
NOTE 6	PENSION & TRUST PLANS	73
	A. Sheriff's Office Retirement Plan	76
	B. County Employees Retirement Plan	84
	C. Length of Service Award Program (LOSAP) for Volunteer Firemen and Rescue Squadmen	91
NOTE 7	OTHER EMPLOYMENT BENEFITS	92
	A. Deferred Compensation Plan	92
	B. Other Post-Employment Benefits	92
NOTE 8	CLOSURE AND POST-CLOSURE CARE COSTS	95
	A. Pisgah Landfill	95
	B. Charles County Landfill	95

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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, economic development and general administrative services.

The County's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to state and local government units as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements include those of the 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 with 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 the 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. Each discretely presented component unit has 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 COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

The members of the Board of Education are elected by the residents of Charles County every four years. The Board of Education is financially accountable to the Charles County Government because the Board of Education's annual budget is subject to approval of the elected County Commissioners. The Board of Education is presented as a governmental fund type. The County provided \$145,093,200 in operating funds and \$8,486,562 in capital funding to the Board of Education during fiscal year 2010.

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 Maryland and oversee the day-to-day management of the Library. The Library's budget is subject to the approval of the elected County Commissioners. The Library is presented as a governmental fund type. The County provided \$1,923,500 in operating funds to the Library during fiscal year 2010.

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  
Assistant Superintendent of Finance  
Business Administration and Technology  
P.O. Box 2770  
La Plata, MD 20646

Board of Library Trustees of 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, health and social services, some parks and recreation, public transportation, public works, economic development 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 operations, solid waste

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

management operations, environmental services (recycling), vending commissions, White Plains golf course, 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 non-fiduciary 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 thru 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 indicates operating-specific and discretionary (either operating or capital) grants,

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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 authorized under OMB Circular A-87, which it uses (when applicable and allowed) to charge costs to special revenue (grant) programs and proprietary funds. The federal guidelines state that indirect costs are eligible for reimbursement provided they are necessary for the efficient conduct of the grant or contract and provided specific costs identified are not restricted by federal law or regulation. As required, the County received an annual central services allocation plan and indirect cost rate proposal prepared for the past fiscal year by Cost Plans Plus, LLC. As a result, the County uses that plan in developing cost-based fees, rates, user charges and overhead recoveries from other taxing entities, authorities and enterprise funds.

**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 criterion used by the County is based on the percentage of assets, liabilities, revenues, or expenditures/expenses by fund category and then 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. Non-major funds by category are summarized into a single column.

**1. Governmental Funds:**

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

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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

**2. Proprietary Funds:**

The focus of proprietary fund measurement is the 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. The Water and Sewer Fund qualifies as a major fund and is presented separately. The County also has elected to present separately the Solid Waste Fund for consistency as it may qualify as a major fund one year and fall just below the next. 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

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

fiduciary funds is on net assets and changes in net assets, and accounting principles used are similar to proprietary funds.

The County's fiduciary and pension trust funds account for the retirement benefits for the Charles County Maryland Sheriff's Office Retirement Plan, the Charles County Pension Plan, the Volunteer Fireman/EMS Associations LOSAP plan, and the OPEB Trust 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 thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected with 60 days after year end. Property taxes, income taxes, highway user taxes, and interest associated with 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

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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 judgements, 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 non-current) 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, petty cash, demand deposits, and short-term securities 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 fiscal year-end or best available estimate. All investments not required to be reported at fair value are stated at cost or amortized cost.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**3. Receivables:**

All trade, excise and property tax receivables are reported at 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 fiscal year-end has been reclassified from property tax revenues to deferred revenues, or unearned revenue.

**4. Inter-fund Transactions:**

The following is a description of the basic types of inter-fund 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.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**5. Inventories:**

Inventories of the County, consisting of expendable supplies held for the County's use, are valued at the Average Cost Method. Inventories in all funds are initially recorded in an 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 are held for construction escrow bonds, inmates at the Detention Center, a County Attorney escrow, a State's Attorney Restitution bank account, and various lease deposits held are all restricted and being held in Governmental Funds. In addition, 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. In the Solid Waste Management Fund, bonds are held for commercial credit customers of the landfill operation in a fully refundable interest-bearing bank account.

**8. Capital Assets:**

Capital assets 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 Library (component units) define capital assets as assets having an initial individual cost of more than \$1,000 and 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.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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:

Charles County Government

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 and software	3 – 5 years
Other infrastructure	10 -50 years

The Board of Education

Buildings and improvements	30 years
Land improvements	10 years
Furniture and equipment	5 -10 years

The Library

Leasehold improvements	15 -39 years*
Furniture and equipment	7 years
Vehicles and Computer Equipment	5 years
Books and audio visual materials	3 years

**9. Net Assets/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 these assets.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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 – 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, non-critical 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 for 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 COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

The County accrues the value of 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 expense and a liability in the governmental fund that will pay it. The non-current portion for governmental funds is maintained separately and represents a reconciling item between the fund and the 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 non-operating items.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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 non-operating 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.

**14. Implementation of New GASB Pronouncements**

The County has adopted in FY2010 a new statement issued by the Governmental Accounting Standard Board (GASB), Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. As stated in GASB 51, this Statement establishes standards for the accounting and financial reporting for intangible assets to be classified as capital assets. They should be recognized in the statement of net assets. GASB 51 also establishes guidance related to the amortization of intangible assets. The County did not have any items to qualify as such in FY2010.

The County has implemented in FY2010, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which provides guidance on how to measure these types of investments. The implementation of this new Statement had no impact on the County's FY2010 financial statements as they are not permissible under current investment policy.

The County has recognized and put in place the required effort to implement in FY2011, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement changes the present classifications of fund balance from the stated types: Reserved, Designated, and Undesignated. The new classifications to be reflected starting in FY2011 will be: Non-spendable, Restricted, Committed, Assigned, or Unassigned. The statement also further clarifies the Governmental Fund Type definitions explained on page 39 of these notes and the subsequent reporting in the financial statements starting with FY2011.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**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 four 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 our Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Proprietary Funds or the 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, 2010.

**B. Deficit Fund Equity**

The Recreation Fund had a deficit fund balance of \$1,585,380 as of June 30, 2010. The deficit fund balance is the result of operations from an indoor recreation complex which was acquired by the County in May 2006. A contract was awarded to Rink Management Services for the operation of this facility and commenced on July 5, 2008. After two years of managing the facility, significant improvements have been achieved in operations, including a small gain for the past fiscal year. However, the cumulative effect of these past results and continued recording of the growing annual OPEB liability share for the Recreation Fund as a whole will continue to reflect a deficit fund balance into the short-term future.

The Golf Course Fund had a deficit fund balance of \$114,481 as of June 30, 2010. This is the cumulative result of past results and the continued recording of the County's OPEB liability share to the operation at year-end.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**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 \$16,183,953 and the bank balances were \$16,623,405. Of the bank balance, \$12,551,597 was covered by Federal depository insurance and \$4,071,808 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 Board of Education's deposits was \$11,352,169 and the bank balances were \$18,634,840. The bank balance was covered by either Federal depository insurance or by collateral held in either the pledging bank's trust department or by the pledging bank's agent in the Board's name.

At year-end, the carrying amount of the Library's deposits was \$92,054 and the bank balances was \$90,144. The bank balance was covered by Federal depository insurance. The amount of cash on hand was \$830.

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 365 days. Statutes also authorize the Treasurer to invest in a 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.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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

	Total Governmental Funds	Total Fiduciary Funds	Total Enterprise Funds	Total
Cash on hand	\$ 14,332,196	\$ -	\$ 1,867,222	\$ 16,199,418
U.S. government securities				
Treasuries	13,981,363	-	-	13,981,363
Agencies	10,970,948	-	-	10,970,948
Repurchase agreements (sweep)	5,000,000	-	-	5,000,000
Money Market	1,066,080	3,445,244	-	4,511,324
Certificates of deposit	20,000,000	-	-	20,000,000
Maryland local government pool	42,896,390	-	-	42,896,390
Bond mutual funds	-	52,204,106	-	52,204,106
Equity securities	-	148,892,161	-	148,892,161
Total cash and investments	<u>\$ 108,246,977</u>	<u>\$ 204,541,511</u>	<u>\$ 1,867,222</u>	<u>\$ 314,655,710</u>

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

Cash on hand and deposits	\$ 303,305
Repurchase agreements	8,500,012
Maryland local government investment pool	35,074,607
Total cash and investments	<u>\$ 43,877,924</u>

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

Cash on hand and deposits	\$ 92,884
Maryland local government investment pool	437,774
Total cash and investments	<u>\$ 530,658</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

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of 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 and carry a credit rating of AAA.

**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 365 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 counter party or the counter party's trust department or agent, but not in the government's name. The County's policy relating to credit risk of investments 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 also require that a third party custodian hold investments securities and the collateral underlying all investments, in the government's name. The County's Treasurer recognized investment diversification as an important safeguard of County assets. Investment instruments, investment maturities, and financial institutions doing business with the County shall be diversified in such a way to insure that there is no concentration of risk in any of these categories. These diversification standards, as outlined in the County's Joint Statement of Investment Policies, are applied at the time of each investment. At June 30, 2010, the County's investments were not exposed to custodial credit risk.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**B. Receivables**

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

	General	Capital Projects	Debt Service	Water and Sewer Fund	Solid Waste Fund	Non- major Funds	Total
Receivables:							
Interest	\$ 211,597	\$ -	\$ -	\$ 7,533	\$ -	\$ -	\$ 219,130
Taxes	21,760,288	-	31,563,767	-	-	-	53,324,055
Accounts	10,484,910	1,274,187	-	5,125,844	575,820	2,528,903	19,989,664
Special assessments	-	-	7,236	279,144	-	-	286,380
Intergovernmental	52,591	-	-	-	-	1,005,190	1,057,781
Total receivables	<u>\$ 32,509,386</u>	<u>\$ 1,274,187</u>	<u>\$ 31,571,003</u>	<u>\$ 5,412,521</u>	<u>\$ 575,820</u>	<u>\$ 3,534,093</u>	<u>\$ 74,877,010</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:

	Unearned	Unavailable	Total
Delinquent property taxes receivable (General Fund)	\$ -	\$ 2,343,486	\$ 2,343,486
Deferred property taxes receivable (Debt Service)	-	31,549,597	31,549,597
Deferred income tax reserve	-	19,248,322	19,248,322
Agricultural preservation taxes	1,037,839	-	1,037,839
Special assessments not yet due	-	8,542	8,542
School construction impact fees	2,645,870	-	2,645,870
Grant draw-downs prior to meeting all eligibility requirements	529,178	-	529,178
Other unearned revenue	144,914	-	144,914
Loans receivable (Debt Service Fund)	-	44,157,249	44,157,249
Total unearned revenue for governmental funds	<u>\$ 4,357,800</u>	<u>\$ 97,307,196</u>	<u>\$ 101,664,997</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**C. Property Taxes Receivable**

The County levies a property tax each July 1 on the assessed value of all taxable real property location within the County on that date. Assessed values are established by the Maryland Departments 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, 2010 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**

The following is a schedule of the notes receivable balances of the Debt Service Fund:

<u>Loan &amp; Year</u>	<u>Total Borrowed</u>	<u>Term &amp; Rate</u>	<u>Principal Balance 6/30/2010</u>
Hospital 2004	\$ 15,000,000	15 years, 3.04831%	\$ 11,420,095
ACPT 2004	\$ 8,000,000	15 years, 4%-5%	\$ 5,385,000
ACPT 2005	6,000,000	15 years, 5%-5.125%	4,326,250
ACPT 2006	10,000,000	15 years, 5.125%-8%	7,870,000
ACPT 2007	3,000,000	15 years, 5.25%-5.75%	2,531,250
ACPT 2008	3,000,000	15 years, 4.90%-5.25%	2,653,875
ACPT 2009	2,000,000	15 years, 4%-5.375%	1,851,667
Subtotal: ACPT	<u>\$ 32,000,000</u>		<u>\$ 24,618,042</u>
So. MD Baseball LLC 2008	9,248,200	15 years, 4.90%-5.25%	\$ 7,398,559
CSM 2005	1,000,000	15 years, 3.67%	\$ 720,553
Total Notes Receivable	<u>\$ 57,248,200</u>		<u>\$ 44,157,249</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Bonds issued by the County for American Community Properties Trust (ACPT), Southern MD Baseball Club LLC, College of Southern Maryland, and Civista Hospital are secured by Bond Repayment Agreements, Letters of Credit, and by the full faith and credit of the County's General Fund. Principal and interest payments on the related bonds from these restricted resources are also accounted for in the same Debt Service fund.

The future minimum note payments receivable for the year ended June 30, 2010 are as follows:

	Civista	ACPT	So. MD Baseball	CSM	Total
2011	\$ 1,247,234	\$ 3,084,573	\$ 894,000	\$ 86,791	\$ 5,312,598
2012	1,247,234	3,085,642	894,000	86,791	5,313,667
2013	1,247,234	3,079,876	894,000	86,791	5,307,901
2014	1,247,234	3,075,650	894,000	86,791	5,303,675
2015	1,247,234	3,064,447	894,000	86,791	5,292,473
2016-2020	4,988,935	14,462,208	4,470,000	426,744	24,347,887
2021-2025	2,182,541	2,751,235	1,788,000	-	6,721,776
Subtotal	<u>13,407,646</u>	<u>32,603,631</u>	<u>10,728,000</u>	<u>860,699</u>	<u>57,599,976</u>
Less: Interest	<u>1,987,551</u>	<u>7,985,589</u>	<u>3,329,441</u>	<u>140,146</u>	<u>13,442,727</u>
Total future minimum note payments receivable	<u>\$ 11,420,095</u>	<u>\$ 24,618,042</u>	<u>\$ 7,398,559</u>	<u>\$ 720,553</u>	<u>\$ 44,157,249</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

E. Capital Assets

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

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 47,566,530	\$ 6,009,380	\$ -	\$ 53,575,910
Construction in progress	184,186,032	19,455,723	69,856,792	133,784,963
Total capital assets, not depreciated	231,752,562	25,465,103	69,856,792	187,360,873
Capital assets, depreciated:				
Land Improvements	7,381,922	1,710,954	-	9,092,876
Infrastructure	250,411,028	53,664,376	-	304,075,404
Buildings and Improvements	113,033,511	14,142,667	-	127,176,178
Machinery and Equipment	38,024,365	1,462,642	27,693	39,459,314
Vehicles	19,677,797	1,517,713	641,406	20,554,104
Total capital assets, depreciated	428,528,623	72,498,352	669,099	500,357,876
Less: accumulated depreciation for:				
Land Improvements	(1,760,855)	(465,268)	-	(2,226,123)
Infrastructure	(147,709,407)	(7,560,667)	-	(155,270,074)
Buildings and Improvements	(52,047,657)	(3,276,968)	-	(55,324,625)
Machinery and Equipment	(12,996,986)	(2,862,012)	(27,693)	(15,831,305)
Vehicles	(13,249,796)	(2,306,523)	(500,314)	(15,056,005)
Total accumulated depreciation	(227,764,701)	(16,471,438)	(528,007)	(243,708,132)
Total capital assets, depreciated net	200,763,922	56,026,914	141,092	256,649,744
Governmental activities, capital assets, net	\$ 432,516,484	\$ 81,492,017	\$ 69,997,884	\$ 444,010,617

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Business Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 2,174,186	\$ -	\$ -	\$ 2,174,186
Construction in progress	79,891,054	7,056,197	46,329,047	40,618,204
Total capital assets, not depreciated	<u>82,065,240</u>	<u>7,056,197</u>	<u>46,329,047</u>	<u>42,792,390</u>
Capital assets, depreciated:				
Land Improvements	9,837,898	53,234	-	9,891,132
Infrastructure	185,658,496	18,686,641	-	204,345,137
Buildings and Improvements	13,936,929	203,508	-	14,140,437
Machinery and Equipment	9,572,608	28,816,459	41,785	38,347,282
Vehicles	4,772,100	-	92,930	4,679,170
Total capital assets, depreciated	<u>223,778,031</u>	<u>47,759,842</u>	<u>134,715</u>	<u>271,403,158</u>
Less: accumulated depreciation for:				
Land Improvements	(4,983,435)	(258,805)	-	(5,242,240)
Infrastructure	(102,715,152)	(4,926,168)	-	(107,641,320)
Buildings and Improvements	(3,321,312)	(472,824)	-	(3,794,136)
Machinery and Equipment	(6,634,812)	(1,002,732)	(41,785)	(7,595,759)
Vehicles	(3,517,777)	(440,374)	(92,930)	(3,865,221)
Total accumulated depreciation	<u>(121,172,488)</u>	<u>(7,100,903)</u>	<u>(134,715)</u>	<u>(128,138,676)</u>
Total capital assets, depreciated net	<u>102,605,543</u>	<u>40,658,939</u>	<u>-</u>	<u>143,264,482</u>
Business-type, capital assets, net	<u>\$ 184,670,783</u>	<u>\$ 47,715,136</u>	<u>\$ 46,329,047</u>	<u>\$ 186,056,872</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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

Governmental Activities:

General Government	\$ 22,055
Public Safety	4,288,145
Legislative	133,367
Judicial	57,297
Financial Administration	183,548
Law	2,751
Planning and Growth	12,780
Health	173,192
Community Services	650,245
Public Facilities	10,867,406
Education	80,652

Total depreciation expense- Governmental Activities \$ 16,471,438

Business-Type Activities:

Water and Sewer	\$ 5,650,377
Solid Waste	697,830
Recycling/Environmental Service	319,907
Parks	47,342
Recreation	334,474
Inspection	50,973

Total depreciation expense-Business-type Activities \$ 7,100,903

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**Construction Commitments**

The County has active construction projects as of June 30, 2010. The projects include widening and reconstruction of existing streets and bridges, maintenance of existing roads, landfill expansion, construction of a new Courthouse building, 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	\$ 61,704,485	\$ 54,861,601
Other transportation projects	65,592	268,048
General government		
Buildings and improvements	17,944,879	13,373,671
Courthouse expansion	16,107,641	905,939
Other general government projects	4,979,433	8,283,007
Water and sewer		
Expansions and improvements	22,237,510	56,472,229
Parks		
Expansions and improvements	6,700,464	7,876,486
Environmental service		
Various environmental service projects	898,411	5,496,359
Total	<u>\$ 130,638,415</u>	<u>\$ 147,537,340</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.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

Discretely Presented Component Units

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 15,280,189	\$ 1,407,297	\$ -	\$ 16,687,486
Construction in progress	9,487,924	8,203,029	(8,469,189)	9,221,764
Total capital assets, not depreciated	<u>24,768,113</u>	<u>9,610,326</u>	<u>(8,469,189)</u>	<u>25,909,250</u>
Capital assets, depreciated:				
Buildings	404,446,008	8,805,552	-	413,251,560
Land Improvements	7,803,891	446,452	-	8,250,343
Furniture and Equipment	26,208,502	1,850,809	(798,002)	27,261,309
Total capital assets, depreciated	<u>438,458,401</u>	<u>11,102,813</u>	<u>(798,002)</u>	<u>448,763,212</u>
Less: accumulated depreciation for:				
Buildings	(170,952,678)	(10,707,788)	-	(181,660,466)
Land Improvements	(5,605,672)	(339,385)	-	(5,945,057)
Furniture and Equipment	(18,496,486)	(2,094,362)	770,083	(19,820,765)
Total accumulated depreciation	<u>(195,054,836)</u>	<u>(13,141,535)</u>	<u>770,083</u>	<u>(207,426,288)</u>
Total capital assets, depreciated net	<u>243,403,565</u>	<u>(2,038,722)</u>	<u>(27,919)</u>	<u>241,336,924</u>
Board capital assets, net	<u>\$ 268,171,678</u>	<u>\$ 7,571,604</u>	<u>\$ (8,497,108)</u>	<u>\$ 267,246,174</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, depreciated:				
Furniture and Equipment	\$ 613,863	\$ 60,794	\$ (9,284)	\$ 665,373
Library books and AV material	1,004,198	213,229	(268,796)	948,631
Total capital assets, depreciated	<u>1,618,061</u>	<u>274,023</u>	<u>(278,080)</u>	<u>1,614,004</u>
Less: accumulated depreciation	<u>(1,029,419)</u>	<u>(303,206)</u>	<u>(274,176)</u>	<u>(1,058,449)</u>
Library capital assets, depreciated, net	<u>\$ 588,642</u>	<u>\$ (29,183)</u>	<u>\$ (3,904)</u>	<u>\$ 555,555</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010

F. Inter-fund 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 inter-fund balances. The composition of inter-fund balances as of June 30, 2010, is as follows:

Due (to) from other funds:

	Governmental Activities	Business-type Activities
General Fund	\$ (63,572,556)	\$ -
Capital Projects Fund	24,645,679	-
Debt Service Fund	126,205	-
Water and Sewer Fund	-	19,911,901
Solid Waste Fund	-	13,825,058
Other Non-major Funds	6,615,110	(1,551,397)
Total	<u>\$ (32,185,562)</u>	<u>\$ 32,185,562</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 expand 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 inter-fund transfers:

Transfers Out	Transfers In					Total
	General Fund	Capital Projects Fund	Debt Service Fund	Non-major Governmental Funds	Non-major Enterprise Funds	
General Fund	\$ -	\$ 1,025,000	\$ -	\$ 3,135,080	\$ 69,618	\$ 4,229,698
Capital Projects Fund	6,095,200	-	5,437,700	-	-	11,532,900
Non-major Governmental Funds	700,000	-	-	19,428	-	719,428
Solid Waste Fund	599,800	-	-	-	-	599,800
Non-major Enterprise Funds	-	-	-	-	-	-
Total Transfers In:	<u>\$ 7,395,000</u>	<u>\$ 1,025,000</u>	<u>\$ 5,437,700</u>	<u>\$ 3,154,508</u>	<u>\$ 69,618</u>	<u>\$ 17,081,826</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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 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 Cable Franchise 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 the 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 \$396,605 over fifteen years ending February 2022, including interest at a rate of 4.14%, various components expended at \$5,862,900.
- Fiscal Year 2008 – Various equipment for the General Fund, Water and Sewer Fund, and the Environmental Service Fund – semiannual payments of \$214,239.62 over five years ending August 2012, including interest at a rate of 3.72%, equipment capitalized at \$2,000,000.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

- Fiscal Year 2008 -- Public Safety Portable Radios -- semiannual payments of \$98,905 over five years ending January 2013, including interest at a rate of 3.50%, equipment capitalized at \$900,160.
- Fiscal Year 2009 -- Various equipment for the General Fund, Water and Sewer Fund, Inspection Fund, and the Environmental Service Fund -- semiannual payments of \$330,929 over five years ending September 2013, including interest at a rate of 3.65%, equipment capitalized at \$3,000,000.
- Fiscal Year 2010 -- Various equipment for the General Fund, Golf Course Fund, Water and Sewer Fund, and the Environmental Service Fund -- semiannual payments of \$120,511.61 thru FY13 except for a scheduled payment of \$378,267.51 in October 2011. Over the remaining period, scheduled payments of \$22,556.86 ending October 2014, including interest at a rate of 3.30%, equipment capitalized at \$1,102,600.

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

	Governmental Activities	Business-type Activities
Assets:		
Building and Improvements	\$ 90,906	\$ -
Machinery and equipment	8,840,797	2,023,557
Vehicles	5,306,257	2,661,578
Total capital assets	<u>14,237,960</u>	<u>4,685,135</u>
Less accumulated depreciation:		
Building and Improvements	(43,504)	-
Machinery and equipment	(5,962,563)	(1,465,706)
Vehicles	(4,214,119)	(2,081,340)
Total accumulated depreciation	<u>(10,220,186)</u>	<u>(3,547,046)</u>
Total capital assets, net	<u>\$ 4,017,774</u>	<u>\$ 1,138,089</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

The future minimum obligations and the net present value of the minimum lease payments as of June 30, 2010, were as follows:

	Governmental Activities	Business-type Activities	Total
2011	\$ 1,776,199	\$ 949,259	\$ 2,725,458
2012	1,309,505	1,112,221	2,421,726
2013	996,685	788,789	1,785,474
2014	255,122	605,578	860,700
2015	16,755	504,999	521,754
2016-2020	-	2,729,758	2,729,758
2021-2023	-	1,143,438	1,143,438
Subtotal	<u>4,354,266</u>	<u>7,834,042</u>	<u>12,188,308</u>
Interest	<u>(256,186)</u>	<u>(1,504,011)</u>	<u>(1,760,197)</u>
Present value of minimum lease payments	<u>\$ 4,098,080</u>	<u>\$ 6,330,031</u>	<u>\$ 10,428,111</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 \$568,393,000. During the year ended June 30, 2010, general obligation bonds totaling \$36,145,000 were issued for consolidated public improvement, of which \$11,415,000 were taxable build America bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. In the past, these bonds have been a mix of 10-year serial bonds and 15-year serial bonds with equal amounts of principal maturing each year. The County's General Obligation Bonds currently outstanding are as follows:

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Bond Description and Year	Amount Borrowed	Term and Rate	Governmental	Business-type
			Activities Balance 6/30/10	Activities Balance 6/30/10
Consolidated Public Improvement Bonds of 2001	\$ 11,675,100	15 yrs, 4.125% - 4.7%	\$ 599,168	\$ 225,832
Consolidated Public Improvement and Refunding Bonds of 2002	\$ 26,860,000	15 yrs, 3% - 5%	1,690,282	449,718
Consolidated Public Improvement Bonds of 2003	\$ 22,090,000	15 yrs, 2% - 4%	7,797,806	5,287,194
Consolidated Public Improvement Bonds of 2003	\$ 6,910,000	10 yrs, 2% - 4%	2,280,000	-
Consolidated Public Improvement and Refunding Bonds of 2004	\$ 41,270,000	15 yrs, 2% - 4%	23,894,055	2,960,945
Consolidated Public Improvement and Refunding Bonds of 2004	\$ 31,500,000	10 yrs, 2% - 4%	13,555,000	-
Consolidated Public Improvement Bonds (Taxable) of 2004	\$ 8,000,000	15 yrs, 4% - 5%	5,385,000	-
Consolidated Public Improvement and Refunding Bonds of 2005	\$ 52,550,000	15 yrs, 3% - 4.5%	22,189,451	7,765,549
Consolidated Public Improvement and Refunding Bonds of 2005	\$ 10,160,000	10 yrs, 3% - 4.5%	5,635,000	-
Consolidated Public Improvement Bonds (Taxable) of 2005	\$ 6,000,000	15 yrs, 5% - 5.125%	4,415,000	-
Consolidated Public Improvement Bonds of 2006	\$ 26,880,000	15 yrs, 4% - 5%	18,203,803	2,851,197
Consolidated Public Improvement Bonds of 2006	\$ 16,120,000	10 yrs, 4% - 5%	10,330,000	-
Consolidated Public Improvement Bonds (Taxable) of 2006	\$ 10,000,000	15 yrs, 5.125% - 8%	8,010,000	-
Consolidated Public Improvement Bonds of 2007	\$ 33,700,000	15 yrs, 3.5% - 4%	16,034,996	12,315,004
Consolidated Public Improvement Bonds of 2007	\$ 16,300,000	10 yrs, 3.5% - 4%	12,010,000	-
Consolidated Public Improvement Bonds (Taxable) of 2007	\$ 3,000,000	15 yrs, 5.75% - 5.51%	2,570,000	-
Consolidated Public Improvement Bonds of 2008	\$ 25,400,000	15 yrs, 3% - 5%	14,181,673	8,473,327
Consolidated Public Improvement Bonds of 2008	\$ 1,600,000	10 yrs, 3% - 5%	1,315,000	-
Consolidated Public Improvement Bonds (Taxable) of 2008	\$ 20,000,000	15 yrs, 5% - 5.25%	17,955,000	-
Consolidated Public Improvement Bonds of 2009	\$ 49,640,000	20 yrs, 2% - 4.25%	37,773,833	9,401,167
Consolidated Public Improvement Bonds of 2009	\$ 900,000	10 yrs, 2% - 4.25%	815,000	-
Consolidated Public Improvement Bonds (Taxable) of 2009	\$ 2,000,000	15 yrs, 4% - 5.375%	1,885,000	-
Consolidated Public Improvement and Refunding Bonds of 2010	\$ 22,730,000	10 yrs, 2% - 5%	13,738,757	8,991,243
Consolidated Public Improvement and Refunding Bonds of 2010	\$ 2,000,000	10 yrs, 2% - 5%	-	2,000,000
Consolidated Public Improvement Taxable BAB Bonds of 2010	\$ 11,415,000	5 yrs, 5% - 5.30%	6,115,178	5,299,822
Total bonds outstanding			<u>248,379,002</u>	<u>66,020,998</u>

**THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2010**

<u>Loan Description and Year</u>				
FHA Loan 1973	\$ 250,000	40 yrs, 3.649%	76,845	-
MD Water Quality Revolving Loan Fund for Pisgah Landfill	\$ 7,838,664	15 yrs, 4.37%	1,070,840	-
MD Water Quality Revolving Loan Fund of 1996	\$ 1,512,911	15 yrs, 4.35%	-	132,878
MD Water Quality Revolving Loan Mattawoman BNR Upgrade	\$ 14,767,900	20 yrs, 1.200%	-	12,089,248
Total loans outstanding			<u>1,147,685</u>	<u>12,222,126</u>
Total bonds and loans outstanding			<u>\$ 249,526,687</u>	<u>\$ 78,243,124</u>

**Advanced Refunding and Defeased Debt**

On April 21, 2010, the County issued \$36,145,000 in general obligation bonds, \$11,415,000 were Taxable Build America Bonds, \$18,585,000 were new money tax exempt bonds, and \$6,145,000 was issued to defease old bonds. The new money portion of \$30,000,000 was used to finance certain capital projects in the County.

Of the \$36,145,000 of general obligation bonds that were issued, \$6,145,000 was used to defease \$6,680,415 in outstanding debt maturities of the County's Consolidated Public Improvement Bonds of 2002. The refunded bonds will be called on January 15, 2012. In prior years the County has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government-wide financial statements. As of June 30, 2010, the amount of defeased debt outstanding but removed from the financial statements amounted to \$6,145,000. As a result of the refunding, the County achieved a net present value savings of \$152,079.

Of the \$36,145,000 of general obligation bonds, \$11,415,000 was used to obtain Taxable Build America Bonds (BAB). The County expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Taxable Bonds on each interest payment date. This amounts to \$2,678,877 in interest savings over the term of the bonds.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
<b><u>Governmental activities:</u></b>					
General obligation bonds	\$ 258,422,307	\$ 19,853,935	\$ (29,897,240)	\$ 248,379,002	\$ 25,866,322
Plus deferred amounts for bond premiums	7,319,764	1,466,388	(900,826)	7,885,326	-
Less deferred loss on refunding	(711,225)	(507,279)	182,298	(1,036,206)	-
Less deferred bond issue costs	<u>(1,199,177)</u>	<u>(133,522)</u>	<u>121,995</u>	<u>(1,210,704)</u>	-
Total bonds payable	263,831,669	20,679,522	(30,493,773)	254,017,418	25,866,322
Notes payable	1,657,574	-	(509,889)	1,147,685	531,828
Capital leases	5,332,288	628,700	(1,862,908)	4,098,080	1,638,682
Net Pension obligation	427,603	20	(17,411)	410,212	-
Net OPEB obligation	20,335,669	9,678,874	-	30,014,543	-
Compensated absences	<u>12,689,777</u>	<u>840,165</u>	<u>(53,738)</u>	<u>13,476,204</u>	<u>1,122,847</u>
Governmental activities noncurrent liabilities	<u>304,274,580</u>	<u>31,827,281</u>	<u>(32,937,719)</u>	<u>303,164,142</u>	<u>29,159,679</u>
<b><u>Business-type activities:</u></b>					
General obligation bonds	55,677,693	16,291,065	(5,947,760)	66,020,998	5,432,765
Plus deferred amounts for bond premiums	1,720,921	1,105,843	(236,486)	2,590,278	-
Less deferred loss on refunding	(304,937)	(122,502)	70,132	(357,307)	-
Less deferred bond issue costs	<u>(352,623)</u>	<u>(109,638)</u>	<u>75,215</u>	<u>(387,046)</u>	-
Total bonds payable	56,741,054	17,164,768	(6,038,899)	67,866,923	5,432,765
Notes payable	13,031,157	-	(809,031)	12,222,126	822,750
Capital leases	6,554,467	573,900	(798,336)	6,330,031	702,494
Landfill closure costs	4,898,925	261,837	-	5,160,762	-
Net Pension obligation	136,095	4,289	(8,510)	131,874	-
Net OPEB obligation	3,378,634	1,258,693	-	4,637,327	-
Compensated absences	<u>1,552,698</u>	<u>143,222</u>	<u>(6,522)</u>	<u>1,689,398</u>	<u>204,751</u>
Business-type activities noncurrent liabilities	<u>86,293,030</u>	<u>19,406,709</u>	<u>(7,661,298)</u>	<u>98,038,441</u>	<u>7,162,760</u>
Total primary government noncurrent liabilities	<u>\$ 390,567,610</u>	<u>\$ 51,233,990</u>	<u>\$ (40,599,018)</u>	<u>\$ 401,202,582</u>	<u>\$ 36,322,439</u>
<b><u>Component units:</u></b>					
Board of Education	\$ 53,361,358	\$ 13,106,620	\$ -	\$ 66,467,978	\$ 730,000
Library	\$ 183,330	\$ 1,867	\$ -	\$ 185,197	\$ 185,197

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

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

The annual requirements to amortize all debt outstanding as of June 30, 2010, including interest of \$87,878,186 and excluding compensated absences, net pension obligation, OPEB obligation 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>	
2011	\$ 28,036,831	\$ 10,680,240	\$ 6,958,009	\$ 3,033,576	\$ 48,708,656
2012	28,158,490	9,629,738	7,092,418	2,837,519	47,718,165
2013	26,638,718	8,476,554	6,590,966	2,595,907	44,302,145
2014	25,670,844	7,446,131	6,588,771	2,367,504	42,073,250
2015	21,995,116	6,347,231	6,680,425	2,119,554	37,142,326
2016-2020	85,268,384	18,579,799	30,392,258	6,678,583	140,919,024
2021-2025	30,382,937	4,436,489	17,778,711	1,651,998	54,250,135
2026-2030	7,473,447	807,412	2,491,597	189,951	10,962,407
	<u>\$ 253,624,767</u>	<u>\$ 66,403,594</u>	<u>\$ 84,573,155</u>	<u>\$ 21,474,592</u>	<u>\$ 426,076,108</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'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. Of these five issues, three of them have been satisfied or paid in full. For the two issues remaining, the aggregate principal amount outstanding at June 30, 2010 is \$961,206.

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.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

I. Restricted Assets

The details of the restricted assets are as follows:

Governmental Activities

Cash and cash equivalents

Inmate account	\$	45,962
County Attorney escrow		10,015
SAO Restitution account		3,137
Charles Co. Bar Council		595,544
Lease deposits		10,016
Construction Escrow		<u>1,300,611</u>

Total cash and cash equivalents \$ 1,965,285

Notes Receivable

Civista	\$	11,420,095
ACPT		24,618,042
So. MD Baseball LLC		7,398,559
College of Southern MD		<u>720,553</u>

Total notes receivable \$ 44,157,249

Total Governmental Activities \$ 46,122,534

Business-type Activities

Cash and cash equivalents

Landfill Bonds	\$	<u>122,273</u>
----------------	----	----------------

TOTAL PRIMARY GOVERNMENT \$ 46,244,807

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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
<b>Fund balances</b>					
<b>Reserved for:</b>					
Inventory	\$ 1,528,416	\$ -	\$ -	\$ -	\$ 1,528,416
Capital outlay	272,200	13,387,539	-	-	13,659,739
Economic development	730,419	-	-	-	730,419
Debt service	-	-	139,071	-	139,071
Judicial grants	-	-	-	51,384	51,384
Transportation	-	-	-	913,704	913,704
Public safety	-	-	-	437,503	437,503
Community development grants	-	-	-	161,500	161,500
Housing	-	-	-	3,138,310	3,138,310
Animal control	-	-	-	76,252	76,252
Drug enforcement	-	-	-	337,617	337,617
Fire and rescue	-	-	-	84,164	84,164
Mental health	-	-	-	149,902	149,902
I-net technology	-	-	-	972,416	972,416
<b>Total reserved</b>	<b>2,531,035</b>	<b>13,387,539</b>	<b>139,071</b>	<b>6,322,752</b>	<b>22,380,397</b>
<b>Unreserved:</b>					
<b>Designated for:</b>					
Health insurance	1,950,940	-	-	-	1,950,940
Animal control	30,616	-	-	-	30,616
Housing	624,436	-	-	-	624,436
Infrastructure	5,676,881	5,999,356	-	-	11,676,237
Road improvements	-	216,534	-	-	216,534
Parks	10,839	-	-	-	10,839
I-net technology	-	-	-	250,000	250,000
Policy target	23,280,926	-	-	-	23,280,926
CIIP and operations	4,907,669	-	-	-	4,907,669
<b>Total designated</b>	<b>36,482,307</b>	<b>6,215,890</b>	<b>-</b>	<b>250,000</b>	<b>42,948,197</b>
<b>Undesignated:</b>					
Other undesignated	2,171,831	-	-	-	2,171,831
<b>Total unreserved</b>	<b>38,654,138</b>	<b>6,215,890</b>	<b>-</b>	<b>250,000</b>	<b>45,120,028</b>
<b>Total fund balances (deficit)</b>	<b>\$ 41,185,173</b>	<b>\$ 19,603,429</b>	<b>\$ 139,071</b>	<b>\$ 6,572,752</b>	<b>\$ 67,500,425</b>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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, 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 \$125,000 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, 2010, a liability of \$1,080,000 (\$725,050 in governmental funds and \$354,950 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>
2004	\$ 750	\$ 410	\$ -	\$ 1,160
2005	\$ 1,160	600	-	\$ 1,760
2006	\$ 1,760	-	-	\$ 1,760
2007	\$ 1,760	(800)	-	\$ 960
2008	\$ 960	(90)	-	\$ 870
2009	\$ 870	-	-	\$ 870
2010	\$ 870	210	-	\$ 1,080

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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 five 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, 2010, which have not resulted in any findings or liabilities. The County does not expect any disallowances of grant expenditures in the future.

**B. Litigation**

Charles County is routinely engaged in litigation regarding matters that arise in the normal course of the County's activities. In the opinion of the County Attorney and County Management, none of these matters will have a material effect on the financial position of the County. Additionally, a large Power Plant operating in the County has appealed the State of Maryland's real and personal property assessments for calendar year 2008 and is likely to also appeal its real and personal property assessments for calendar year 2009. Charles County has vigorously contested these appeals and has cross-filed its appeals contending that the assessments are too low. These appeals are currently pending before the Maryland Tax Court. In the opinion of the County Attorney and County Management the likelihood of an unfavorable outcome and material loss is remote.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**NOTE 6. PENSION & TRUST PLANS**

The County maintains two separate single-employer, defined benefit pension plans: one for the 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.

Charles County also administers a single employer length of service award program (LOSAP) for volunteer fire and rescue members of all Charles County Companies and Departments. The County does not produce separate comprehensive financial reports for any of the fiduciary plans. Therefore, all required disclosures for the plans are included within this report.

The following are the required statements for the County's Fiduciary Funds, including the OPEB trust funds that are explained in detail under Note 7 starting on page 92.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 JUNE 30, 2010

	<u>County's Pension</u>	<u>Sheriff's Pension</u>	<u>OP&amp;B Trust Funds</u>	<u>LOSAP Funds</u>	<u>Total</u>
<b>ASSETS:</b>					
Current assets:					
Cash and cash equivalents	\$ 2,317,483	\$ 460,002	\$ 667,759	\$ 0	\$ 3,445,244
Interest receivable	0	111,844	0	0	111,844
Total current assets	<u>2,317,483</u>	<u>571,846</u>	<u>667,759</u>	<u>0</u>	<u>3,557,088</u>
Investments at fair value:					
Bond mutual funds	12,151,980	40,052,126	0	0	52,204,106
Equity securities	74,857,348	64,886,582	0	9,148,231	148,892,161
Total investments	<u>87,009,328</u>	<u>104,938,708</u>	<u>0</u>	<u>9,148,231</u>	<u>201,096,267</u>
Total assets	<u>89,326,811</u>	<u>105,510,554</u>	<u>667,759</u>	<u>9,148,231</u>	<u>204,653,355</u>
<b>LIABILITIES:</b>					
Accrued expenses	<u>(48,568)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(48,568)</u>
<b>NET ASSETS:</b>					
Held in trust for pension benefits	<u>\$ 89,278,243</u>	<u>\$ 105,510,554</u>	<u>\$ 667,759</u>	<u>\$ 9,148,231</u>	<u>\$ 204,604,787</u>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 YEAR ENDED JUNE 30, 2010

	County's Pension	Sheriff's Pension	OPEB Trust Funds	LOSAP Funds	Total
<b>ADDITIONS:</b>					
Contributions:					
Employer contributions	\$ 6,547,222	\$ 6,964,201	\$ 238,500	\$ 752,400	\$ 14,502,323
Employee contributions	1,999,614	2,227,278	0	0	4,226,892
Total contributions	8,546,836	9,191,479	238,500	752,400	18,729,215
Investment earnings:					
Interest, Dividends, Gains	2,848,940	2,837,590	339	89,532	5,776,401
Net change in fair value of investments	5,594,817	11,175,741	0	854,453	17,625,011
Total investment earnings	8,443,757	14,013,331	339	943,985	23,401,412
Less investment expenses	0	(1,501,296)	0	0	(1,501,296)
Net investment earnings	8,443,757	12,512,035	339	943,985	21,900,116
Total additions	16,990,593	21,703,514	238,839	1,696,385	40,629,331
<b>DEDUCTIONS:</b>					
Benefits paid to members	2,413,429	5,227,729	0	598,504	8,239,662
Administrative costs	630,476	157,180	1,743	26,720	816,119
Total deductions	3,043,905	5,384,909	1,743	625,224	9,055,781
Changes in net assets	13,946,688	16,318,605	237,096	1,071,161	31,573,550
Net assets - beginning of year	75,331,555	89,191,949	430,663	8,077,070	173,031,237
Net assets - end of year	\$ 89,278,243	\$ 105,510,554	\$ 667,759	\$ 9,148,231	\$ 204,604,787

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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 the 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, 2009, the date of the last actuarial valuation:

	<u>Sworn Officers</u>	<u>Correctional Officers</u>	<u>Communications Employees</u>
Active plan members	285	143	39
Retirees and beneficiaries receiving benefits	87	8	5
Disabled, receiving benefits	13	1	-
Vested termination	1	1	-
	<u>386</u>	<u>153</u>	<u>44</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 \$5,566,403 at June 30, 2010, and are classified as fixed income investments. Benefits paid by the insurance company for the year ended June 30, 2010 totaled \$1,122,250.

**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

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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, 2010, net assets were invested in fixed income mutual funds (38%) and Equity mutual funds (62%).

**Plan Provisions** – The following are the plan provisions of the SORP:

Vesting – For Sworn Officers 5 years of service is required to be 100% vested. For Communications & Corrections Officers, 20 years of service is required to be 100% vested.

Normal Retirement Age – 25 years of service, or age 60, if earlier. For Sworn Officers hired before 7-1-86, 20 years of service, or age 60, if earlier.

Normal Form of Benefit – 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.

Post-Retirement Cost of Living Increases – CPI Index, but no more or less than 4% in a year.

Employee Contributions – 8% of base earnings for Sworn Officers. 7% of base earnings for Correctional and Communications.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Average Compensation – Three year average of base pay on July 1.

Benefit Formula – For Sworn Officers, 3% for each of first 20 years and 2% thereafter, to a maximum of 80% of average compensation. For Correctional Officers, 2.25% per year to a maximum of 75% of average compensation. For Communications Officers, 2.0% per year to a maximum of 75% of average compensation.

DROP – For Sworn Officers, a 5 year DROP (Deferred Retirement Option Program) is offered. DROP allows a sworn member of the Sheriff's Office to retire without terminating employment for up to 5 years. DROP credits consist of DROP monthly retirement income deposits and County pick-up contributions. DROP monthly retirement income deposits are subject to annual COLA. DROP account balances are credited with 7% interest each July 1.

Service – 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 additional 0.1% for each additional 100 hours to a maximum of 4.0%

Early Retirement – With at least 20 years of service, reduction factors are as follows:

<u>Years early</u>	<u>Sworn (post 7/1/86)</u>	<u>Communications &amp; Corrections</u>
1	3.0%	8.4%
2	6.0%	16.8%
3	9.0%	25.2%
4	12.0%	32.4%
5	15.0%	39.6%

Termination Prior to Retirement – Return of employee contributions with 3% interest.

Line of Duty Disability – For 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. For Disability from Own Position, a percentage of final 3 years average earnings, based on a 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 Dispatchers are not eligible for this benefit

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Non-Line of Duty Disability – 5 years of service is required for this benefit. For Total and Permanent, a percentage of final 3 years average earnings, based on a 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 Workers Compensation
- e) no benefits until LTD benefits, if any, expire.

For Disability from Own Position, a percentage of final 3 years average earnings, based on a 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

Disability must be catastrophic (loss of limb, loss of hearing, blindness).

Communications Dispatchers are not eligible for this benefit.

Pre-Retirement Spouse's Benefit – For Line of Duty Death Benefit, 66-2/3% of participant's average compensation less any survivor benefits paid under Social Security. For 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, 2010 was equal to the amount of the Annual Required Contribution of \$6,964,201. There was no net pension obligation at June 30, 2010. The Annual Required Contribution for the current year was determined as part of the July 1, 2009 actuarial valuation. The actuarial assumptions and methods include:

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

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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.

DROP Load Factor – Retirement liabilities were loaded to reflect Sworn Officers electing a 5-year DROP.

Sheriff's hired after to 7/1/1986

Age	Years of Service			Age	Years of Service		
	25	30	35		25	30	35
45	1.055	1.071	1.219	45	1.000	1.071	1.219
50	1.075	1.092	1.242	50	1.000	1.092	1.242
55	1.105	1.121	1.275	55	1.000	1.121	1.275

These factors are based on Blue Collar Male Mortality at 8%. DROP account accrues interest at 7% per year and DROP credits increase each year by the COLA.

Disability – Sample rates are as follows:

Age	Rate
25	0.19%
35	.28%
45	.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 as follows:

Age	Sworn Officers	Corrections and Communications
25	6.03%	15.45%
35	5.26%	13.72%
45	3.35%	10.33%

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 Sheriff's and 37.5% of the base rates for the Correctional and Communications Employees.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Retirement –

Sheriff's hired prior to 7/1/1986

<u>Years of Service</u>	<u>% Retiring</u>
0-19	0%
20	50%
21+	20%

100% of participants are assumed to retire at age 60.

Sheriff's hired after to 7/1/1986

<u>Years of Service</u>	<u>% Retiring</u>
0-19	0%
20	10%
21-24	5%
25	50%
26-27	0%
28+	20%

100% of participants are assumed to retire at age 60.

Corrections & Communications

<u>Age</u>	<u>Years of Service</u>			
	<u>0-19</u>	<u>20-24</u>	<u>25</u>	<u>26+</u>
40	0.00%	12.23%	50.00%	20.00%
45	0.00%	10.33%	50.00%	20.00%
50	0.00%	7.23%	50.00%	20.00%
55	0.00%	2.74%	50.00%	20.00%
60	100%	100%	100%	100%

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

Termination – For Sworn Officers, participants terminating with 5 or more years of service are eligible for a benefit. Participants reaching age 45 are assumed to receive accrued benefit upon reaching age 60. All other participants are assumed to elect to receive a refund of their contributions. For Communications and Correctional Officers, terminating with less than 20 years of service (normal retirement eligibility) are assumed to receive a refund of their contributions.

Military Service – Actual service.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Loading – A 0.5% loading expense is added to the liabilities and normal cost for administrative expenses and \$95,000 is added to the normal cost for investment expenses. The \$95,000 was added with the 2008 valuation.

Other Methods and Assumptions – Cost and assets are measured separately for each of the three employee groups. If an employee transfers 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 2009 valuation determines the cost for fiscal year 2011.

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, 2009. 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.

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</u> <u>Pension</u> <u>Obligation</u>
6/30/2004	\$ 4,100,000	100%	\$0
6/30/2005	4,150,000	100%	\$0
6/30/2006	4,451,597	100%	\$0
6/30/2007	5,263,564	100%	\$0
6/30/2008	4,955,872	100%	\$0
6/30/2009	5,861,072	100%	\$0
6/30/2010	6,964,201	100%	\$0

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

SCHEDULE OF FUNDING PRDGRESS  
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)
<b>Deputy Sheriffs</b>						
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	\$ 20,669,709	77.5%	\$ 14,195,503	145.6%
7/1/06*	\$ 80,364,953	\$ 9,525,770	\$ 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%
7/1/07**	\$ 90,764,831	\$ 108,715,685	\$ 17,950,854	83.5%	\$ 16,900,338	106.2%
7/1/07	\$ 90,764,831	\$ 111,427,411	\$ 20,662,580	81.5%	\$ 16,900,338	122.3%
7/1/08	\$ 98,067,749	\$ 121,806,238	\$ 23,738,489	80.5%	\$ 18,653,670	127.3%
7/1/09	\$ 99,101,656	\$ 128,639,635	\$ 29,537,979	77.0%	\$ 19,245,648	153.5%
<b>Corrections Officers</b>						
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%
7/1/07	\$ 11,894,146	\$ 14,773,914	\$ 2,879,768	80.5%	\$ 6,898,253	41.7%
7/1/08	\$ 13,315,300	\$ 17,613,334	\$ 4,298,034	75.6%	\$ 7,834,547	54.9%
7/1/09	\$ 14,275,513	\$ 19,618,794	\$ 5,343,281	72.8%	\$ 8,062,697	66.3%
<b>Communications Employees</b>						
7/1/04	\$ 2,674,056	\$ 3,180,222	\$ 506,166	84.1%	\$ 1,145,301	44.2%
7/1/05	\$ 2,998,522	\$ 3,496,802	\$ 498,280	85.8%	\$ 1,175,771	42.4%
7/1/06*	\$ 3,353,839	\$ 3,982,409	\$ 628,570	84.2%	\$ 1,481,266	42.4%
7/1/06	\$ 3,353,839	\$ 4,027,929	\$ 674,090	83.3%	\$ 1,481,266	45.5%
7/1/07	\$ 3,854,388	\$ 4,518,778	\$ 664,390	85.3%	\$ 1,698,330	39.1%
7/1/08	\$ 4,243,211	\$ 5,352,606	\$ 1,109,395	79.3%	\$ 1,948,764	56.9%
7/1/09	\$ 4,391,636	\$ 5,496,181	\$ 1,104,545	79.9%	\$ 1,956,033	56.5%
<b>Total</b>						
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%
7/1/07**	\$ 106,513,365	\$ 128,008,377	\$ 21,495,012	83.2%	\$ 25,496,921	84.3%
7/1/07	\$ 106,513,365	\$ 130,720,103	\$ 24,206,738	81.5%	\$ 25,496,921	94.9%
7/1/08	\$ 115,626,260	\$ 144,772,178	\$ 29,145,918	79.9%	\$ 28,436,981	102.5%
7/1/09	\$ 117,768,805	\$ 153,754,610	\$ 35,985,805	76.6%	\$ 29,264,378	123.0%

Note: \*Before mortality change.

\*\*Before plan change.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**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 the 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, 2009, the last date of the last actuarial valuation:

Active plan members	842
Terminated, entitled to but not yet receiving benefits	124
Retirees and beneficiaries receiving benefits	<u>169</u>
	<u>1,135</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, 2010, the County

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

fully funded the ARC of \$6,547,222 to the Plan as recommended in the actuarial report as of July 1, 2009. Administrative costs of the Plan are financed through investment earnings and additional contributions of the employer.

**Investment Concentrations** – At June 30, 2010, the County's Plan's net assets were invested in the following types of investments:

Guaranteed Deposit	19%
Fixed Income - Domestic	21%
Large Cap Stock	29%
International Stock - Blend	12%
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 62<sup>nd</sup> 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 60<sup>th</sup> birthday or 25 hypothetical years of service.

Income Payable – Amounts described in (a) or (b) below, whichever applies.

- (a) If participant has a spouse as of his/her 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/her retirement date or elects to receive his/her 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/decrease in the annuity benefit in proportion to the last annual increase in the Consumer Price Index. This increase/decrease shall not be in excess of 4% per year.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Earnings – Basic compensation received from the employer excluding overtime payments, commissions, bonuses and any other additional compensation, subject to a \$200,000 limit.

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

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 safety participants, the Plan provides for 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. Additional credited service for military service up to 5 years if earned during employment, if precedes employment, up to 3 years if non-military service is at least 10 years. 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 credit service for military service up to 3 years, if precedes employment, up to 3 year if non-military service is at least 10 years.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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 safety participants, normal retirement benefit accrued to early retirement, actuarially reduced by 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 – For public safety participants, no eligibility requirements for line of duty, 5 years of service for non-line of duty.

*Benefit Formula* – Line of Duty: Total disability=66 2/3% final average earnings offset by other income. Partial disability=15%-50% of final average earnings offset by other income. 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 5 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.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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, 2010 was slightly less than the Annual Required Contribution made of \$6,547,222, as shown in the historical chart that follows. As a result, the net pension obligation at June 30, 2010 was decreased to a balance of \$542,086. The Annual Required Contribution for the current year was determined as part of the July 1, 2009 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 effective July 1, 2000.

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.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Termination – For non-public safety participants, the probabilities that participants (males 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 with less than 10 years of service, the probabilities that participants at the indicated ages terminate within the upcoming year are as follows:

<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 service, 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 Credit Service – For non-public safety participants, additional credit 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 \$50,000.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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 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-service 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-line-of-duty and the remainder would be non-service related. It is assumed that 100% of line-of-duty disabilities are total disabilities.

Calculation of Net Pension Obligation (NPO)

Annual Required Contribution	\$	6,449,831
Interest on NPO		45,096
Annual Required Contribution Adjustment		(66,710)
Annual Pension Cost		6,428,217
Contribution made		(6,449,831)
Change in NPO		(21,614)
NPO Beginning of Year		563,700
NPO End of Year (6/30/10)	\$	542,086

SCHEDULE OF EMPLOYER CONTRIBUTIONS  
COUNTY EMPLOYEES 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</u> <u>Pension</u> <u>Obligation</u>
6/30/2004	\$ 2,777,724	75.6%	\$ 680,966
6/30/2005	2,955,490	100.1%	\$ 486,180
6/30/2006	3,911,688	100.0%	\$ 265,085
6/30/2007	5,104,225	100.0%	\$ 608,499
6/30/2008	5,527,452	100.0%	\$ 586,176
6/30/2009	6,169,831	100.0%	\$ 563,700
6/30/2010	6,449,831	100.0%	\$ 542,086

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

SCHEDULE OF FUNDING PROGRESS  
COUNTY EMPLOYEES RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets *	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)
6/30/04	\$ 49,323,829 **	\$ 55,688,894	\$ 6,365,065	88.6%	\$ 27,278,917	23.3%
6/30/05	\$ 54,479,225 **	\$ 66,420,831	\$ 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 **	\$ 91,470,194	\$ 17,871,878	80.5%	\$ 41,645,118	42.9%
6/30/08	\$ 84,890,274 **	\$ 105,247,008	\$ 20,356,734	80.7%	\$ 44,697,536	45.5%
6/30/09	\$ 90,444,095 **	\$ 115,830,778	\$ 25,386,683	78.1%	\$ 44,478,995	57.1%
6/30/10	\$ 107,512,136 **	\$ 128,775,571 ***	\$ 21,263,435 ***	83.5% ***		

Notes:

\* includes contributions received in July of that year if applicable to the 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 Squad Members**

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 contributions for this plan have historically not been actuarially determined. An actuary study was solicited and contracted mid fiscal-year 2009 and those results were presented in July 2009. The results on participant data as of December 2008 showed a funded ratio of 45.4% and an unfunded liability of \$9,184,317. However, for the fiscal year and future, the plan was 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, 2010 totaled \$752,400 from the 2009/10 tax levy. The County Commissioners were not obligated to fund the plan, only to administer it.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

Program assets are held in trust during the year by a custodian. As of June 30, 2010, M&T held the fair value of net assets for the plan benefits in the amount of \$409,324. Investment decisions are made by an investment firm appointed by the Board of Fire and Rescue Commissioners. Assets have been invested in various stocks, bonds, and mutual funds. As of June 30, 2010, BB&T held the fair value of these assets in the amount of \$8,738,907.

**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 the GASB Statement 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	196	247	62	505
Plan Assets	\$ 9,210,131	\$ 5,251,093	\$ 1,711,349	\$16,172,573
Annual Employee Contribution	\$ 709,612	\$ 843,074	\$ 188,697	\$ 1,741,383

**B. Other Post-Employment Benefits (OPEB)**

Charles County's post employment benefit plan is a single employer defined benefit plan. The following actuarial calculations are based on OPEB benefits provided under the terms of the County's substantive plan in effect at the time of the valuation and on a pattern of sharing costs between the employer and plan members to that point, while also reflecting a long term financial perspective. Charles County provides medical, dental and vision benefits to eligible employees who retire from employment after meeting the minimum age and years of service requirements of the County Employees Retirement Plan or the Sheriff's Office Retirement Plan which are outlined previously in these notes.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

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% max)
Years 6-10	3% per year (25% max)
Years 11-15	4% per year (45% max)
Years 16-20	4.34% per year (66.75% max)
Years 21+	66.75%

For the year ended June 30, 2010, there were 261 former employees and family members with medical coverage, 301 with dental, and 292 with vision. For the fiscal year ended June 30, 2010, the County incurred and recorded \$1,350,335 in health care expenditures for these participants on the pay-go basis.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), in an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding, that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the combined amount contributed both on the pay-go basis and our trust contribution, and changes in the County's net OPEB obligation:

Annual required contribution	\$	12,738,000
Interest on OPEB obligation		990,000
Annual required contribution adjustment		(870,000)
Annual OPEB cost (expense)		12,858,000
Pay-go contribution made		(1,609,000)
Increase in net OPEB obligation		11,249,000
Net OPEB obligation - beginning of year		24,028,146
Net OPEB obligation - end of year	\$	35,277,146

The Library's pro-rata share of the Net OPEB obligation at the end of the current fiscal year is \$625,276.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

The schedule of funding progress as of the most recent actuarial valuation is as follows:

SCHEDULE OF FUNDING PROGRESS  
OTHER POST EMPLOYMENT BENEFITS

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)
7/1/08	\$ 0	\$ 159,294,000	\$ 159,294,000	n/a	\$ 73,134,517	217.8%
7/1/09	\$ 430,663	\$ 124,041,000	\$ 123,610,337	0.3%	\$ 73,743,373	167.6%
7/1/10	\$ 667,759	\$ 134,539,000	\$ 133,871,241	0.5%	\$ n/a	n/a

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 was as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$ 15,162,000	9.35%	\$ 13,743,245
June 30, 2009	\$ 11,904,000	13.60%	\$ 24,028,146
June 30, 2010	\$ 12,858,000	12.51%	\$ 35,277,146

Actuarial Methods and Assumptions

These notes to the financial statements disclose that (1) actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and (2) actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. In the effective June 30, 2009 actuarial valuation, the projected unit credit method, with linear proration to assumed benefit commencement was used. The actuarial assumptions included a 4.2% investment rate of return over the long term and a 4% per year on future salary increases. The asset valuation method used was the fair value. The annual healthcare cost trend rate is 9% initially, reduced to an ultimate rate of 4.20% after year 2080. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010 was 27 years.

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

**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 the closure. The Pisgah landfill stopped accepting waste in September 1994. The majority of closure costs related to this 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 the fiscal year ended June 30, 2010 were \$63,995.

**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, 2010, approximately 29% 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. At the close of the fiscal year, the landfill had Phase I, IIA, and IIIA open. The \$5,160,762 reported as landfill closure and post-closure care liability at June 30, 2010, 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 phases and 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 \$261,837.

*This page is intentionally left blank.*

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, 2010

	Budgeted amounts		Actual amounts budgetary basis	Variance with final budget positive (negative)
	Original	Final		
<b>Revenues:</b>				
Taxes - local property	\$ 180,230,600	\$ 180,230,600	\$ 177,986,438	\$ (2,244,162)
Taxes - income	87,651,000	85,767,940	86,513,316	745,376
Taxes - other local	12,000,000	12,000,000	11,263,589	(736,411)
Taxes - state shared	4,132,000	413,000	437,492	24,492
Charges for services	7,638,700	7,651,950	6,950,804	(701,146)
Intergovernmental	1,885,900	3,146,330	3,304,549	158,219
Interest income	3,500,000	637,580	339,568	(298,012)
Other income	2,522,200	2,616,300	2,332,236	(284,064)
<b>Total revenues</b>	<b>299,560,400</b>	<b>292,463,700</b>	<b>289,127,992</b>	<b>(3,335,709)</b>
<b>Expenditures:</b>				
Education	156,538,600	156,468,800	156,434,735	34,065
Public safety	75,071,900	72,795,480	71,598,070	1,197,410
General government (including contingencies)	19,927,500	18,815,370	19,226,752	(411,382)
Public facilities	18,014,500	20,118,010	19,171,226	946,784
Financial administration	9,183,600	8,281,830	8,016,417	265,413
Judicial	3,327,700	3,154,860	3,099,199	55,661
Planning and growth management	3,491,000	3,015,760	3,137,525	(121,765)
Community services	4,121,100	3,765,610	3,558,418	207,192
Health services	3,143,940	3,170,370	3,146,535	23,835
Economic development	1,640,400	1,432,170	1,281,413	150,757
Social services	1,030,260	1,031,160	1,038,689	(7,529)
Legislative	1,952,900	1,916,650	1,815,035	101,615
Law	920,800	855,630	884,268	(28,638)
Conservation of natural resources	630,300	569,300	551,419	17,881
Elections	867,800	749,800	535,143	214,657
<b>Debt service</b>				
Interest	6,483,500	6,483,500	6,487,255	(3,755)
<b>Total expenditures</b>	<b>306,345,800</b>	<b>302,624,300</b>	<b>299,982,099</b>	<b>2,642,201</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(6,785,400)</b>	<b>(10,160,600)</b>	<b>(10,854,107)</b>	<b>(693,507)</b>
<b>Other financing sources (uses):</b>				
Proceeds from capital lease agreement	727,300	727,300	621,497	(105,803)
Premium on debt proceeds	0	0	1,358,311	1,358,311
Bond Proceeds from debt refunding	0	0	4,853,935	4,853,935
Defeased Bonds	0	0	(5,276,540)	(5,276,540)
Transfers in	6,695,000	7,395,000	7,395,000	0
Transfers out	(4,822,800)	(4,404,880)	(4,229,698)	175,182
<b>Total other financing sources (uses)</b>	<b>2,599,500</b>	<b>3,717,420</b>	<b>4,722,505</b>	<b>1,005,084</b>
<b>Net change in fund balance</b>	<b>(4,185,900)</b>	<b>(6,443,180)</b>	<b>(6,131,602)</b>	<b>311,577</b>
Fund balance - beginning of year	47,316,775	47,316,775	47,316,775	0
<b>Fund balance - end of year</b>	<b>\$ 43,130,875</b>	<b>\$ 40,873,595</b>	<b>\$ 41,185,173</b>	<b>\$ 311,578</b>

*This page is intentionally left blank.*

OTHER SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
 JUNE 30, 2010

	Planning Grants	Judicial Grants	Transportation Grants	Public Safety Grants	Community Development Grants	Housing Assistance	Housing Special Loans	Sheriff's Special Programs	Community Development	Animal Shelter/Control	Drug Forfeitures
<b>ASSETS:</b>											
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,616,387	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other receivables	25,515	228,977	893,961	363,576	374,980	72,703	0	3,033	22,803	9,922	0
Due (to) from other funds	0	0	1,207,197	0	0	78,179	453,075	386,814	869	77,549	349,728
Other assets	0	163	0	0	0	0	0	0	0	0	0
Restricted assets	0	0	0	0	0	0	0	0	0	0	0
<b>Total assets</b>	<b>\$ 25,515</b>	<b>\$ 229,140</b>	<b>\$ 2,101,158</b>	<b>\$ 363,576</b>	<b>\$ 374,980</b>	<b>\$ 2,767,269</b>	<b>\$ 453,075</b>	<b>\$ 389,847</b>	<b>\$ 23,672</b>	<b>\$ 87,471</b>	<b>\$ 349,728</b>
<b>LIABILITIES AND FUND BALANCE:</b>											
<b>Liabilities:</b>											
Accounts payable	\$ 16,543	\$ 11,819	\$ 1,185,934	\$ 18,956	\$ 0	\$ 77,290	\$ 0	\$ 15,160	\$ 14,393	\$ 2,725	\$ 12,111
Accrued expenditures	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue	0	29,350	1,520	44,969	0	4,744	0	0	9,279	5,002	0
Due to other funds	4,280	187,971	0	299,651	218,172	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0	0	0	0	3,492	0
<b>Total liabilities</b>	<b>20,823</b>	<b>229,140</b>	<b>1,187,454</b>	<b>363,576</b>	<b>218,172</b>	<b>82,034</b>	<b>0</b>	<b>15,160</b>	<b>23,672</b>	<b>11,219</b>	<b>12,111</b>
<b>Fund balance:</b>											
Reserved fund balance	4,692	0	913,704	0	156,808	2,685,235	453,075	374,687	0	76,252	337,617
Unreserved:											
Designated fund balance	0	0	0	0	0	0	0	0	0	0	0
Undesignated fund balance	0	0	0	0	0	0	0	0	0	0	0
<b>Total fund balance</b>	<b>4,692</b>	<b>0</b>	<b>913,704</b>	<b>0</b>	<b>156,808</b>	<b>2,685,235</b>	<b>453,075</b>	<b>374,687</b>	<b>0</b>	<b>76,252</b>	<b>337,617</b>
<b>Total liabilities and fund balance</b>	<b>\$ 25,515</b>	<b>\$ 229,140</b>	<b>\$ 2,101,158</b>	<b>\$ 363,576</b>	<b>\$ 374,980</b>	<b>\$ 2,767,269</b>	<b>\$ 453,075</b>	<b>\$ 389,847</b>	<b>\$ 23,672</b>	<b>\$ 87,471</b>	<b>\$ 349,728</b>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING BALANCE SHEET (continued)  
 OTHER GOVERNMENTAL FUNDS  
 JUNE 30, 2010

	Agricultural Preservation	Fire and Rescue	Law Library	Tourism Grants	Agging 40 fund	Agging 43 fund	SoMD Justice Academy	Human Services	Cable Franchise	Emergency Management	Total
<b>ASSETS:</b>											
Cash and cash equivalents	\$ 0	\$ 0	\$ 100	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,466	\$ 0	\$ 0	\$ 2,617,953
Other receivables	0	0	0	0	3,462	37,964	3,512	688,277	565,403	125,505	3,414,623
Due (to) from other funds	1,037,839	2,822,377	54,416	0	116,164	0	67,676	52,761	719,897	0	7,424,541
Other assets	0	0	0	0	0	0	0	0	0	0	163
Restricted assets	0	0	0	0	0	0	0	0	0	0	0
<b>Total assets</b>	<b>\$ 1,037,839</b>	<b>\$ 2,822,377</b>	<b>\$ 54,516</b>	<b>\$ 0</b>	<b>\$ 119,626</b>	<b>\$ 37,964</b>	<b>\$ 71,218</b>	<b>\$ 742,504</b>	<b>\$ 1,285,300</b>	<b>\$ 125,505</b>	<b>\$ 13,457,280</b>
<b>LIABILITIES AND FUND BALANCE:</b>											
<b>Liabilities:</b>											
Accounts payable	\$ 0	\$ 5,475	\$ 3,132	\$ 0	\$ 66,544	\$ 14,412	\$ 8,402	\$ 185,370	\$ 62,884	\$ 1,246	\$ 1,702,396
Accrued expenditures	0	0	0	0	0	0	0	5,455	0	0	5,455
Deferred revenue	1,037,839	0	0	0	53,082	0	0	401,777	0	43,454	1,631,016
Due to other funds	0	0	0	0	0	18,552	0	0	0	80,805	809,431
Other liabilities	0	2,732,738	0	0	0	0	0	0	0	0	2,736,230
<b>Total liabilities</b>	<b>\$ 1,037,839</b>	<b>\$ 2,738,213</b>	<b>\$ 3,132</b>	<b>\$ 0</b>	<b>\$ 119,626</b>	<b>\$ 32,964</b>	<b>\$ 8,402</b>	<b>\$ 592,602</b>	<b>\$ 62,884</b>	<b>\$ 125,505</b>	<b>\$ 6,884,528</b>
<b>Fund balance:</b>											
Reserved fund balance	0	84,164	51,384	0	0	0	62,816	149,902	972,416	0	6,322,752
Unreserved:											
Designated fund balance	0	0	0	0	0	0	0	0	250,000	0	250,000
Undesignated fund balance	0	0	0	0	0	0	0	0	0	0	0
<b>Total fund balance</b>	<b>0</b>	<b>84,164</b>	<b>51,384</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>62,816</b>	<b>149,902</b>	<b>1,222,416</b>	<b>0</b>	<b>6,572,752</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,037,839</b>	<b>\$ 2,822,377</b>	<b>\$ 54,516</b>	<b>\$ 0</b>	<b>\$ 119,626</b>	<b>\$ 32,964</b>	<b>\$ 71,218</b>	<b>\$ 742,504</b>	<b>\$ 1,285,300</b>	<b>\$ 125,505</b>	<b>\$ 13,457,280</b>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 OTHER GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2010

	Planning Grants	Judicial Grants	Transportation Grants	Public Safety Grants	Community Development Grants	Housing Assistance	Housing Special Loans	Sheriff's Special Programs	Community Development	Animal Shelter/Control	Drug Forfeitures
<b>REVENUES:</b>											
Taxes - local property	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Charge for services	0	0	834,713	0	0	1,074,530	0	317,437	0	90,477	160,839
Inter-governmental	70,765	807,609	3,259,910	1,278,250	948,442	8,213,869	923,721	0	96,589	0	0
Interest income	0	3	0	0	0	507	0	0	0	0	261
Other income	0	361	178,392	0	0	0	0	0	0	23,560	0
<b>Total revenues</b>	<b>70,765</b>	<b>808,033</b>	<b>4,252,955</b>	<b>1,278,250</b>	<b>948,442</b>	<b>9,288,906</b>	<b>923,721</b>	<b>317,437</b>	<b>96,589</b>	<b>114,037</b>	<b>161,100</b>
<b>EXPENDITURES:</b>											
Education	0	0	0	0	0	0	0	0	0	0	0
Public safety	0	0	0	1,669,123	0	0	0	279,437	0	110,834	289,443
Community services	0	0	6,382,333	0	948,442	9,252,233	450,472	0	96,589	0	0
Judicial	0	1,104,176	0	0	0	0	0	0	0	0	0
Planning & growth mgmt	81,073	0	0	0	0	0	0	0	0	0	0
Health	0	0	0	0	0	0	0	0	0	0	0
Economic development	0	0	0	0	0	0	0	0	0	0	0
Social services	0	0	0	0	0	0	0	0	0	0	0
Legislative	0	0	0	0	0	0	0	0	0	0	0
<b>Total expenditures</b>	<b>81,073</b>	<b>1,104,176</b>	<b>6,382,333</b>	<b>1,669,123</b>	<b>948,442</b>	<b>9,252,233</b>	<b>450,472</b>	<b>279,437</b>	<b>96,589</b>	<b>114,834</b>	<b>304,613</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(10,308)</b>	<b>(296,143)</b>	<b>(2,129,378)</b>	<b>(390,873)</b>	<b>0</b>	<b>36,673</b>	<b>473,249</b>	<b>38,000</b>	<b>0</b>	<b>3,203</b>	<b>(143,513)</b>
<b>Other financing sources:</b>											
Issuance of debt	0	0	0	0	0	0	0	0	0	0	0
Transfers in	0	296,143	2,278,452	390,873	0	0	0	0	0	0	0
Transfers out	0	0	0	0	0	0	0	0	0	0	0
<b>Net change in fund balance</b>	<b>(10,308)</b>	<b>0</b>	<b>149,084</b>	<b>0</b>	<b>0</b>	<b>36,673</b>	<b>473,249</b>	<b>38,000</b>	<b>0</b>	<b>3,203</b>	<b>(157,655)</b>
<b>Fund balance - beginning of year</b>	<b>15,000</b>	<b>0</b>	<b>764,620</b>	<b>0</b>	<b>156,808</b>	<b>2,648,562</b>	<b>(20,174)</b>	<b>336,687</b>	<b>0</b>	<b>73,049</b>	<b>495,272</b>
<b>Fund balance - end of year</b>	<b>\$ 4,692</b>	<b>\$ 0</b>	<b>\$ 913,704</b>	<b>\$ 0</b>	<b>\$ 156,808</b>	<b>\$ 2,685,235</b>	<b>\$ 453,075</b>	<b>\$ 374,687</b>	<b>\$ 0</b>	<b>\$ 76,252</b>	<b>\$ 337,617</b>

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, 2010

	Agricultural Preservation	Fire and Rescue	Law Library	Tourism Grants	Agng 40 fund	Agng 43 fund	So MID Justice Academy	Human Services	Cable Franchise	Emergency Management	Total
<b>REVENUES:</b>											
Taxes - local property	\$ 30,000	\$ 12,115,099	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12,145,099
Charge for services	0	0	79,114	0	0	0	16,870	170,396	2,032,142	0	4,750,458
Inter-governmental	0	241,504	0	14,291	335,758	405,841	80,000	3,142,978	0	559,094	20,378,681
Interest income	0	20,557	0	0	0	0	0	414	0	0	21,742
Other income	0	0	1,439	0	59,456	0	42	5,594	250,000	2,096	514,880
Total revenues	30,000	12,377,160	71,553	14,291	389,214	405,841	96,912	3,319,322	2,282,142	561,190	37,810,560
<b>EXPENDITURES:</b>											
Education	0	0	0	0	0	0	0	0	1,190,584	0	1,190,584
Public safety	0	12,493,269	0	0	0	0	108,202	0	0	618,342	15,578,650
Community services	0	0	0	0	0	0	0	0	0	0	17,130,059
Judicial	0	0	76,640	0	0	0	0	0	0	0	1,180,816
Planning & growth mgmt	113,602	0	0	0	0	0	0	0	0	0	194,675
Health	0	0	0	0	0	0	0	3,281,872	0	0	3,281,872
Economic development	0	0	0	14,291	0	0	0	0	0	0	14,291
Social services	0	0	0	0	389,214	405,841	0	0	0	0	795,055
Legislative	0	0	0	0	0	0	0	0	0	0	5,170
Total expenditures	113,602	12,493,269	76,640	14,291	389,214	405,841	108,202	3,281,872	1,190,584	618,342	39,571,172
Excess (deficiency) of revenues over (under) expenditures	(83,602)	(116,109)	(2,087)	0	0	0	(11,291)	37,450	1,091,558	(57,152)	(1,560,312)
<b>Other financing sources:</b>											
Issuance of debt	0	0	0	0	0	0	0	0	0	0	0
Transfers in	83,602	0	3,000	0	0	0	40,000	5,286	(700,000)	57,152	3,154,508
Transfers out	0	0	0	0	0	0	0	(5,286)	(700,000)	0	(719,428)
Net change in fund balance	0	(116,109)	913	0	0	0	28,710	37,450	391,558	0	874,768
Fund balance - beginning of year	0	200,273	50,471	0	0	0	34,106	112,452	830,858	0	5,697,994
Fund balance - end of year	\$ 0	\$ 84,164	\$ 51,384	\$ 0	\$ 0	\$ 0	\$ 62,816	\$ 149,902	\$ 1,222,416	\$ 0	\$ 6,572,762

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING STATEMENT OF NET ASSETS  
 OTHER PROPRIETARY FUNDS  
 JUNE 30, 2010

	Inspections and Review	County Parks Operations	Recreation Programs	Environmental Services	Vending Machines	Total
<b>ASSETS:</b>						
<b>Current assets:</b>						
Cash and cash equivalents	-\$ 0	\$ 128,299	\$ 1,550,188	\$ 0	\$ 64,262	\$ 1,742,749
Other receivables	59,788	2,701	20,618	36,364	0	119,471
Due (to) from other funds	1,200,199	0	0	1,862,141	7,265	3,069,605
Inventory	0	54,277	2,124	0	0	56,401
Other current assets	0	0	79,903	0	0	79,903
<b>Total current assets</b>	<b>1,259,987</b>	<b>185,277</b>	<b>1,652,833</b>	<b>1,898,505</b>	<b>71,527</b>	<b>5,068,129</b>
<b>Noncurrent assets:</b>						
Net capital assets	155,427	280,066	8,628,635	3,597,061	0	12,661,189
Restricted assets	0	0	0	0	0	0
<b>Total noncurrent assets</b>	<b>155,427</b>	<b>280,066</b>	<b>8,628,635</b>	<b>3,597,061</b>	<b>0</b>	<b>12,661,189</b>
<b>Total assets</b>	<b>1,415,414</b>	<b>465,343</b>	<b>10,281,468</b>	<b>5,495,566</b>	<b>71,527</b>	<b>17,729,318</b>
<b>LIABILITIES:</b>						
<b>Current liabilities:</b>						
Accounts payable	79,156	13,359	72,789	232,692	0	397,996
Accrued expenses	11,473	18,973	138,054	61,909	0	230,409
Due to other funds	0	215,675	4,405,327	0	0	4,621,002
Unearned revenue	27,139	0	337,504	0	0	364,643
Current portion of long-term debt	69,419	45,600	503,500	210,445	0	828,964
<b>Total current liabilities</b>	<b>187,187</b>	<b>293,607</b>	<b>5,457,174</b>	<b>505,046</b>	<b>0</b>	<b>6,443,014</b>
<b>Noncurrent liabilities:</b>						
Other liabilities	0	0	0	0	0	0
Bonds payable	0	99,135	6,198,525	2,255,452	0	8,553,112
Net bond issue premiums	0	(1,246)	117,319	64,178	0	180,251
Long-term debt	105,510	58,716	18,955	106,346	0	289,527
Net pension obligation	14,216	3,696	1,715	6,257	0	25,884
Net OPEB obligation	364,220	107,409	73,160	212,483	0	757,272
Capital lease obligation	106,592	18,507	0	68,633	0	193,732
<b>Total noncurrent liabilities</b>	<b>590,538</b>	<b>286,217</b>	<b>6,409,674</b>	<b>2,713,349</b>	<b>0</b>	<b>9,999,778</b>
<b>Total liabilities</b>	<b>777,725</b>	<b>579,824</b>	<b>11,866,848</b>	<b>3,218,395</b>	<b>0</b>	<b>16,442,792</b>
<b>NET ASSETS:</b>						
Invested in capital assets, net of related debt	45	123,296	1,927,609	1,072,950	0	3,123,900
Unrestricted	637,644	(237,777)	(3,512,989)	1,204,221	71,527	(1,837,374)
<b>Total net assets</b>	<b>\$ 637,689</b>	<b>\$ (114,481)</b>	<b>\$ (1,585,380)</b>	<b>\$ 2,277,171</b>	<b>\$ 71,527</b>	<b>\$ 1,286,526</b>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET ASSETS  
 OTHER PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2010

	Inspections and Review	County Parks Operations	Recreation Programs	Environmental Services	Vending Machines	Total
<b>Operating revenues:</b>						
Charge for services	\$ 2,116,896	\$ 758,158	\$ 2,682,359	\$ 3,565,524	\$ 133,074	\$ 9,256,011
Other income	90	717	63,367	5,197	0	69,371
<b>Total operating revenue</b>	<b>2,116,986</b>	<b>758,875</b>	<b>2,745,726</b>	<b>3,570,721</b>	<b>133,074</b>	<b>9,325,382</b>
<b>Operating expenses:</b>						
Personnel services	1,787,007	593,823	1,217,794	1,045,659	0	4,644,283
Utilities	0	49,621	341,333	20,038	0	410,992
Repairs and maintenance	2,345	32,569	122,752	94,064	0	251,730
Insurance costs	3,605	4,305	32,229	15,630	0	55,769
Indirect costs	20,770	0	0	0	0	20,770
Supplies	11,206	109,719	266,402	201,777	0	589,104
Contract services	1,474,103	12,249	407,588	1,379,193	0	3,273,133
Other operating costs	13,845	10,630	44,935	148,282	129,239	346,931
Depreciation	50,973	47,342	334,473	319,907	0	752,695
<b>Total operating expenses</b>	<b>3,363,854</b>	<b>860,258</b>	<b>2,767,506</b>	<b>3,224,550</b>	<b>129,239</b>	<b>10,345,407</b>
<b>Operating income (loss)</b>	<b>(1,246,868)</b>	<b>(101,383)</b>	<b>(21,780)</b>	<b>346,171</b>	<b>3,835</b>	<b>(1,020,025)</b>
<b>Nonoperating revenues (expenses)</b>						
Interest income	0	379	2,223	10,817	0	13,419
Intergovernmental	0	0	24,474	32,898	0	57,372
Interest expense	(6,528)	(7,240)	(277,631)	(87,576)	0	(378,975)
Gain on disposal of capital assets	7,075	0	0	0	0	7,075
<b>Total nonoperating revenue (expenses)</b>	<b>547</b>	<b>(6,861)</b>	<b>(250,934)</b>	<b>(43,861)</b>	<b>0</b>	<b>(301,109)</b>
<b>Income (loss) before transfers</b>	<b>(1,246,321)</b>	<b>(108,244)</b>	<b>(272,714)</b>	<b>302,310</b>	<b>3,835</b>	<b>(1,321,134)</b>
Transfers in	0	69,618	0	0	0	69,618
Transfers out	0	0	0	0	0	0
<b>Change in net assets</b>	<b>(1,246,321)</b>	<b>(38,626)</b>	<b>(272,714)</b>	<b>302,310</b>	<b>3,835</b>	<b>(1,251,516)</b>
Net assets - beginning of year	1,884,010	(75,855)	(1,312,666)	1,974,861	67,692	2,538,042
<b>Net assets - end of year</b>	<b>\$ 637,689</b>	<b>\$ (114,481)</b>	<b>\$ (1,585,380)</b>	<b>\$ 2,277,171</b>	<b>\$ 71,527</b>	<b>\$ 1,286,526</b>

THE COUNTY COMMISSIONERS OF CHARLES COUNTY, MARYLAND  
 COMBINING STATEMENT OF CASH FLOWS  
 OTHER PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2010

	Inspections and Review	County Parks Operations	Recreation Programs	Environmental Services	Vending Machines	Total
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 2,127,429	\$ 761,142	\$ 2,785,335	\$ 3,547,236	\$ 133,074	\$ 9,354,216
Cash paid to suppliers	(1,388,851)	(188,323)	(1,211,072)	(1,848,363)	(129,287)	(4,765,896)
Cash paid to employees	(1,811,481)	(597,738)	(1,235,941)	(1,046,822)	0	(4,691,982)
Net cash provided by (used in) operating activities	(1,072,903)	(24,919)	338,322	652,051	3,787	(103,652)
<b>Cash flows from investing activities:</b>						
Interest received	0	379	2,223	10,817	0	13,419
Net cash provided by investing activities	0	379	2,223	10,817	0	13,419
<b>Cash flows from noncapital financing activities:</b>						
Intergovernmental	0	0	24,474	32,898	0	57,372
Transfers in (out)	0	69,618	0	0	0	69,618
Receipts from interfund loans	1,180,931	28,883	973	(72,472)	(19,467)	1,138,848
Repayment of interfund loans	0	0	310,975	0	0	310,975
Net cash provided by (used in) noncapital financing activities	1,180,931	98,501	336,422	(39,574)	(19,467)	1,556,813
<b>Cash flows from capital and related financing activities:</b>						
Proceeds from issuance of bonds	0	0	551,985	500,000	0	1,151,985
Proceeds from new loans	0	14,900	0	25,000	0	39,900
Principal payments on bonds payable	0	(21,829)	(483,859)	(124,059)	0	(629,747)
Principal payments on capital lease obligations	0	(32,809)	0	(119,596)	0	(152,405)
Principal payments on loans	(51,972)	0	0	0	0	(51,972)
Interest paid	(6,528)	(7,240)	(277,631)	(87,576)	0	(378,975)
Proceeds from disposal of assets	7,075	0	0	0	0	7,075
Cash (paid) received for capital expenses	(56,603)	(28,813)	0	(817,063)	0	(902,479)
Net cash used in capital and related financing activities	(108,028)	(75,791)	(109,505)	(623,294)	0	(916,618)
Net increase (decrease) in cash and cash equivalents	0	(1,830)	567,462	0	(15,680)	549,952
Cash and cash equivalents - beginning of year	0	130,129	982,726	0	79,942	1,192,797
Cash and cash equivalents - end of year	\$ 0	\$ 128,299	\$ 1,550,188	\$ 0	\$ 64,262	\$ 1,742,749





**Edith J. Patterson, Ed.D.**  
*Vice President, District 1*



**Samuel N. Graves, Jr.**  
*District 2*



**Reuben B. Collins, II**  
*District 3*



**Gary V. Hodge**  
*District 4*

# Charles County Commissioners

*Equal Opportunity County • Say No To Drugs*



CHARLES COUNTY MARYLAND  
Where Eagles Fly™

[www.charlescounty.org](http://www.charlescounty.org)

**Department of Fiscal & Administrative Services**  
P.O. Box 2150 • 200 Baltimore Street • La Plata, Maryland 20646  
301-645-0570 • 301-870-2542  
MD Relay: 711 • Relay TDD: 1-800-735-2258

**Mission Statement:** The mission of Charles County Government is to provide our citizens the highest quality service possible in a timely, efficient, and courteous manner. To achieve this goal, our government must be operated in an open and accessible atmosphere, be based on comprehensive long- and short-term planning, and have an appropriate managerial organization tempered by fiscal responsibility.

**Vision Statement:** Charles County is a place where: private initiative is rewarded and businesses grow and prosper, while the preservation of our heritage is paramount, government services have reached the highest level of excellence; the quality of life is felt by its citizens to be the best in the region; and its government is recognized as a leader in support of these expectations.

