

OFFICIAL STATEMENT DATED NOVEMBER 17, 2009

NEW ISSUES - BOOK ENTRY ONLY

In the opinion of Bond Counsel, (i) under existing law, interest on the Series 2009A Bonds and Series 2009C Bonds, assuming continuing compliance by the County with certain covenants described more fully under "Tax Matters" herein, is excludable from gross income for purposes of federal income taxation, (ii) as described under "Tax Matters" herein, interest income from the Series 2009A Bonds and Series 2009C Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and such interest on the Series 2009A Bonds will not be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations; however, the interest on the Series 2009C Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations; (iii) interest on the Series 2009B Bonds is includible in gross income for federal income tax purposes, and (iv) under existing law of the State of Maryland, the interest on the Bonds and profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Bonds or the interest thereon.

\$45,645,000

St. Mary's County, Maryland

County Commissioners of St. Mary's County General Obligation Bonds

Consisting of

\$13,055,000

Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A

\$16,945,000

Consolidated Public Improvement Taxable Build America Bonds – Direct Payment to Issuer, Series 2009B

\$15,645,000

Consolidated Public Improvement Refunding Bonds, Series 2009C

Dated: Date of Delivery

Due: July 15, as shown inside

Bond Ratings	Fitch Ratings: AA Moody's Investors Service: Aa3 Standard & Poor's: AA
Redemption	Series 2009B Bonds and Series 2009C Bonds maturing on or after July 15, 2020 are redeemable in whole or in part, on or after July 15, 2019 – Page 3
Security	Unlimited tax general obligations of County Commissioners of St. Mary's County, Maryland
Purpose	The proceeds of the Bonds are being used to finance capital projects of County and to refund certain outstanding County bond issues – Page 2
Interest Payment Dates	January 15 and July 15, beginning July 15, 2010
Closing/Settlement	On or about December 3, 2009
Denominations	\$5,000
Book-Entry Only Form	The Depository Trust Company, New York, NY
Registrar/Paying Agent	Manufacturers and Traders Trust Company, Baltimore, MD
Bond Counsel	Venable LLP, Baltimore, MD
Financial Advisor	Davenport & Company LLC, Towson, MD
Issuer Contact	St. Mary's County Chief Financial Officer: (301) 475-4200, ext. 1200

The Bonds are offered for delivery when, as and if issued, subject to the approving opinions of Venable LLP, Baltimore, Maryland, Bond Counsel. The Bonds will be available for delivery to the Depository Trust Company in New York, New York on or about December 3, 2009.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES* AND PRICES OR YIELDS*

\$13,055,000 Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A

<u>Maturing July 15</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>	<u>Price or Yield*</u>	<u>CUSIP**</u>	<u>Maturing July 15</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>	<u>Price or Yield*</u>	<u>CUSIP**</u>
2010	\$1,220,000	3.00%	0.44%	792554WP8	2015	\$1,300,000	2.50%	2.05%	792554WU7
2011	1,235,000	3.00	0.70	792554WQ6	2016	1,330,000	3.00	2.30	792554WV5
2012	1,245,000	3.00	1.00	792554WR4	2017	1,360,000	4.00	2.55	792554WW3
2013	1,260,000	3.00	1.30	792554WS2	2018	1,395,000	4.00	2.80	7925543X1
2014	1,280,000	2.50	1.70	792554WT0	2019	1,430,000	4.00	3.00	792554WY9

* The rates shown above are the interest rates payable by the County resulting from the successful bid for the Bonds on November 17, 2009 by M & T Securities, Inc. The yields or prices shown above were furnished by the successful bidder. Any additional information concerning the reoffering of the Bonds should be obtained from the successful bidders and not from the County.

\$16,945,000 Consolidated Public Improvement Taxable Build America Bonds – Direct Payment to Issuer, Series 2009B

<u>Maturing July 15</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>	<u>Price or Yield*</u>	<u>CUSIP**</u>	<u>Maturing July 15</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>	<u>Price or Yield*</u>	<u>CUSIP**</u>
2020	\$1,470,000	4.75%	4.50%†	792554VR5	2025	\$1,710,000	5.55%	5.25%†	792554VW4
2021	1,510,000	4.95	4.70†	792554VS3	2026	1,765,000	5.625	5.35†	792554VX2
2022	1,555,000	5.125	4.90†	792554VT1	2027	1,825,000	5.50	5.50	792554VY0
2023	1,605,000	5.25	5.00†	792554VU8	2028	1,890,000	5.60	5.60	792554VZ7
2024	1,655,000	5.375	5.10†	792554VV6	2029	1,960,000	5.70	5.70	792554WA1

†Price to call date.

* The rates shown above are the interest rates payable by the County resulting from the successful bid for the Bonds on November 17, 2009 by Morgan Keegan & Co., Inc. The yields or prices shown above were furnished by the successful bidder. Any additional information concerning the reoffering of the Bonds should be obtained from the successful bidders and not from the County.

\$15,645,000 Consolidated Public Improvement Refunding Bonds, Series 2009C

<u>Maturing July 15</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>	<u>Price or Yield*</u>	<u>CUSIP**</u>	<u>Maturing July 15</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>	<u>Price or Yield*</u>	<u>CUSIP**</u>
2012	\$1,240,000	2.00%	1.01%	792554WD5	2017	\$1,580,000	5.00%	2.60%	792554WJ2
2013	1,385,000	3.00	1.39	792554WE3	2018	1,655,000	4.00	2.80	792554WK9
2014	1,430,000	3.00	1.78	792554WF0	2019	1,720,000	4.00	2.95	792554WL7
2015	1,470,000	3.00	2.08	792554WG8	2020	1,790,000	3.25	3.10†	792554WM5
2016	1,515,000	3.00	2.38	792554WH6	2021	1,860,000	4.00	3.21†	792554WN3

†Price to call date.

* The rates shown above are the interest rates payable by the County resulting from the successful bid for the Bonds on November 17, 2009 by UBS Financial Services. The yields or prices shown above were furnished by the successful bidder. Any additional information concerning the reoffering of the Bonds should be obtained from the successful bidders and not from the County.

** Copyright 2009, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw Hill Companies Inc. The CUSIP data listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the County makes no representation with respect to such CUSIP data nor undertakes any responsibility for its accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Bonds. The data are not intended to create a database and do not serve in any way as a substitute for the CUSIP Service Bureau.

COUNTY COMMISSIONERS OF ST. MARY'S COUNTY, MARYLAND

Certain Elected Officials

Board of County Commissioners

Francis Jack Russell - President
Kenneth R. Dement - Commissioner, District 1
Lawrence D. Jarboe - Commissioner, District 3
Thomas A. Mattingly, Sr. – Commissioner, District 2
Daniel H. Raley – Commissioner, District 4

Jannette P. Norris – County Treasurer

Certain Appointed County Officials

John W. Savich - County Administrator
Elaine M. Kramer – Chief Financial Officer
Karen Christy H. Chesser – County Attorney
George A. Erichsen, P.E. – Director of Public Works and Transportation
Robert R. Schaller – Director of Economic and Community Development

BOND COUNSEL

Venable LLP
Baltimore, Maryland

FINANCIAL ADVISOR

Davenport & Company LLC
Towson, Maryland

AUDITOR

Murphy & Murphy, CPA, LLC
Clinton, Maryland

PAYING AGENT AND BOND REGISTRAR

Manufacturers and Traders Trust Company
Baltimore, Maryland

VERIFICATION AGENT

The Arbitrage Group, Inc.
Tuscaloosa/Buhl, Alabama

No dealer, broker, sales representative or other person has been authorized by County Commissioners of St. Mary’s County (the “County”), to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
Summary of Offering.....	ii	COUNTY REVENUES	25
Map of St. Mary’s County.....	iii	General	25
INTRODUCTION	1	Property Taxes and Assessments	25
General.....	1	Assessed Values and Tax Rates.....	26
Description of the County.....	1	Tax Levies and Collections.....	26
APPLICATION OF PROCEEDS.....	2	County’s Largest Taxpayers	27
THE BONDS	3	Income Tax.....	27
General.....	3	STATE AND FEDERAL ASSISTANCE	27
Authorization	3	SUMMARY OF REVENUES AND EXPENDITURES	28
Build America Bonds.....	3	FISCAL YEAR 2010 BUDGET.....	28
Redemption.....	3	CERTAIN DEBT INFORMATION.....	29
Form and Denomination.....	4	General	29
Source of Payment.....	5	Legal Debt Limitation	29
BOOK-ENTRY ONLY SYSTEM	5	Other County Debt	30
The Depository Trust Company.....	5	Schedule of Debt Service Requirements.....	31
Book-Entry Only System—Miscellaneous	6	Capital Financing	33
Termination of Book-Entry Only System	6	Future Plans to Issue County Debt.....	34
BONDHOLDERS’ REMEDIES	7	CERTAIN ECONOMIC AND DEMOGRAPHIC FACTORS.....	34
RATINGS	7	Economic Growth and Development.....	34
LEGAL MATTERS.....	7	U.S. Naval Facilities.....	34
TAX MATTERS – Series 2009A and Series 2009C	7	Population.....	35
TAX MATTERS – Series 2009B (Build America Bonds).....	9	Income.....	35
COUNTY GOVERNMENT AND ADMINISTRATION	11	Non-Defense Industries.....	36
General	11	Retail Sales	38
County Commissioners.....	11	Education.....	38
Treasurer	12	Technology in Education	38
Certain Appointed Officials.....	13	Higher Education.....	39
Remuneration of Certain Officials	14	Housing.....	40
St. Mary’s County Government Organization.....	15	Business and Industrial Composition.....	40
Retirement and Pension Programs.....	16	Employment Classification	41
Other Post Employment Benefits	17	Employment	41
Labor Relations.....	17	Commuting Patterns.....	42
Leases and Other Contracts	18	LITIGATION	42
BUDGET AND ACCOUNTING.....	18	EXPERTS.....	42
Current Expense Budget.....	18	INVESTMENT OF COUNTY FUNDS	43
Capital Budget and Capital Program.....	18	CONTINUING DISCLOSURE	43
Budget Message.....	18	SALE AT COMPETITIVE BIDDING.....	43
Adoption of Budget	19	FINANCIAL ADVISOR.....	43
Basis of Accounting.....	19	VERIFICATION OF MATHEMATICAL COMPUTATIONS	43
Accounting Policies.....	19	MISCELLANEOUS.....	44
COUNTY EXPENDITURES	19	Appendix A—County Commissioners of St. Mary’s County, Maryland Financial Statements with Independent Auditor’s Report for the Fiscal Year Ended 2008	A-1
COUNTY SERVICES.....	21	Appendix B—Form of Opinion of Bond Counsel	B-1
Education	21	Appendix C—Form of Continuing Disclosure Agreement	C-1
Police and Fire	21	Appendix D—Form of Official Notice of Sale and Proposal for Bonds.....	D-1
Health.....	22	APPENDIX E—Refunded Bonds Outstanding as of November 1, 2009.....	E-1
Recreation and Parks	22		
Department of Land Use and Growth Management	23		
Roads and Highways	24		
Solid Waste	24		

This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or holders of any of the Bonds.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall under any circumstances create any implication that there has been no change in the affairs of the County since the respective dates as of which information is given herein.

SUMMARY OF OFFERING

Issuer

County Commissioners of St. Mary's County (the "County").

Bonds

County Commissioners of St. Mary's County Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A, dated date of delivery, in the aggregate principal amount of \$13,055,000 (the "Series 2009A Bonds").

County Commissioners of St. Mary's County Consolidated Public Improvement Taxable Build America Bonds – Direct Payment to Issuer, Series 2009B, dated date of delivery, in the aggregate principal amount of \$16,945,000 (the "Series 2009B Bonds").

County Commissioners of St. Mary's County Consolidated Public Improvement Refunding Bonds, Series 2009C, dated date of delivery, in the aggregate principal amount of \$15,645,000 (the "Series 2009C Bonds").

The above described bonds (the "Bonds") will be fully registered in denominations of \$5,000 or any integral multiple thereof.

Interest Payment Dates

July 15, 2010 and semiannually thereafter on January 15 and July 15.

Redemption

The Series 2009A Bonds are not subject to redemption prior to their respective maturities.

The Series 2009B Bonds and Series 2009C Bonds that mature on or before July 15, 2019 are not subject to redemption prior to their stated maturities. Beginning July 15, 2020, Series 2009B Bonds and Series 2009C Bonds maturing on or after July 15, 2019 are subject to redemption as a whole at any time or in part on any interest payment date at the option of the County at certain redemption prices plus accrued interest.

Security and Source of Payment of the Bonds

Unlimited general obligations of the County.

Payment Record

The County has never defaulted on the payment of the principal of or interest on any of its bonds or notes.

[The remainder of this page left intentionally blank]



St. Mary's County



OFFICIAL STATEMENT

**St. Mary's County, Maryland
General Obligation Bonds**

\$45,645,000

Consisting of

\$13,055,000

Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A

\$16,945,000

**Consolidated Public Improvement Taxable Build America Bonds – Direct Payment to Issuer],
Series 2009B**

\$15,645,000

Consolidated Public Improvement Refunding Bonds, Series 2009C

INTRODUCTION

General

The purpose of this Official Statement (excluding prices or yields) and appendices, is to provide information for prospective purchasers and others regarding the County Commissioners of St. Mary's County (the "County") and the \$13,055,000 County Commissioners of St. Mary's County Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A (the "Series 2009A Bonds"), the \$16,945,000 County Commissioners of St. Mary's County Consolidated Public Improvement Taxable Build America Bonds – Direct Payment to Issuer, Series 2009B (the "Series 2009B Bonds"), and the \$15,645,000 County Commissioners of St. Mary's County Consolidated Public Improvement Refunding Bonds, Series 2009C (the "Series 2009C Bonds" and, together with the Series 2009A Bonds and the Series 2009B Bonds, the "Bonds").

All estimates and assumptions herein have been based upon information believed to be reliable and correct, however, statements made involving estimates and assumptions, whether or not expressly so stated, are intended merely as such and not as representations of facts. Figures herein relating to tax collections, assessed value of property, and the financial position of the County have been taken from official records of the County.

The material and information contained in this Official Statement have been provided by the County and the execution and distribution of this Official Statement have been authorized and approved by the County.

Description of the County

St. Mary's County was established in 1637 and was the first Maryland county. The County is a body politic and corporate and a political subdivision of the State of Maryland which performs all local governmental functions in St. Mary's County excepting those performed by the County's one incorporated municipality and those performed by the St. Mary's County Metropolitan Commission.

The County is located in the southern part of Maryland and consists of a long, triangular shaped peninsula bordered on the northwest by Charles County, on the northeast and east by the Patuxent River and the Chesapeake Bay, and on the southwest by the Potomac River. The County is 367 square miles in area with 400 miles of waterways. It is situated in the Atlantic Coastal Plain, and its elevation varies from sea level to 170 feet above sea level.

According to the 1990 Census, the population of the County was 75,974. The 2000 Census shows the population to be 86,211, which reflects a 13.5% increase in population from 1990 to 2000. The County seat of government is located in Leonardtown, which is the only incorporated municipality in the County. Leonardtown had a population of 1,896 in the 2000 Census. State estimates report that the County has exceeded the 100,000 population level.

The County is undergoing dynamic economic growth and development and, in particular, is attracting an increasing number of high technology industries, brought to the County both by the quality of life available and the Patuxent River Naval Air Station. The Air Station, among other things, is one of the United States Navy’s principal testing facilities for new aircraft and other sophisticated equipment. (See “CERTAIN ECONOMIC AND DEMOGRAPHIC FACTORS – Economic Growth and Development.”) The largest center of population in the County is Lexington Park, which is adjacent to the Air Station. The Air Station has been located in the County since World War II and remains the principal center of employment in the County. Less than 2% of the County’s work force is engaged in agricultural production or water-related activities as a principal occupation.

The County is governed by an elected five-member Board of County Commissioners (the “Board”). (See “COUNTY GOVERNMENT AND ADMINISTRATION.”) The Board may exercise only such powers as are conferred upon it by the General Assembly of Maryland, including authorizations to issue debt to finance its capital projects. (See “CERTAIN DEBT INFORMATION.”)

The executive offices of the County are located at 41770 Baldrige Street,, Leonardtown, Maryland 20650. The County’s central telephone number is (301) 475-4200. The County’s Internet address is www.co.saint-marys.md.us. The information set forth on the County’s website is *not* incorporated herein by reference.

APPLICATION OF PROCEEDS

Series 2009A Bonds and Series 2009B Bonds. The Series 2009A Bonds and the Series 2009B Bonds are being issued (i) to pay a portion of the costs of financing and refinancing certain capital project of the County and (ii) to pay costs of issuance.

The capital projects to be financed with the proceeds of the Series 2009A Bonds and the Series 2009B Bonds generally include:

<u>Projects</u>	<u>Cost</u>
FDR Boulevard Extended (Neighborhood Connector)	\$660,783
Asphalt Overlay	3,000,000
Patuxent Park Neighborhood Revitalization	1,654,600
College of Southern Maryland, Wellness & Aquatic Center	3,765,956
Emergency Equipment Facility	1,056,219
Evergreen Elementary School	3,508,177
Leonardtown Elementary School Addition/Renovation.....	4,545,623
Renovations to Multiple Schools – Entrances.....	1,178,000
Leonardtown Middle School Renovation.....	3,151,350
Margaret Brent Middle School Addition/Renovation/Wastewater treatment	7,349,292
Bond Issuance Costs	<u>130,000</u>
TOTAL	<u>\$30,000,000</u>

Series 2009C Bonds. The Series 2009C Bonds are being issued (i) to advance refund the callable maturities only of the County’s Consolidated Public Improvement Bonds of 2001 (the “Public Improvement Refunded Bonds”) and (ii) to pay costs of issuance. The Public Improvement Refunded Bonds are listed on Exhibit D hereto.

The refunding method being used to refund the Public Improvement Refunded Bonds is frequently termed a “net defeasance” in that provision is made to set aside immediately, from the proceeds of a refunding bond issue and other funds then available for debt service on the refunded bonds, monies for investment which, together with the interest to be received thereon, shall be sufficient to satisfy all payments of principal of and premium, if any, and interest on the respective series of refunded bonds to and including the dates on which such bonds mature or are redeemed.

The proceeds of the Series 2009C Bonds will be applied to the purchase of non-callable direct obligations of or obligations the principal of and interest on which are guaranteed by the United States of America (“Government Obligations”) and to pay certain expenses of the County related to the issuance and disposition of the proceeds of the Public Improvement Refunding Bonds. The Government Obligations will be held in trust in an escrow deposit fund (the “Escrow Deposit Fund”) by Manufacturers and Traders Trust Company (the “Escrow Agent”) pursuant to an escrow deposit agreement between the Escrow Agent and the County. The Government Obligations held in the Escrow Deposit Fund will mature at such times and in such amounts, and will bear interest payable at such times and in such amounts so that sufficient money will be available to pay when due, all principal of and premium, if any, and interest on the Public Improvement Refunded Bonds to and including their date of redemption. (See “VERIFICATION

OF MATHEMATICAL COMPUTATIONS”). The Escrow Agent will apply the maturing principal of and the interest on such Government Obligations to the payment of the principal of and interest on the Public Improvement Refunded Bonds prior to their respective redemption dates and has been irrevocably instructed to redeem the Public Improvement Refunded Bonds at the earliest redemption date at a price equal to the principal amount thereof plus the applicable premium and accrued interest. See Appendix E for a list of the Public Improvement Refunded Bonds and their date of redemption. The Government Obligations held in the Escrow Deposit Fund will be pledged only to the payment of the principal of, premium, if any, and interest on the Public Improvement Refunded Bonds, and are not available for the payment of principal of, premium, if any, or interest on the Bonds.

THE BONDS

General

The Bonds will be dated the date of delivery. The Bonds will mature on July 15, in the respective years, aggregate principal amounts and principal amounts per maturity and at the interest rates set forth in the inside front cover page of this Official Statement. Interest on the Bonds is payable on July 15, 2010 and semiannually thereafter on each January 15 and July 15 to maturity. The Bonds will be general obligations of the County to the payment of which the full faith and credit of the County will be pledged. (See “THE BONDS – Sources of Payment.”)

Authorization

The Series 2009A Bonds and Series 2009B Bonds will be issued pursuant to Chapter 145 of the Laws of Maryland of 2003, as amended, Chapter 525 of the Laws of Maryland of 2005, as amended, and Section 2C of Article 31 of the Annotated Code of Maryland, as amended. The Series 2009C Bonds will be issued pursuant to Section 24 of Article 31 of the Annotated Code of Maryland, as amended. The Bonds are authorized to be issued, sold, and delivered by a resolution of the County, adopted by the Board on October 6, 2009 (the “Resolution”).

Build America Bonds

The American Recovery and Reinvestment Act of 2009 (“ARRA”) authorizes the County to issue taxable bonds known as “Build America Bonds” to finance capital expenditures for which it could issue tax-exempt bonds and to elect to receive a subsidy payment (a “Subsidy Payment”) from the federal government equal to the amount of 35% of each interest payment on such taxable bonds. At the time of sale, the County determined to issue the Series 2009B Bonds as federally taxable Build America Bonds. The resulting subsidy payments will be paid directly to the County; no registered owner of Series 2009B Bonds will be entitled to a tax credit or Subsidy Payment, and interest paid to registered owners of Series 2009B Bonds will not be excludable from gross income for federal income tax purposes but will be exempt from Maryland income tax. See “TAX MATTERS – Series 2009B Bonds” below. The Subsidy Payments have not been pledged to the payment of any Bonds. To the extent that Subsidy Payments are paid by the federal government to the County, such payments would be part of the County’s general revenues. The Subsidy Payments are not full faith and credit obligations of the United States.

Redemption

Series 2009A Bonds. The Series 2009A Bonds are not subject to redemption prior to their respective maturities.

Series 2009B Bonds and Series 2009C Bonds. The Series 2009B Bonds and Series 2009C Bonds that mature on or before July 15, 2019 are not subject to redemption prior to their maturities. The Series 2009B Bonds and Series 2009C Bonds that mature on or after July 15, 2020 (collectively, the “Redeemable Bonds”) are subject to redemption beginning July 15, 2019 as a whole at any time or in part on any interest payment date, in any order of maturities, at the option of the County, at a price equal to 100% of the principal amount of Redeemable Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption.

If less than all of the Redeemable Bonds of any one maturity are called for redemption, the Redeemable Bonds to be redeemed from such maturity shall be selected by lot by the Bond Registrar for the Bonds (the “Bond Registrar”), in such manner as the Bond Registrar in its sole discretion may determine.

When less than all of a Redeemable Bond in a denomination in excess of \$5,000 is so redeemed, then, upon the surrender thereof, there shall be issued without charge to the registered owner thereof Redeemable Bonds of such series in any of the authorized denominations as specified by the registered owner. The amount of Redeemable Bonds issued shall be equal to the unredeemed balance of the principal amount of the Redeemable Bond surrendered, shall be of the same series, and the Redeemable Bonds issued shall bear the same interest rate and shall mature on the same date as the Redeemable Bonds surrendered.

If the County elects to redeem all or a portion of the Redeemable Bonds outstanding, it shall give a redemption notice to the registered owners of the Redeemable Bonds to be redeemed by letter mailed first class, postage prepaid, at least thirty (30) days prior to the date fixed for redemption to the addresses of such registered owners appearing on the registration books kept by the Bond Registrar; provided, however, that the failure to mail the redemption notice to any registered owner or any defect in the notice so mailed or in the mailing thereof shall not affect the validity of the redemption proceedings. For so long as the Redeemable Bonds are maintained in book-entry only form, such notice will be mailed to DTC as described below under "BOOK-ENTRY ONLY SYSTEM – The Depository Trust Company."

From and after the date fixed for redemption, if funds sufficient for the payment of the redemption price and accrued interest are available on such date, the Redeemable Bonds designated for redemption shall cease to bear interest. Upon presentation for redemption in compliance with the redemption notice, the Redeemable Bonds to be redeemed shall be paid by the Bond Registrar at the redemption price. If they are not paid upon presentation, the Redeemable Bonds designated for redemption shall continue to bear interest at the rates stated therein until paid.

Form and Denomination

The Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof. The Bonds will initially be maintained under a book-entry system; Beneficial Owners shall have no right to receive physical possession of the Bonds, and payment of the principal or redemption price of and interest on the Bonds will be made as described below under "BOOK-ENTRY ONLY SYSTEM – The Depository Trust Company." Manufacturers and Traders Trust Company, Baltimore, Maryland, will act as bond registrar and paying agent for the Bonds (the "Bond Registrar and Paying Agent").

The interest on each Bond will be paid July 15, 2010 and semiannually thereafter on each January 15 and July 15 of each year that any of said Bonds are outstanding by check mailed to the person in whose name such Bond is registered on the Bond Register as of the close of business on the first day of the month of an interest payment date (the "Regular Record Date") at the address shown on the Bond Register. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the registered owner on such Regular Record Date, and may be paid to the person in whose name such Bond is registered as of the close of business on a date to be fixed by the Bond Registrar and Paying Agent for the payment of such defaulted interest (the "Special Record Date"), notice whereof being given by letter mailed first class, postage prepaid, to said person not less than thirty (30) days prior to such Special Record Date, at the address of such person appearing on the Bond Register, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Bonds may be listed and upon such notice as may be required by such exchange. The principal of and premium, if any, on the Bonds will be payable at the corporate trust office in Baltimore, Maryland of the Bond Registrar and Paying Agent.

All payment of the principal and redemption price of and interest on the Bonds shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts subject to the provision for payment of interest by check set forth above.

The Bonds may be transferred or exchanged only upon the Bond Register kept at the corporate trust office in Baltimore, Maryland of the Bond Registrar and Paying Agent, by the registered owner in person, or by his or her attorney duly authorized in writing, upon surrender together with a written instrument of transfer satisfactory to the Bond Registrar and Paying Agent duly executed by the registered owner or duly authorized attorney, and thereupon, within a reasonable time, the County shall execute and the Bond Registrar and Paying Agent shall authenticate and deliver a new registered Bond or Bonds of any of the authorized denominations in an aggregate principal amount equal to the principal amount of the Bond transferred or exchanged and maturing on the same date and bearing interest at the same rate. The Bond Registrar and Paying Agent may require payment by the owner of the Bond requesting exchange or transfer of any tax, fee or other governmental charge, shipping charges and insurance that may be required to be paid with respect to such exchange or transfer, but otherwise no charge shall be made to such owner for such exchange or transfer. Said new Bond or Bonds shall be delivered to the transferee only after due authentication thereof by an authorized officer of the Bond Registrar and Paying Agent. The Bond Registrar and Paying Agent

Agent shall not be required to transfer or exchange any Bond after the mailing of notice calling such Bond or portion thereof for redemption as hereinabove described; provided, however that the foregoing limitation shall not apply to that portion of a Bond in excess of \$5,000 which is not being called for redemption.

The identity of the Bond Registrar and Paying Agent, the place of payment of the Bonds at maturity or redemption and the place of transfer or exchange of the Bonds may be changed by the County upon thirty (30) days written notice to the Bondholders at their addresses specified in the bond registration books maintained by the Bond Registrar and Paying Agent.

Source of Payment

The Bonds shall constitute an irrevocable pledge of the full faith and credit and unlimited taxing power of the County to the payment of the maturing principal of and interest on the Bonds as and when they become due and payable. The legislation authorizing the Bonds further provides, and the County has covenanted in the Resolution, that in each and every fiscal year that any of the Bonds are outstanding, the County shall levy or cause to be levied ad valorem taxes upon all assessable property within the corporate limits of the County in rate and amount sufficient to provide for or assure the payment, when due, of the principal of and interest on all of the Bonds maturing in each such fiscal year and in the event the proceeds from the taxes so levied in any such fiscal year shall prove inadequate for such payment, additional taxes shall be levied in the succeeding fiscal year to make up any such deficiency.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the securities. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co., DTC’s partnership nominee. One fully-registered certificate of the Bonds will be issued for each maturity of each series of the Bonds in principal amount equal to the aggregate principal amount of the Bonds of such maturity and series, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the “Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations (“Direct Participants”). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) is in turn to be recorded on the Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. if less than all of the Bonds are being redeemed. DTC's practice is to determine by lot the amount of the interest on each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Registrar and Paying Agent or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the County or the Registrar and Paying Agent, disbursement of such payments to Direct

Participants shall be the responsibility of DTC and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds, at any time by giving reasonable notice to the County or the Registrar and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

Book-Entry Only System – Miscellaneous

The information in the section "BOOK-ENTRY ONLY SYSTEM – The Depository Trust Company" has been obtained by the County from DTC. The County takes no responsibility for the accuracy or completeness thereof. Neither the County, the Bond Registrar nor the Paying Agent will have any responsibility or obligations to DTC Participants or the persons for whom they act as nominees with respect to the payments to or in the providing of notice to the DTC Participants, or the Indirect Participants, or Beneficial Owners. The County cannot and does not give any assurance that DTC Participants or others will distribute principal and interest payments paid to DTC or its nominees, as the registered owner, or any redemption or other notices to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

Termination of Book-Entry Only System

In the event that the Book-Entry Only System is discontinued, the Bonds will be delivered by DTC to the Bond Registrar and such Bonds will be exchanged for Bonds registered in the names of the DTC Participants or the Beneficial Owners identified to the Bond Registrar. In such event, certain provisions of the Bonds pertaining to ownership of the Bonds will be applicable to the registered owners of the Bonds as described below. The County may designate another entity as Bond Registrar and Paying Agent upon 20 days prior written notice to the registered owners of the Bonds.

The Bonds in full certificated form will be fully registered Bonds without coupons in the denominations of \$5,000 each or any integral multiple thereof. Bonds will be transferable only upon the registration books kept at the principal corporate trust office of the Bond Registrar, by the registered owner thereof in person, or by an attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer in the form attached thereto and satisfactory to the Bond Registrar and duly executed by the registered owner or a duly authorized attorney. The County may deem and treat the person in whose name a Bond is registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal or redemption price thereof and interest due thereon and for all other purposes.

The Bonds may be transferred or exchanged at the corporate trust office of the Bond Registrar in Baltimore, Maryland. Upon any such transfer or exchange, the County shall execute and the Bond Registrar shall authenticate and deliver a new

registered Bond or Bonds without coupons of any of the authorized denominations in an aggregate principal amount equal to the principal amount of the Bond exchanged or transferred, and maturing on the same date and bearing interest at the same rate. In each case, the Bond Registrar may require payment by any holder of Bonds requesting exchange or transfer of Bonds of any tax, fee, or other governmental charge, shipping charges, and insurance they may be required to be paid with respect to such exchange or transfer, but otherwise no charge shall be made to the holder of Bonds for such exchange or transfer. The Bond Registrar shall not be required to transfer or exchange any Bond after the mailing or notice calling such Bond or portion thereof for redemption as hereinabove described; provided, however, that the foregoing limitation shall not apply to that portion of a Bond in excess of \$5,000 which is not being called for redemption.

BONDHOLDERS' REMEDIES

It is the opinion of Bond Counsel that the County may be sued in the event that it fails to perform its obligations under the Bonds to the registered owners thereof and that any judgments resulting from such suits would be enforceable against the County. Nevertheless, a registered owner of a Bond who has obtained any such judgment may be required to seek additional relief to compel the County to assess, levy and collect such taxes as may be necessary to provide the funds from which such judgment may be paid. Although there is no Maryland law with respect to this issue, it is the opinion of Bond Counsel that the appropriate courts of Maryland have jurisdiction to grant additional relief, such as a mandatory injunction, if necessary, to enforce the levy and collection of such taxes and payment of the proceeds thereof to the registered owners of the Bonds, *pari passu*, subject to the inherent constitutional limitations referred to below.

It is also the opinion of Bond Counsel that, while remedies would be available to registered owners of the Bonds and while the Bonds are entitled to constitutional protection against the impairment of the obligation of contracts, such constitutional protection and the enforcement of such remedies would not be absolute. Enforcement of a claim for payment of the principal of or interest on the Bonds could be made subject to the provisions of Chapter IX of the federal bankruptcy laws or of any statutes that may hereafter be constitutionally enacted by the United States Congress or the Maryland General Assembly extending the time of payment or imposing other constraints upon enforcement.

RATINGS

Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's, A Division of The McGraw-Hill Companies, Inc., have given the Bonds the respective ratings indicated on the cover page of this Official Statement. An explanation of the significance of such ratings may be obtained from the rating agency furnishing them. The County furnished the rating agencies information contained in a preliminary form of this Official Statement and other materials and information. Generally, the rating agencies base their ratings on such material and information, and on their own investigations, studies and assumptions. It should be noted that such ratings may be changed at any time and that no assurance can be given that they will not be revised downward or withdrawn by either or all of the rating agencies if, in the judgment of either or all, circumstances should warrant such actions. Such circumstances may include, with limitation, changes in or unavailability of information relating to the County. Any such downward revision or withdrawal of either or all of such ratings could have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

Venable LLP, Baltimore, Maryland, is acting as Bond Counsel in connection with the issuance of the Bonds. Delivery of each series of the Bonds is conditioned upon delivery by Bond Counsel of the respective opinions substantially in the forms set forth in Appendix B of this Official Statement.

TAX MATTERS - SERIES 2009A BONDS AND SERIES 2009C BONDS

Federal Income Taxation

In the opinion of Bond Counsel, under existing law, assuming continuing compliance by the County with its covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended, as more fully described below, interest on the Series 2009A Bonds and the Series 2009C Bonds (a) is excludable from gross income for purposes of federal income taxation, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and such interest on the Series 2009A Bonds will not be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations; however, the interest on the Series 2009C Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

The provisions of the Internal Revenue Code of 1986, as amended (the "Code"), include several restrictions that must be met simultaneously with or subsequent to the delivery or issuance of the Series 2009A Bonds and the Series 2009C Bonds, some of which must be complied with throughout the term of the Series 2009A Bonds and the Series 2009C Bonds. The County has adopted resolutions and will execute and deliver a Tax Certificate and Compliance Agreement on the date of delivery of the Series 2009A Bonds and the Series 2009C Bonds, in which it covenants and agrees to comply with these requirements in order to maintain the exemption of interest on the Series 2009A Bonds and the Series 2009C Bonds from federal income taxation. In the opinion of Bond Counsel, the covenants of the County are sufficient to meet the requirements (to the extent applicable to the Series 2009A Bonds and the Series 2009C Bonds) of Section 103 and Sections 141 through 150 of the Code. However, Bond Counsel assumes no responsibility for, and will not monitor, compliance with the covenants and agreements of the County. In the event of noncompliance with such covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2009A Bonds and the Series 2009C Bonds from becoming includable in gross income for Federal income tax purposes retroactively to the date of issue.

Interest on the Series 2009A Bonds and the Series 2009C Bonds is not included in corporate or individual alternative minimum taxable income as a separate enumerated item of tax preference or other specific adjustment and is not taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Interest income on the Series 2009A Bonds and the Series 2009C Bonds may also be included with the "dividend equivalent amount" for purposes of determining the branch profits tax imposed by the Code on certain foreign corporations conducting a trade or business in the United States. Other Federal income tax consequences may arise from ownership of the Series 2009A Bonds and the Series 2009C Bonds, and in connection therewith, attention is directed to the following provisions of the Code: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2009A Bonds and the Series 2009C Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Series 2009A Bonds and the Series 2009C Bonds, (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2009A Bonds and the Series 2009C Bonds, (c) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as the Series 2009A Bonds and the Series 2009C Bonds, and (d) for S corporations having subchapter C earnings and profits, the receipt of certain amounts of passive investment income, which includes interest on the Series 2009A Bonds and the Series 2009C Bonds, may result in the imposition of income tax on such passive investment income and, in some cases, loss of S corporation status. The foregoing is only a general summary of certain provisions of the Code and does not purport to be complete; prospective purchasers and holders of the Series 2009A Bonds and the Series 2009C Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

The initial public offering price of some of the Series 2009A Bonds and the Series 2009C Bonds may be less than the amount payable on those Bonds at maturity. The excess, if any, of the amount payable at maturity of a Series 2009A Bond or a Series 2009C Bond over the initial public offering price at which a substantial amount of the same maturity of the Bonds of the same series was sold constitutes original issue discount for Federal income tax purposes ("OID"). The full amount of OID will accrue over the term of a Series 2009A Bond or a Series 2009C Bond in accordance with a constant yield method (using semi-annual compounding) which allocates smaller portions of OID to earlier semi-annual compounding periods and larger portions of OID to later semi-annual compounding periods. In the case of an original or a subsequent holder of a Series 2009A Bond or a Series 2009C Bond, the amount of OID which is treated as having accrued with respect to such Bond during the period that the holder has held it (a) is not included in the gross income of the holder for Federal income tax purposes, and (b) is included in the cost basis of the holder in determining, for Federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). Holders of Series 2009A Bonds and Series 2009C Bonds should consult their tax

advisors with respect to the determination, for Federal income tax purposes, of OID accrued upon the sale, redemption or payment at maturity of such Bonds.

A Series 2009A Bond or a Series 2009C Bond will be considered to have been issued at a premium if, and to the extent that, the holder's tax basis in such Bond exceeds the amount payable at maturity (or, in the case of a Bond callable prior to maturity, the amount payable on the earlier call date). The holder will be required to reduce his tax basis in such Bond for purposes of determining gain or loss upon disposition of such Bond by the amount of amortizable bond premium that accrues (determined on a constant yield method) during the period of ownership. The amount of the amortizable bond premium offsets and reduces the amount of tax-exempt interest on such Bonds. No deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on such Bonds. Holders of Series 2009A Bonds and Series 2009C Bonds should consult with their tax advisors with respect to the determination and treatment of premium for Federal income tax purposes.

Prospective purchasers of the Series 2009A Bonds and the Series 2009C Bonds should consider possible state and local, excise, or franchise tax consequences arising from OID on such Bonds. In addition, prospective corporate purchasers of the Series 2009A Bonds and the Series 2009C Bonds should consider possible Federal income tax consequences arising from OID on such Bonds under the alternative minimum tax and the branch profits tax described above.

The Internal Revenue Service (the "Service") has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for Federal income tax purposes. If the Service does audit the Series 2009A Bonds or the Series 2009C Bonds, under current Service procedures, the Service will treat the County as the taxpayer and the owners of such Bonds will have only limited rights, if any, to participate.

Interest paid on tax exempt obligations after December 1, 2005 is subject to information reporting for federal income tax purposes in a manner similar to taxable obligations. This reporting requirement does not in and of itself affect or alter the excludability of such interest from gross income for federal tax purposes or any other federal tax consequences of purchasing, holding or selling tax-exempt obligations.

Legislative proposals presently before Congress or that are introduced after issuance and delivery of the Series 2009A Bonds and the Series 2009C Bonds, if enacted, could alter or amend one or more of the Federal tax matters referred to above and/or adversely affect the market value of the Series 2009A Bonds and the Series 2009C Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to obligations issued prior to the enactment of such proposal. Accordingly, prospective purchasers of the Series 2009A Bonds and the Series 2009C Bonds should consult with their tax advisors as to the status and potential effect of such proposals.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete; holders of the Series 2009A Bonds and the Series 2009C Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

Maryland State and Local Income Tax

In the opinion of Bond Counsel, under existing law of the State of Maryland, the interest on the Series 2009A Bonds and the Series 2009C Bonds and profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Series 2009A Bonds or the Series 2009C Bonds or the interest thereon.

Interest on the Series 2009A Bonds and the Series 2009C Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Series 2009A Bonds and the Series 2009C Bonds should consult their tax advisors regarding the taxable status of the Series 2009A Bonds and the Series 2009C Bonds in a particular state or local jurisdiction other than the State of Maryland.

TAX MATTERS – SERIES 2009B BONDS

Federal Income Taxation

In the opinion of Bond Counsel, under existing law, interest on the Series 2009B Bonds is not excludible from the gross income of the owners thereof for federal income tax purposes.

Summary. The following is a summary of certain of the United States federal income tax consequences of the ownership of the Series 2009B Bonds as of the date hereof. Each prospective purchaser of the Series 2009B Bonds should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury Department regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Series 2009B Bonds generally and does not purport to furnish information in the level of detail or with the prospective purchaser's specific tax circumstances that would be provided by a prospective purchaser's own tax advisor. For example, it generally is addressed only to original purchasers of the Series 2009B Bonds that are "U.S. holders" (as defined below), deals only with Series 2009B Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to owners that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, S corporations, persons that hold Series 2009B Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in an owner of Series 2009B Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a Series 2009B Bond. A "non-U.S. investor" is a holder (or beneficial owner) of a Series 2009B Bond that is not a U. S. Person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury Department regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Tax Status of the Series 2009B Bonds. The Series 2009B Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the owner as it is paid (or, if the owner is an accrual method taxpayer, as it is accrued) as interest.

Owners of the Series 2009B Bonds that allocate a basis in the Series 2009B Bonds that is greater than the principal amount of the Series 2009B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

If an owner purchases the Series 2009B Bonds for an amount that is less than the principal amount of the Series 2009B Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Series 2009B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Sale, and Exchange of Series 2009B Bonds. Upon a sale or exchange of a Series 2009B Bond, an owner generally will recognize gain or loss on the Series 2009B Bond equal to the difference between the amount realized on the sale and its adjusted tax basis in such Series 2009B Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Series 2009B Bond not yet taken into income will be ordinary). The adjusted basis of the owner in a Series 2009B Bond will (in general) equal its original purchase price increased by any original issue discount or market discount includible in the gross income of the owner with respect to the Series 2009B Bonds and decreased by any principal payments received on the Series 2009B Bond. In general, if the Series 2009B Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

Defeasance. Defeasance of any Series 2009B Bond may result in a reissuance thereof, in which event an owner will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the Series 2009B Bond.

Foreign Investors. Distributions of the Series 2009B Bonds to a non-U.S. holder that has no connection with the United States other than holding its Series 2009B Bond generally will be made free of withholding tax, as long as that the non-U.S. holder has complied with certain tax identification and certification requirements.

Circular 230. Under 31 C.F.R. part 10, the regulations governing practice before the Internal Revenue Service (Circular 230), the County and its tax advisors are (or may be) required to inform you that (i) any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer; (ii) any such advice is written to support the promotion or marketing of the Series 2009B Bonds and the transactions described herein (or in such opinion or other advice); and (iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Maryland State and Local Income Tax

In the opinion of Bond Counsel, under existing law of the State of Maryland, the interest on the Series 2009B Bonds and profit realized from the sale or exchange of the Series 209B Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Series 2009B Bonds or the interest thereon.

Interest on the Series 2009B Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Series 2009B Bonds should consult their tax advisors regarding the taxable status of the Series 2009B Bonds in a particular state or local jurisdiction other than the State of Maryland.

COUNTY GOVERNMENT AND ADMINISTRATION

General

The Board of County Commissioners is comprised of five Commissioners elected for four-year terms. All Commissioners are elected by the entire County voters. The four Commissioners must live in the District they are representing; the President may live anywhere in the County.

The Board of County Commissioners appoints a County Administrator who is responsible for the general administration and daily operation of County government. County government departments report directly to the County Administrator. The financial administration of the County is centralized with the Chief Financial Officer who is responsible for the accounting and general ledger functions, overseeing the financial planning and annual budget process, and investment of County funds. The County Treasurer is responsible for billing and collection of property taxes.

County Commissioners

FRANCIS JACK RUSSELL, President, is serving his first term as Commissioner President of the Board of County Commissioners. He was born in Piney Point, Maryland and graduated with a degree in government from the University of Maryland in 1965. Mr. Russell went into business for himself on St. George Island building the seafood harvesting and packing operation, Sea-Fruit. In 1979, he built the skipjack the *Dee of St. Mary's*. He began converting his businesses from seafood to tourism and education in the 1980s. In 1999, Mr. Russell joined the teaching staff of the Harry Lundeberg School of Seamanship in the Paul Hall Center of the Seafarer's International Union and continues to teach vessel operations. In 2000, he founded the Chesapeake Bay Field Lab, Inc. a 501(c) 3 nonprofit, to ensure the skipjack, the oyster house and their respective educational programs would continue beyond his lifetime. He still takes students out aboard his skipjack to teach them about the natural and cultural history of the Chesapeake Bay. Mr. Russell was appointed by the Governor of Maryland to serve on the Critical Area Commission for the Chesapeake and Atlantic Coastal Bays and is also a member of the Patuxent River Commission. He has previously served on the following Boards and Commissions: Tidal Fisheries Advisory Board for State of Maryland, from 1980 to 1984; Potomac River Fisheries Commission; past chairman, the Maryland and Virginia bi-state regulatory commission, from 1980-1992; St. George Island Improvement Association, president, from 1987-1997; St. Mary's Citizen Advisory Committee, member Comprehensive Land Use Plan, from 1988-1990; Chesapeake Bay Field Lab, director, from 2000-2001. Mr. Russell works with alternative fuel as a hobby. His converted 1981 Mercedes has run 30,000 miles on waste vegetable oil and carries the license plate: GREASE 1. He is currently working on a 20' Shamrock 1.6 diesel boat that will be powered by waste vegetable oil and will be named: GREASE FLOATS.

KENNETH R. DEMENT, Commissioner, is serving his second term as a member of the St. Mary's County Board of Commissioners. Mr. Dement retired from the St. Mary's County Public School system in 1997 after 20 years of service as a school bus driver and bus driver trainer. Mr. Dement has been involved in various local civic activities over the years. A lifelong sportsman, Mr. Dement has received numerous awards over the years for his contributions to St. Mary's County softball leagues. A founder of the SMC Slow Pitch Softball League, Mr. Dement served as League President for 33 years and is still actively involved. In addition, he is one of the founders and former President of the SMC Softball Hall of Fame and is currently a member. Mr. Dement's service to the community also includes membership in the Knights of Columbus Council 2065 and previous membership on the St. Mary's County Recreation and Parks Board. Mr. Dement brings a history of leadership and fundraising abilities to the Board. His current term as Commissioner expires November 2010.

LAWRENCE D. JARBOE, Commissioner, has been a St. Mary's County resident for more than forty-three years. Mr. Jarboe is President of Charlotte Hall Lumber Company, Inc., and has been a 100-ton USCG licensed captain for more than twenty years. He has an A.A. in Estuarine Resources Technology from Charles County Community College and a B.S. in Oceanography from Millersville State College. Mr. Jarboe is currently serving on the executive Board of Tri County Council for Southern Maryland's Executive Board. Previous service includes: President of the Mechanicsville Jaycees, Chairman of the Southern Maryland Resources Conservation and Development Board, Chairman of BEMANCO of Golden Beach, and past Vice President of the Southern Maryland Izaak Walton League. Mr. Jarboe brings many years of community service and political involvement to the Board. He worked with the Great Mills High School Engineering Club for four years to promote clean transportation through organized drag racing of electric street rods. The club continues to hold multiple, national speed records. Mr. Jarboe previously served as St. Mary's County Commissioner from 1994-1998 and from 2002-2006. His current term as Commissioner expires November 2010.

THOMAS A. MATTINGLY, SR., Commissioner, is serving his third term on the Board. Mr. Mattingly retired from Verizon Communications in December 2001 after nearly 31 years of employment with Verizon in the Southern Maryland area. A graduate of Ryken High School in Leonardtown, Maryland, he also attended St. Mary's College of Maryland and was awarded an honorary degree from the College of Southern Maryland in 2004. In 1964, he was elected as a member of the Leonardtown Volunteer Fire Department, and is currently an active lifetime member with 46 years of service to the community. In addition, he has held the positions of President of the Maryland State Firemen's Association and Chairman of its Executive Committee for eight years. His leadership with the Association led to the establishment of a permanent medvac site in St. Mary's County. He currently serves on the Board of Directors for the St. Mary's Nursing Center, Friends of the St. Clement's Island Museum, Board of Directors for the Blackstone Foundation, Statewide Interoperability Executive Committee, Governor's Emergency Management Advisory Council, member of the Board of Directors of the Maryland Association of Counties, and as Chairman of the Tri-County Council Special Committee to Recommend Action to Support Returning Veterans. Mr. Mattingly previously served on the Maryland Agricultural Land Preservation Foundation Task Force and served as President of the Advisory Board for the Community College at St. Mary's; as a member of the Community College Building Committee; as a member of the Southern Maryland Committee of the Tri-County Council and Chairman of the Tri-County Council of Southern Maryland. In 1987, the local management of the C&P Telephone Company nominated Mr. Mattingly for the "President's Award for Volunteerism". He also received the "Community Service Award" from the St. Mary's County Chamber of Commerce in the same year. In 1991, Mr. Mattingly was honored as one of ten Bell Atlantic employees to receive the first "Spirit of Excellence" Award for his many outstanding accomplishments in serving the community. His term as Commissioner expires on November, 2010.

DANIEL H. RALEY, Commissioner, is serving his third four-year term as a member of the St. Mary's County Board of Commissioners. He is retired after 25 years as co-owner of Raley's Town and Country Market, Inc., a 70-year-old family grocery business located in Ridge, Maryland. The grocery continues, under new management, to be a successful seven-day-a-week operation employing approximately 35 employees. Mr. Raley graduated from Loyola College, Baltimore, Maryland in 1971. As a result of his ROTC college commitment, he served in the United States Army as a military police officer and received the Army Commendation Medal in addition to other awards. Mr. Raley is a past Chair and member of the St. Mary's County Board of Zoning Appeals, and has also held memberships with the St. Mary's County Solid Waste Committee; the St. Mary's County Efficiency Task Force; and the St. Mary's County Youth Commission, where he served as Executive Secretary. His community involvement includes the Knights of Columbus, Third Degree; the Lexington Park Lions Club; and the American Legion Post 255 in Ridge, Maryland. His current term as Commissioner expires November 2010.

Treasurer

JANNETTE P. NORRIS, County Treasurer, age 62, is serving her fourth term as St. Mary's County Treasurer. Prior to being elected Treasurer, Mrs. Norris served in the Treasurer's Office for 15 years. Before employment with St. Mary's County, Mrs. Norris was the chief accountant for a local Certified Public Accountant. She is a member of the Maryland Government Finance Officers Association and most recently served on the County's Senior Tax Credit Task Force.

Certain Appointed Officials

JOHN M. SAVICH, County Administrator, age 57, joined St. Mary's County in May 2001 as the Director of Economic and Community Development and was appointed County Administrator in March 2007. Mr. Savich was previously employed by the Washington State Department of Community, Trade and Economic Development in Olympia, Washington. He served as Director of Economic Development and in several other senior management positions within that department, with responsibility for economic and community development activities including business recruitment and retention, small business assistance, downtown development, rural development, tourism, international trade, technology development, development finance, and the state film office. From 1981 to 1991, Mr. Savich was employed by the Michigan Department of Commerce as Director of the Michigan Travel Bureau, Director of the Office of Strategy and Forecasting, and Deputy Director of the Office of Community Development. He was also employed by the U.S. Department of Commerce, Economic Development Administration, in Washington, D.C. Mr. Savich graduated with high honors from Michigan Technological University in 1977 with a B.S. degree in Forestry. During his career, Mr. Savich has served on numerous professional and volunteer boards and commissions including the Southern Maryland Navy Alliance; the St. Mary's County Chamber of Commerce; the St. Mary's County Community Development Corporation; the Maryland Economic Development Association; State of Maryland Development Capacity Task Force; Southern Maryland Economic Development Association; Washington State Community Economic Revitalization Board; the International Business Advisory Committee at the University of Washington School of Business Administration; the Washington Technology Center at the University of Washington; the Japan-America Society of Washington State; the King County International Trade Board; and the Thurston County (WA) Fire District Commission. He is currently the Chair of the County Administrators affiliate of the Maryland Association of Counties.

ELAINE M. KRAMER, Chief Financial Officer, age 55, practiced for 17 years with the firm of Coopers & Lybrand (now PriceWaterhouseCoopers) in Washington, D.C. In July 1987, she was admitted to the partnership as an audit partner. Her clients included higher education institutions, governmental entities, real estate firms and partnerships, health care entities, and other non-profit organizations. In addition, she served on a variety of that firm's technical committees, conducted education in technical areas affecting the audit practice, and conducted a number of quality control engagements of other offices. In March 1982, she joined the St. Mary's County Board of Education as the Director of Budget and Finance, overseeing an operating budget of more than \$100 million. During her eight years with the school system, the system implemented a comprehensive financial system under her direction, implemented financial reporting and projection activities related to their annual budget and began utilizing exempt financing to support the implementation of a system-wide administrative and instructional technology initiative. She represented the school system in a number of collaborative activities with County government, including procurement and the successful consolidation of the County and school system's contract for health insurance, trimming significant costs. She joined the County as Chief Financial Officer in August 2000 and since that time has initiated and/or participated in several significant budget and financial management initiatives, including the full implementation of GASB 45 (OPEB) and GASB34. During her tenure, the County has focused on the improvement of a variety of fiscal practices, including procurement, budget development and management for both operating and capital project funds, multi-year planning, periodic evaluation and monitoring of capital project expenditures and the related debt capacity. Elaine has contributed to efforts associated with the update of the County's personnel manual as well as the review and revision of numerous significant contractual relationships. She is often selected by MACO to present issues of interest to both training sessions and in connection with legislative efforts. In addition to her role as chief financial officer, Elaine is the County's Procurement Officer with responsibility for policy implementation as well as improvement. She is a trustee on the County's Sheriff's Office Retirement Plan, the Building Authority, and the Retirement Benefit Trust, as well as being a County representative. Elaine is serving on the Local Government Insurance Trust's Finance/Audit Committee.

KAREN CHRISTY HOLT CHESSER, County Attorney, age 49, received her Bachelor of Arts Degree from Washington College in 1982, and her Juris Doctorate from the University of Maryland School Of Law in 1985. She was admitted to the practice of law by the Court of Appeals of Maryland in December of 1985 and by the United States District Court for the District of Maryland in March of 1986. She has been engaged in the practice of law in St. Mary's County and the Southern Maryland area for 24 years. Prior to her service as County Attorney she was engaged in the private practice of law in Leonardtown, Maryland and has previously served as Judicial Clerk to the Honorable John Hanson Briscoe, as an Assistant State's Attorney and as Deputy State's Attorney for St. Mary's County. Ms. Chesser's experience includes Municipal law, Land Use, Public Safety, Procurement and Contracts, Litigation, Legislation, Administrative Law, Public Ethics, Public Information and Open Meetings, Employment Law, Real Estate Transactions, Criminal Law, Family Law and Mediation of civil disputes. She served as a Standing Examiner for the St. Mary's County Circuit Court from 1999-2006.

GEORGE A. ERICHSEN, P.E., Director of Public Works and Transportation, age 46, received a B.S. degree from the Virginia Polytechnic Institute and State University with a minor in Engineering Science and Mechanics, and completed a Master of Arts in Management from the College of Notre Dame of Maryland, with concentrations in Public Relations,

Communications and Marketing. Mr. Erichsen was appointed the Director of Public Works in December 1997 and Director of Public Works & Transportation in April 2000, with the addition of the local transit system, vehicle maintenance / fleet management and non-public school bus transportation operations. He also is responsible for facilities management, including all aspects of capital projects as well as building services. Prior to that time, he served as Supervisor for Engineering Services for St. Mary’s County, as well as several engineering positions in public and private sectors. He is a member of the International Order of Engineers, Association for Facilities Engineering, National Design Build Institute, County Engineers Association of Maryland, Association of Airport Executives, and is registered as a Professional Engineer in both Virginia and Maryland.

ROBERT R. SCHALLER, PH.D., Director of Economic & Community Development, age 54, received a Masters of Business Administration degree from Loyola College in Baltimore, Maryland and received his doctorate degree in Public Policy from George Mason University. Dr. Schaller was appointed Director in July 2007. Prior to this position, Dr. Schaller was a Professor of Business and Economics at the College of Southern Maryland (CSM). The last two years at CSM he also held the position as Chair of the Business Department with planning, scheduling, and programming responsibility for 14 full-time faculty, 60 part-time faculty, and more than 2,500 students at 4 locations throughout the tri-county region. He taught a wide range of business courses at CSM for 16 years full-time and another 2 years part-time. He also taught and continues to teach as adjunct faculty member for local colleges and universities. Prior to teaching, Dr. Schaller worked 17 years in the private sector in the fields of management consulting, computer service and marketing for Booz Allen Hamilton, Digital Equipment Corporation (now part of Hewlett-Packard), and Burroughs Corporation (now Unisys). Dr. Schaller is a native of St. Mary's County. He is active in the local community including serving as President of the Business, Education & Community Alliance (BECA) of St. Mary's County, a non-profit organization charged with assisting local students and schools to succeed. He also serves on several Boards and groups in his capacity as the County’s Economic and Community Development Director.

Remuneration of Certain Officials

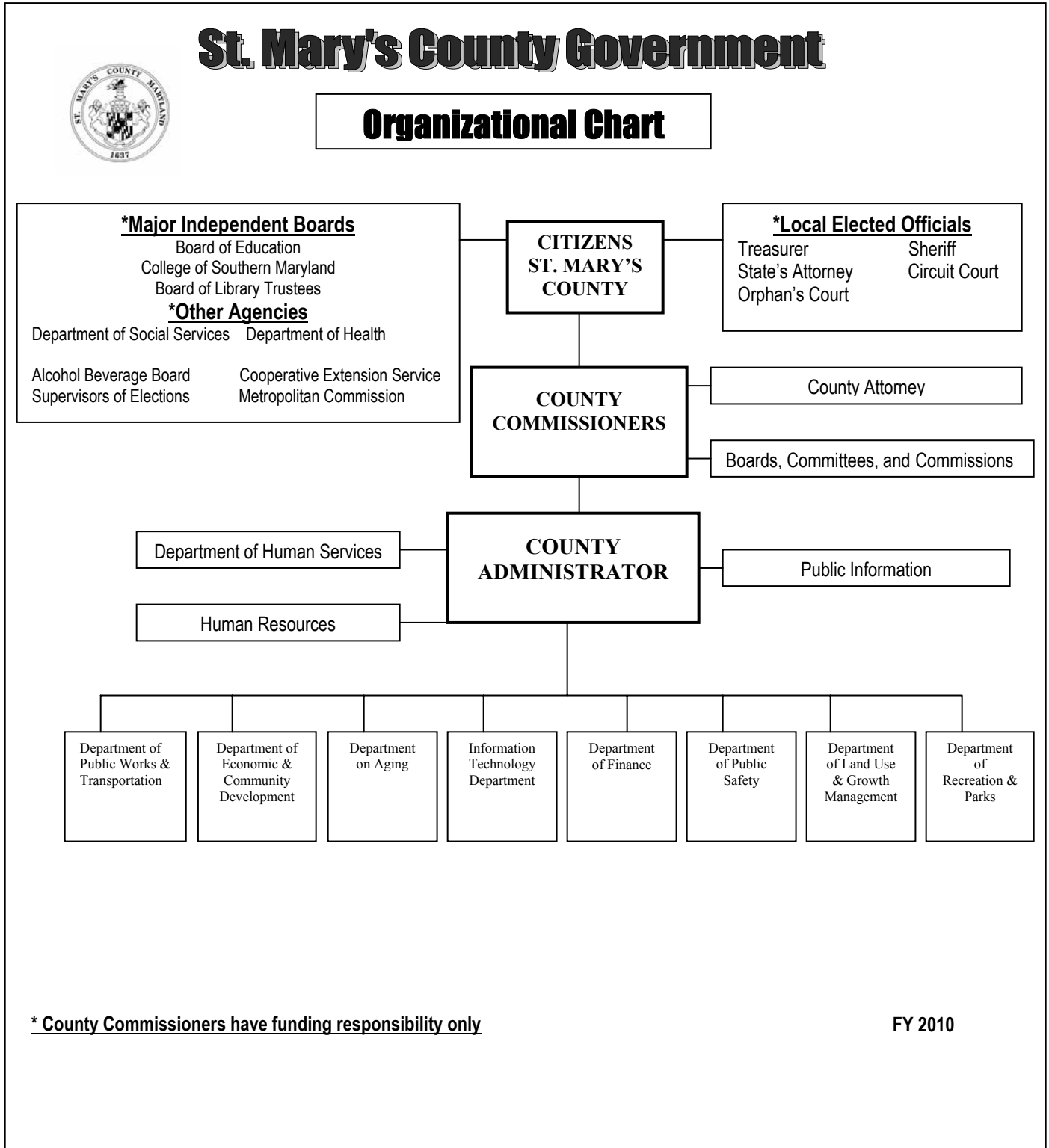
The following chart sets forth the current annual remuneration for calendar year 2009 to be paid certain County officials whose salary is either set by law or determined under contractual arrangement:

<u>Official Title</u>	<u>Salary By Law</u>	<u>Salary by Contract</u>
President, Board of County Commissioners	\$42,000	
County Commissioner.....	37,000	
County Treasurer	47,000	
County Administrator		\$142,800
Chief Financial Officer		139,025
Director of Public Works and Transportation		113,633
Director of Economic and Community Development.....		102,000
County Attorney.....		111,448

[The remainder of this page left intentionally blank]

St. Mary's County Government Organization

The organization of the County government is shown in the following chart.



Retirement and Pension Programs

Prior to January 1, 1980, all County employees were required to be members of the Employees' Retirement System of the State of Maryland (the "Retirement System"). During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the Pension System for Employees of the State of Maryland (the "Pension System"). All County employees who were members of the Retirement System could elect to remain in that system or elect to join the Pension System. All employees hired after December 31, 1979 must join the Pension System.

The Retirement System provides annual pensions for members who retire after the age of 60, or after 30 years service, equal to 1/55th of the average compensation for the 3 highest paid years before retirement, multiplied by total months and years of membership service. A member having 25 years of service may retire prior to age 60 at a reduced benefit. Benefits are adjusted each year to reflect increases in the cost of living as evidenced by changes in the Consumer Price Index.

Members of the Pension System are eligible to retire after 30 years of service regardless of age, and at age 65 with 2 years of service, at age 64 with 3 years service, at age 63 with 4 years of service, or at age 62 with 5 years of service. Benefits payable under the Pension System were originally less than those payable under the Retirement System; however, the Pension System was converted to a Contributory Pension System on July 1, 1998, and again enhanced on July 1, 2006 (known as the Alternate Contributory Pension Selection Plan) which considerably improved the Pension benefit. The pension payable to a member of the Pension System who retires after 30 years of service or at age 62 will be computed at 1.2% of that part of the member's highest average annual compensation for 3 consecutive years multiplied by the number of years of credited service prior to July 1, 1998. Years of credited service after June 30, 1998 will be computed at 1.8% multiplied by average annual compensation.

Both the Retirement System and the Pension System are jointly contributory. Under the Retirement System an employee contributes 5% or 7% of his total base salary; under the Pension System an employee contributes 5% of base salary. The benefits payable under each system which are not funded by employee contributions are funded entirely by the County. Effective July 1, 2009, the County's contribution rate (expressed as a percentage of payroll) for the Retirement System is 9.05% and 7.58% for the Pension System.

All benefits of the Retirement and Pension Systems are required by law to be funded on a full actuarial reserve basis in accordance with the accrued benefit actuarial cost method.

At its 1984 session, the General Assembly enacted legislation modifying the benefits of those who do not elect to join the Pension System by January 1, 1985. After that date, employees remaining in the Retirement System will be subject, at their option, to either a limitation of 5% (compounded) on the annual cost-of-living adjustment ("COLA") or an increase in the rate of contribution from 5% to 7% of compensation, to continue an unlimited COLA.

During the 1984 General Assembly, an Act was passed to authorize the County to adopt a separate pension plan or the supplementation of existing plans for personnel of the Sheriff's Office to enable such personnel to retire with benefits at an earlier age.

On July 1, 1986, the police and correctional officers participating in the two previously described plans were given the option of transferring to the St. Mary's County Sheriff's Office Retirement Plan with membership mandatory after July 1, 1986. The Sheriff's Office Retirement Plan has a member contribution rate of 8%, with the County contributing, effective July 1, 2009, 36.7 % of annual compensation. The retirement date is the earlier of the employee's 62nd birthday or completion of 25 years of service. The pension is payable at 2% (for years of service prior to July 1, 2008) and 2.5% (for years of service after June 30, 2008) of the member's highest average annual compensation for three consecutive years multiplied by the number of years of creditable service. A member having 20 years of service may retire prior to age 62 at a reduced benefit. Cost of living adjustments are set at 3% annually.

The amount of the unfunded accrued liability attributable to the County as of July 1, 2008 for the Sheriff's Office Retirement Plan was \$28,334,466. The unfunded past service cost is being amortized over a 25-year period. The amount by which the actuarially computed values of vested benefits exceeded the total Pension Fund is not available.

The following table sets forth the County's contributions for the Retirement System, the Pension System and the Sheriff's Department Retirement Plan for the five most recent fiscal years ended June 30:

<u>Fiscal Year</u>	<u>Retirement System</u>	<u>Pension System</u>	<u>Sheriff's Department Retirement Plan</u>	<u>Total</u>
2008.....	\$47,264	\$1,873,310	\$2,921,354	\$4,841,928
2007.....	48,318	1,980,750	2,393,713	4,422,781
2006.....	56,547	1,309,504	2,216,646	3,582,697
2005.....	67,548	1,225,905	2,036,981	3,330,434
2004.....	56,640	789,367	1,652,971	2,498,978

Source: St. Mary's County Department of Finance.

Effective July 1, 1985, the funding of retirement costs for members of the municipal corporations was separated from the funding of retirement costs for members of the State of Maryland with municipal corporations paying at a common normal cost and accrued liability percentage rate pay rolled on a pooled basis.

The County annually funds a length of service program for volunteer fire rescue and advanced life support organization members. To be eligible, a member must be 55 years of age and have a minimum of 20 years of service. The minimum monthly benefits payable to any member certified to receive such compensation is \$150. The cost to the County to meet these retirement benefits in fiscal year 2010 was \$627,300.

Other Post Employment Benefits

St. Mary's County Government retirees, retirees' family members and the family members of deceased employees under age 65 are eligible for health, prescription drug and vision care insurance benefits. Those over age 65 are eligible for a Medicare supplement including health, prescription drug, and vision. The County adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In both, fiscal year 2009 and fiscal year 2010, the ARC was budgeted.

An actuarial study as of July 1, 2009, reported an unfunded accrued liability of \$48,885,000 using a discount rate of 6%. The County budgeted full funding of the Annual Required Contribution "ARC" annually, beginning in fiscal year 2008. In addition, the County used fund balance in fiscal year 2008 and fiscal year 2009 to make contributions over and above the ARC. Contributions made totaling \$13,439,139 is the actual amount transferred to the OPEB trust from the fiscal year 2008 audit. The OPEB appropriations for fiscal years 2009 and 2010 were \$10,490,702 and \$4,593,402, respectively.

The following table outlines the activity:

<u>Fiscal Year</u>	<u>Retirees</u>	<u>Payments to Retirees</u>	<u>ARC</u>	<u>Contributions Made</u>
2008.....	201	\$1,349,484	\$4,617,000	\$13,439,139
2007.....	203	1,338,914	N/A	N/A
2006.....	149	1,248,602	N/A	N/A
2005.....	167	1,020,498	N/A	N/A
2004.....	154	987,272	N/A	N/A

Source: St. Mary's County Department of Finance.

All employees of the County, including general, elected and appointed, participate in the Federal Insurance Compensation Act ("FICA").

Labor Relations

As of July 1, 2009, the County employed approximately 743 full- and permanent part-time (merit and non-merit) employees. The County has not entered into any collective bargaining agreements. While some County employees are members of the Maryland Classified Employees Association, membership is not mandatory and does not bind the County to any collective bargaining agreement. In addition, the County has not experienced a work stoppage due to labor problems and considers its relationships with employees to be satisfactory.

Leases and Other Contracts

In addition to contracts for goods and services arising in the ordinary course of business of the County, the County is a party to numerous other contracts, primarily with engineers, architects and contractors, relating to capital projects. Funds necessary to meet the County's obligations for these contracts have been appropriated and are a part of the Capital Improvement Fund of the County. (See "BUDGET AND ACCOUNTING.")

The County will acquire needed equipment through equipment lease/purchase agreements in future fiscal years as long as it proves to be an economical manner of handling such expenditures.

BUDGET AND ACCOUNTING

The formulation of the County's budget is the responsibility of the Chief Financial Officer who is subject to the supervision of the County Administrator.

The County Budget is comprised of the Current Expense Budget, the Capital Budget and Capital Program, and the Budget Message.

Current Expense Budget

The Current Expense Budget, which by law must be balanced, is prepared and submitted for approval to the Board of County Commissioners based upon estimated revenues and expenditures of operations for the ensuing fiscal year submitted to the Chief Financial Officer by the head of each office, court, department, institution, board, commission, corporation, or other agency of the County government. The proposed Current Expense Budget is required to contain not less than the following information: (1) a statement of all revenue estimated to be received by the County during the ensuing fiscal year, classified to show the receipts by funds and sources of income; (2) a statement of the debt service requirement for the ensuing fiscal year; (3) a statement of the estimated cash surplus, if any, available for expenditure during the ensuing fiscal year; (4) a statement of the bonded and other indebtedness of the County and its agencies, including self-liquidating and special taxing district debts; (5) a comparative statement of the receipts and expenditures for the last two completed fiscal years, the estimated receipts and expenditures of the current ending fiscal year and the expenditures recommended by the Board of County Commissioners for the ensuing fiscal year for each function, activity, and sub activity; and (6) any other material which the Board of County Commissioners may deem advisable.

Capital Budget and Capital Program

The Capital Budget of the County is its plan to receive and expend funds for capital projects during the ensuing fiscal year. The Capital Program of the County is its plan to receive and expend funds for capital projects during the fiscal year covered by the Capital Budget and the next succeeding five fiscal years thereafter. The Board of County Commissioners may direct that each office, court, department, institution, board, commission, corporation, or other agency of the County government submit to the Director of Finance for transmission to the Planning Commission an itemized list of the capital projects which each agency proposes to undertake in the ensuing fiscal year and the next succeeding five fiscal years thereafter. After consideration by the Planning Commission, the Director of Land Use and Growth Management is required to transmit to the Chief Financial Officer the list of projects recommended by the Commission together with his recommendation of the projects to be undertaken, in the periods aforesaid and estimates of the costs thereof. The County Commissioners, with the assistance of the Chief Financial Officer, shall consider such recommendations with the other budget proposals and shall recommend to the general public together with the Current Expense Budget, a complete Capital Budget and Capital Program. The proposed Capital Budget and Capital Program is required to be arranged so as to set forth clearly the plan of proposed capital projects to be undertaken in the ensuing fiscal year and in each of the next succeeding five fiscal years, and also the proposed means of financing them. The Capital Budget shall include a statement of the receipts anticipated during the ensuing fiscal year from all borrowing and from other sources for capital projects.

Budget Message

The Budget Message is required to contain supporting summary tables and to explain the proposed Current Expense Budget, Capital Budget and Capital Program, both in fiscal terms, and in terms of work to be done. It is required to outline the proposed financial policies of the County for the ensuing fiscal year and describe the important features of the Current Expense Budget. It must also indicate any major changes in financial policies and in expenditures, appropriations, and revenues as compared with the fiscal year currently ending and set forth the reasons for such changes. The Budget Message also must include such other material as the Board of County Commissioners may deem desirable.

Adoption of Budget

Before April 1 of each year, the Recommended County Budget must be prepared and signed by a majority of the Board of County Commissioners. Upon approval of the proposed County Budget, notice of the places and times of public hearing(s) on the proposed budget must be published in at least one newspaper of general circulation published in the County. The hearing(s) are to be held not less than 20, nor more than 40 days after the date of filing the proposed budget. After the public hearings, the Board of County Commissioners may revise the proposed budget and any part of it by increasing, decreasing, eliminating, or adding items. Items may not be consolidated in such a manner as to reduce the detailed statements of the appropriations. The Board is further authorized to revise the schedule of anticipated receipts and estimated rates for general and special taxes. The Annual Budget and Appropriation Act is required to be adopted by June 1. The adoption of the Budget must be by the affirmative vote of not less than three members of the Board of County Commissioners.

Basis of Accounting

Basis of accounting refers to the time at which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Both the General Fund and the Capital Improvement Fund of the County are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts taxes, and sales taxes are considered measurable when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which is recognized when due.

Accounting Policies

The accounting policies of the County conform to generally accepted accounting principles (“GAAP”) as applicable to governments.

COUNTY EXPENDITURES

The following table summarizes the actual expenditures of the County by major functional purpose for the County’s five most recent fiscal years ended June 30 for which audited data are available.

General Fund Summary of Expenditures and Transfers

	Fiscal Year				
	2008	2007	2006	2005	2004
General Government	19,632,188	19,161,704	17,121,275	15,690,553	\$ 14,531,233
Public Safety	31,001,012	27,457,553	24,141,881	22,147,827	23,203,635
Public Works	6,950,820	9,960,632	8,743,272	7,640,738	7,462,084
Health	1,249,107	1,230,102	1,202,193	1,160,411	1,106,421
Social Services	4,452,880	3,954,705	3,602,590	3,300,461	3,223,880
Education	80,511,078	72,180,913	66,793,021	62,761,049	59,930,537
Recreation and Parks	3,729,497	3,135,799	2,891,273	2,534,418	2,349,164
Libraries	2,250,746	2,015,100	1,781,142	1,666,464	1,634,103
Conservation of Natural Resources	379,302	340,474	314,206	276,734	289,431
Economic Development and Opportunity	3,382,889	3,207,924	3,402,759	3,069,184	2,397,125
Debt Service	12,555,895	12,664,680	12,856,499	12,075,518	10,646,013
Intergovernmental	53,796	58,879	55,370	48,936	48,129
Miscellaneous	11,249,693	4,785,409	1,038,066	809,481	930,267
Total Expenditures	\$177,398,903	\$160,153,874	\$143,943,547	\$133,181,774	\$127,752,022
Other Financing Uses – Transfers	2,023,693	14,228,277	4,340,017	500,000	0
Total	<u>\$179,422,596</u>	<u>\$174,382,151</u>	<u>\$148,283,564</u>	<u>\$133,681,774</u>	<u>\$127,752,022</u>

Source: St. Mary’s County Department of Finance.

The following table summarizes audited General Fund revenues and expenditures for fiscal year 2008, revised budget for fiscal year 2009, and estimated results for fiscal year 2009. This information is presented on a budgetary basis.

	Audited 2008 Results	Revised 2009 Budget	Estimated 2009 Results
Revenues:			
Property Taxes	\$77,889,130	\$87,178,772	\$87,183,424
Income Taxes	62,829,665	63,752,100	61,471,674
Highway User Fees	7,758,624	6,768,218	6,564,822
Other Local Taxes	10,718,755	7,921,000	7,256,256
Licenses and Permits	1,438,858	1,534,305	1,324,802
Grants	6,187,935	13,427,574	12,488,912
Service Charges	5,712,489	6,410,103	5,434,944
Fines and Forfeitures	242,871	281,240	233,572
Investment Earnings	3,000,646	752,735	616,053
Miscellaneous	<u>185,372</u>	<u>994,771</u>	<u>177,429</u>
Total Revenues	\$175,964,345	\$189,020,818	\$182,751,888
Other Financing Sources	<u>14,618,243</u>	<u>11,586,870</u>	<u>11,586,870</u>
Total Revenues and Other Financing Sources	<u>\$190,582,588</u>	<u>\$200,607,688</u>	<u>\$194,338,758</u>
Expenditures:			
Current:			
General Government	\$19,632,188	\$22,585,930	20,041,176
Public Safety	31,001,012	35,565,645	32,928,820
Public Works	6,950,820	8,933,828	8,418,618
Public Health	1,249,107	1,487,254	1,474,178
Social Services	4,452,880	4,967,277	4,840,600
Education	80,511,078	85,072,985	84,934,238
Recreation and Culture	3,729,497	4,075,647	3,958,853
Libraries	2,250,746	2,224,799	2,224,799
Conservation of Natural Resources	379,302	376,705	365,678
Community Development & Housing	1,210,838	1,654,669	1,366,689
Economic Development/ Opportunity	2,172,051	1,569,516	1,573,423
Human Services		6,609,859	6,127,668
Debt Service	12,555,895	12,009,749	11,924,790
Intergovernmental	53,796	55,780	55,780
Retiree Health (OPEB)	11,221,952	10,490,702	10,486,576
Miscellaneous	27,741	36,000	43,048
Total Expenditures	\$177,398,903	197,716,345	190,764,934
Other Finance Uses:			
Reserves	1,334,731	1,891,343	544,464
Transfers	2,023,693	1,000,000	1,000,000
Total Expenditures and Other Financing Uses	<u>\$180,757,327</u>	<u>\$200,607,688</u>	<u>\$192,309,398</u>

Source: St. Mary's County Department of Finance.

COUNTY SERVICES

Through its various departments and offices (see "COUNTY GOVERNMENT AND ADMINISTRATION"), the County supplies a typical array of governmental services. The following is a description of certain services provided by the County.

Education

The County Board of Education, consisting of five members elected for four year terms, is responsible for the overall operation and policy decisions of the County's public school system. During the 2008-2009 school year, the Board of Education exercised responsibility for 26 elementary and secondary schools, including a Career and Technology Center, as well as an evening high school, an alternative learning center, a pre-kindergarten program, and a public charter school. The system accommodated 16,322 students in school year 2008-2009. The 2008-2009 level of professional teachers allowed average class sizes of 19.3 at the kindergarten level, 20.0 at grades 1 and 2, 21.4 for grades 3 to 5, 18.1 for middle schools, and 19.1 for high schools. In June 2009, 1,093 students graduated from County public schools. The County spent \$67,881,488 for the Board of Education in 2007, \$76,000,000 in 2008, and appropriated \$80,138,192 in fiscal year 2009. The original approved fiscal year 2010 budget allocation for the Board of Education is currently approved at \$79,945,102 for operating, and \$4,769,720 for capital projects.

In addition, there are 11 private and parochial schools in St. Mary's County which accommodate approximately 2,266 students. The County's financial responsibility with respect to such students is limited to the provision of transportation to and from school. The cost of providing such transportation is estimated at \$2,142,849 in fiscal year 2010.

Police and Fire

The St. Mary's County Sheriff's Office is a full service law enforcement agency which includes the management of the St. Mary's County Adult Detention Center. The Sheriff has a staffing authority of one hundred and twenty-nine (129) sworn deputies, six (6) court security officers, a jail warden who is a sworn Deputy Sheriff, eighty-two (82) correctional officers and forty three (49.5) civilian support personnel.

The Sheriff's Office provides law enforcement services to the citizens of St. Mary's County including, general patrol functions, i.e. criminal investigations, civil disturbances, accident investigation, traffic enforcement, service of arrest warrants and protective orders, and assisting other county agencies. The patrol officers are supported by five (5) K-9 officers who receive specialized training in suspect apprehension, bomb detection, drug detection, article search and tracking.

The Sheriff's Office and the Maryland State Police have implemented a combined Bureau of Criminal Investigations in which detectives from both agencies work together and share resources in the investigation of the more serious crimes committed in the county. The Bureau is housed at the Sheriff's Office Headquarters and has an established Board of Directors consisting of the Sheriff, State's Attorney and the Leonardtown Barrack Commander of the Maryland State Police.

The Sheriff's Office Special Operations Division provides a variety services and programs to the community. These services include security of the Circuit Court, civil process service, traffic safety enforcement and education, advanced accident investigation, community policing programs to include the Collaborative Supervision and Focused Enforcement (CSAFE) Initiative, crime prevention programs, School Resource Officers, D.A.R.E., Emergency Services Team (EST), training and Alcohol Enforcement Coordinator. Division personnel actively participate in various multi-agency initiatives and or boards to include Adult Drug Court, Juvenile Drug Court, St. Mary's County Board of Education Safety and Security Committee and the Local Emergency Planning Committee. The goal of the Special Operations Division is to promote pro-active problem solving and community partnerships to address the cause of crime and other community issues. By partnering with service organizations, schools, neighborhood groups, businesses and citizens, we believe we will reduce crime and improve the quality of life in St. Mary's County.

The St. Mary's County Detention Center is responsible for housing all adult sentenced and pre-trial inmates and federal detainees. The operating capacity is designed to house 245 inmates and has a current inmate population of 325. The County's capital budget and plan includes funding for a multi-phase renovation and expansion project. The Corrections Division is dedicated to providing the county with safe, secure and humane incarceration of detainees with a focus on successful re-integration of offenders to our community. Numerous educational and vocational programs are used in this effort to include: GED, mental health, basic-intermediate-advanced computer training, culinary art, parenting, life skills, substance abuse and treatment, domestic violence, HIV, and anger management. The adult detention center also maintains home detention and work release programs for jail diversion and provides over 10,000 hours of inmate labor monthly to the community.

The Sheriff's Administrative Division includes civilian support personnel who maintain all records such as criminal investigative reports, civil process, accident investigations, traffic citations and warnings, and any other report generated by Sheriff's Office personnel. The division also includes the Sheriff's fiscal staff who oversees all budget issues, quartermaster and Accreditation.

(See "COUNTY GOVERNMENT AND ADMINISTRATION – Retirement and Pension Programs" for information on the Sheriff's Department pension plan.)

There are seven volunteer fire departments, operating from nine stations with 513 active members operating 75 pieces of equipment ranging from a 100-foot aerial ladder trucks, 1500 GPM pumpers to small four wheel drive vehicles for woods and brush fire suppression work and Chiefs Command Vehicles. The departments are financed from State, county, dedicated fire property tax and private fundraising sources.

There are also seven volunteer rescue squads, operating from nine stations with 437 active members operating 29 ambulances and eight Command and Utility vehicles. With the exception of one Combined Volunteer Fire Department and Rescue Squad, Rescue squads are independent organizations not associated with the volunteer fire departments. A County-funded Advanced Life Support Unit is also operational and provides services with three vehicles.

The Department of Public Safety is responsible for County-wide centralized emergency management and emergency communications response and preparedness activities. Complete emergency communications coverage for the protection of St. Mary's County's citizens along with Sheriff, Maryland State Police, volunteer fire departments and rescue squads is provided in one centralized location using a 800-MHZ 10-channel radio system and tower infrastructure. The "911 Center" houses the operations and allows a coordinated response to any emergency situation. The previous emergency operations center is used as an alternate or backup center.

(See "CERTAIN DEBT INFORMATION" for information on the County's authority to create a revolving loan fund for capital projects of the volunteer fire departments and rescue squads.)

Health

The County provides various public health services to the citizens of St. Mary's County through the St. Mary's County Health Department. The Health Department, individually or in conjunction with the Maryland State Department of Health & Mental Hygiene and the Maryland State Department of the Environment, is responsible for the enforcement of all State and local health sanitation laws through its Office of Environmental Health.

The Health Department also provides medical clinic services to citizens and offers services in the areas of outreach, health education, cancer prevention, cardiovascular risk reduction, women's wellness, nursing, school health, developmental disabilities, communicable disease, geriatrics, health planning, vital records and medical assistance transportation. The Health department serves a public health leadership role in local emergency preparedness and response. In recent years, the Health department has developed public/private partnerships for the delivery of some services and has assumed the role of ombudsman for the County's medical assistance population under the Maryland Medicaid Managed Care Program. Health Department programs and services are funded by the state and local governments, grants, user fees and third party collections for medical services.

Recreation and Parks

The Department of Recreation and Parks operates in collaboration with several boards and committees which are appointed by the Board of County Commissioners. These citizen advisory boards provide oversight for a comprehensive program of public recreation, parks and museums. The boards make recommendations to the County Commissioners on issues of policy. The day-to-day operations of the Department are carried out by a Director, four Division Managers, and a staff of 43 full-time and approximately 451 part-time and seasonal employees.

The R&P Department operates and manages 20 County parks; 16 public waterfront landings; various athletic facility sites; the Three Notch hiking/biking trail; the Wicomico Shores Golf Course and Riverview Restaurant; the St. Clement's Island-Potomac River Museum; and the Piney Point Lighthouse Museum and Park. The Department also manages a historic shipwreck dive preserve; the African-American Schoolhouse in Drayden; the Leonard Hall Recreation Center; Margaret Brent Recreation Center; Hollywood Recreation Center; Carver Recreation Center; a Gymnastics Center; Chancellor's Run Activity Center; a skate park; a water spray ground; a disc golf course; and the Great Mills Swimming Pool.

Hundreds of youth and adult programs and services are offered each year and encompass a broad range of educational, leisure and sports activities. The Department operates before and after school programs and “KEEP” (Kindergarten Extended Enrichment Care) program; summer day camps, sports camps and sponsors special events and trips and tours.

Department of Land Use and Growth Management

The planning, zoning, development review, permitting and code compliance functions are centralized in the Department of Land Use and Growth Management and are accomplished through a diversified system of commissions, boards and intergovernmental staff organizations.

The Comprehensive Planning Division of the Department performs the planning, zoning and land use management and staff functions. It tracks compliance with the comprehensive plan, identifying strengths and weaknesses and recommending revisions.

The Development Services Division reviews all development-related proposals for compliance with zoning and subdivision regulations and the Comprehensive Plan. Processes plans for new development and coordinates the reviews of other applicable agencies.

The Zoning Administration Division is responsible for daily administration of the Zoning Ordinance. This includes issuance of zoning authorizations, conditional uses, variances, home occupations, mining operations, commercial/industrial change of uses, day care centers, roadside stands, commercial stables and sign permits. This division is the staff support to the (Zoning) Board of Appeals.

The Inspections and Compliance Division provides customer assistance and inspection services to verify compliance with zoning, building, electric, plumbing, fuel gas, floodplain regulations, Minimum Livability and Maryland Accessibility Codes and Ordinances. Zoning inspection and compliance functions range from investigating citizen inquiries and violations to site inspections for new storm water management facilities, parking and landscaping to compliance with conditional use approvals. This section also supports the activities of the Plumbing Board and Board of Electrical Examiners as well as to the Board of Building Code Appeals, on an “as needed” basis.

The Administration Division of the Department of Land Use and Growth Management provides internal support services for the divisions of the Department through a series of data processing, inventory, financial, secretarial, and other record management processes. The Director serves as the principal advisor and administrator to the Planning Commission, the Board of (Zoning) Appeals, and the Historic Preservation Commission.

The Board of County Commissioners adopted a new Comprehensive Plan in 2002. Revised zoning, subdivision, storm water management and road construction regulations were also adopted in 2002 to conform to the latest Comprehensive Plan. The County recently started the work sessions devoted to the update of the Comprehensive Plan, during which time they will consider the public’s input from a series of public hearings as well as the recommendations made by the Planning Commission.

The Planning Commission of St. Mary’s County consists of seven members appointed for five-year terms by the Board of County Commissioners. The Planning Commission is the approving authority for the subdivision of land and site plans, and it evaluates and makes recommendations to the Board of County Commissioners on planned unit developments, rezoning, areas of critical concern and land use management and planning policies. The Planning Commission and staff also review capital improvement programs and budgets. The Planning Commission’s approval of development applications requires adequate public facilities in accordance with the zoning ordinance to ensure that the demand for public facilities and services does not overly burden the County’s fiscal resources.

The Board of (Zoning) Appeals, consisting of five members and two alternates, has the authority to grant conditional uses and variances to the Zoning Ordinance; it also accepts and decides appeals of the administrative decisions of the Zoning Administrator.

The Historic Preservation Commission performs functions related to the historic preservation provisions of the Zoning Ordinance and Comprehensive Plan.

The Technical Evaluation Committee (TEC) functions as the technical agency to accomplish comprehensive evaluations and reviews of all planning and zoning and land use applications.

Roads and Highways

St. Mary's County is served by Maryland Route 5 running northwest from the southern most tip of the County at Point Lookout through Leonardtown, the County seat, and eventually through Charlotte Hall in the northern most part of the County. Route 5 runs through Charles and Prince George's counties and into the Washington, D.C. area. Route 235 is another major State highway which runs from the southern portion of the County through Lexington Park and is the main route to the Patuxent River Naval Air Station. Route 235 meets Route 5 in the northern part of the County. State Route 234 intersects with Route 5 outside of Leonardtown and runs northwesterly into southern Charles County where it meets U.S. Route 301 just north of the Potomac River. Maryland Route 4 which runs through Calvert County crosses the Patuxent River at the Governor Thomas Johnson Bridge and intersects with Maryland Route 235 in St. Mary's County. The following transportation related plans have been approved: A Debris Management Operations Plan was approved by the Maryland Emergency Management Agency on October 2, 2007; A Countywide Transportation Plan was adopted by the Board of County Commissioners on August 29, 2006; A Transportation Development Plan was approved by the Maryland Transit Administration on October 25, 2007; and the St. Mary's County Regional Airport Master Plan.

There are 1,502 County maintained roadways encompassing approximately 1,245 lane miles. The County's fiscal year 2010 operating budget for the County Highways Division in the Department of Public Works and Transportation is \$3,810,598. The approved capital budget for various highway projects includes appropriations of \$4,147,100. As of August 25, 2009, the State Highway User revenue is estimated to be \$385,631 and State Aid and ARRA funding for Capital Project is estimated to be \$2,024,600.

Solid Waste

Trash collection is provided by private collectors and citizens can also dispose of trash and recyclables at six residential convenience centers located throughout the County. Rubble and oversized loads from residents continues to be collected at the At St. Andrews landfill site and is currently transported to the King George Landfill. All wood / yard waste is ground into mulch and returned to the citizens. Recycling operations continue to offer both revenues and tipping fee cost avoidance opportunities.

The entire site is 270 acres and a new 55-acre Subtitle D disposal Area C has been approved and is permitted by the State for future expansion and a State Refuse Disposal Permit and Operating License was approved on September 25, 2008 for the operation of a Transfer Station and Processing Facility for additional contingency planning. The County continues to operate under an Environmental Monitoring Plan and Gas Remediation Plan approved by the Maryland Department of the Environment ("MDE") on July 3, 2000 and July 27, 2006, with an Assessment of Corrective Measures is pending approval by the State. The County will continue exporting approximately 20,000 tons per year of municipal solid waste (collected at the County-operated convenience centers) and 8-10,000 tons of rubble (collected from the St. Andrews Landfill site) to the Charles County and King George County Subtitle D landfills, respectively. This will continue until the County constructs the approved Transfer Station & Processing Facility. The arrangement with Charles County was formalized through a Memorandum of Understanding between the respective Boards of County Commissioners signed on August 4, 2009. An Enterprise Fund has also been established to partially fund the solid waste and recycling programs, which included implementation of an Environmental and Solid Waste Service Fee.

The County's Comprehensive Solid Waste Management and Recycling Plan update was formally approved by the Maryland Department of the Environment on December 11, 2006. The Plan establishes the direction, system and implementation schedule for solid waste management and contingency planning activities over the next ten years through established short, medium and long term goals. An update to the Plan is currently scheduled for 2010. The approved calendar year 2007 Maryland Recycling Rate ("MRA") for the County was approved on October 16, 2008 at 35.08%, which includes a 4% source reduction credit, 20% above the State mandated goal of 15%.

COUNTY REVENUES

General

The County's principal source of revenue is taxes, 47.8% of which were derived from ad valorem property taxes in fiscal year 2010.

The County's second most important source of revenue is income taxes. As a percentage of total general fund revenue, income tax was 33.5% of total revenue for fiscal year 2010.

The following table shows the various sources of revenue for the five most recent fiscal years ended June 30:

General Fund Summary of Revenues

	Fiscal Year				
	2008	2007	2006	2005	2004
Taxes – Local Property	\$77,889,130	\$69,853,139	\$63,198,955	\$58,187,880	\$56,179,452
– Local Income Tax	62,829,665	58,521,923	56,687,230	54,148,444	51,352,963
– Local Other	10,718,755	11,979,121	14,934,435	12,850,508	10,896,651
– State Shared	7,758,624	7,325,357	7,294,289	6,217,472	4,705,465
Licenses and Permits	1,438,858	1,556,009	1,267,425	1,288,530	1,604,784
Intergovernmental Revenue	6,187,935	6,374,662	6,705,837	5,852,959	5,285,845
Charges for Services	5,712,489	5,977,161	5,258,972	5,221,939	5,109,259
Fines and Forfeits	242,871	274,885	267,731	216,458	235,997
Miscellaneous	3,186,017	4,952,801	3,530,719	1,250,634	523,504
Total Revenues	<u>\$175,964,345</u>	<u>\$166,815,058</u>	<u>\$159,145,593</u>	<u>\$145,234,824</u>	<u>\$135,893,920</u>

Source: St. Mary's County Audited Financial Statements.

Property Taxes and Assessments

The assessment of all real and tangible personal property for purposes of property taxation by the County is the sole responsibility of the State Department of Assessments and Taxation, an independent State agency.

For State and County real property tax purposes, real property is valued at market value and assessed at 100% of market value. In order to make real property tax bills simpler and easier to understand, the General Assembly, under Chapter 80 of the Acts of 2000, has required that property tax rates on real property be based on a full cash value assessment. As a result, on October 1, 2000, real property tax rates were reduced to 40% of the rate effective July 1, 2000. Beginning in fiscal year 1992, a Homestead Tax Credit is applied to some owner-occupied residential property which limits the amount of assessment increase that can be taxed. The increase is limited to a range from 0% to 10%, which is set by the St. Mary's County Commissioners annually. The current rate for St. Mary's County is 5%, which has been unchanged since July 1, 1999. All property is physically inspected once every three years and any increase in full cash value arising from a new property valuation phased in over the ensuing three taxable years in equal annual installments.

Tangible business personal property is assessed at cost in the year of acquisition. A 10% depreciation rate per annum is applied and property will not be depreciated below 25% of original cost. Commercial and manufacturing inventory of business is assessed at cost and is determined from annual reports filed with the State Department of Assessments and Taxation. The County provides a 100% exemption for five categories of personal property (commercial inventory, manufacturing inventory, manufacturing machinery, farm implements and livestock).

Assessable taxable property growth in the County was 12.55% between fiscal year 2007 and fiscal year 2008 and is 12.49% between fiscal year 2008 and fiscal year 2009.

The State also provides a tax credit based on the ability of homeowners to pay property taxes. The credit is calculated by use of a scale which indicates a maximum property tax liability for various income levels. The amount the County will provide in tax credits to homeowners in any given fiscal year will be offset by a 100% reimbursement from the State. Additionally, the County enacted a "Senior Tax Credit". This credit which is funded from County property tax revenues is provided for citizens who are age 70 and above and who receive the State's credit. Starting in fiscal year 2007, the County added a "Senior Tax Cap Credit" to cap the amount of assessment that is billed to seniors, this enables them to only pay increases if the property rate increases, not the assessment.

Assessed Values and Tax Rates

The following table sets forth the assessed value of all taxable property in the County for each of its five most recent fiscal years and the County and State tax rates applicable in each of those years. Assessed value of tax-exempt properties owned by Federal, State, and County governments, churches, schools, fraternal organizations, cemeteries, disabled veterans and the blind, aggregating approximately \$2.2 billion for the fiscal year ended 2007, are not included in the table. Under applicable law, there are no limits on the property tax rates as set forth in the table.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assessable Value					
Real Property	\$9,416,413,771	\$8,348,235,733	\$7,393,269,494	\$6,563,501,194	\$5,951,638,787
Personal Property Locally Assessed	15,320,000	14,431,000	13,310,000	12,331,000	10,970,000
Public Utilities	120,545,000	122,063,000	127,550,000	125,977,000	111,084,000
Business Corporation.....	<u>137,880,000</u>	<u>129,879,000</u>	<u>119,790,000</u>	<u>110,979,000</u>	<u>98,730,000</u>
Total Base	<u>\$9,690,158,771</u>	<u>\$8,614,608,733</u>	<u>\$7,653,919,494</u>	<u>\$6,812,788,194</u>	<u>\$6,172,422,787</u>
County Tax Rate (Per \$100 of Assessed Value).....	.857	.857	.857	.872	.878
State Tax Rate (Per \$100 of Assessed Value).....	.112	.112	.112	.132	.132

Source: St. Mary’s County Department of Finance.

The assessable base is projected to be \$10,543,805,037 for fiscal year 2010. The property tax rate is .857 for Real Property and \$2.143 for Non-Real Property.

Tax Levies and Collections

County taxes are due and payable as of July 1 of each year and the County records property tax revenues as the taxes are billed. A 100% allowance for uncollectible is established for prior year taxes receivable. Beginning October 1, interest (at the rate of 1% per month) is charged for each month or fraction thereof that real property taxes remain unpaid for the current year plus a 3% one-time penalty for all unpaid County real property taxes due in that levy year. For personal property, the percentages are 1% per month and a 3% one-time penalty. Such taxes become delinquent on October 1 in the fiscal year of billing. Delinquent taxes are satisfied, after prior notice of delinquency, at tax sales conducted by the County Treasurer in the year following delinquency. Maryland Department of Assessments and Taxation has approved a service charge of .2% of the amount of tax due at the second installment to cover lost interest income and administrative expenses associated with the semiannual payment schedule pursuant to Section 10-204.3 of the Tax-Property Article of the Annotated Code of Maryland.

The following table sets forth certain information with respect to the County’s tax levies and tax collections for each of the five most recent fiscal years ended June 30.

Fiscal Year	Total Tax Levv	Current Year’s Taxes Collected in Year of Levv		Total Taxes Collected (Current and Delinquent)		Accumulated Delinquent Taxes	Accumulated Delinquent Taxes As A % of Current Year’s Tax Levv
		Amount	%	Amount	%		
2008	\$77,806,445	\$75,850,762	97.5%	\$77,320,166	99.4%	\$2,510,011	3.2%
2007	69,573,267	67,989,943	97.7	69,208,798	99.5	2,023,732	3.0
2006	63,236,115	62,001,943	98.1	63,440,536	100.3	1,659,263	2.6
2005	58,040,878	56,942,210	98.1	58,433,816	100.7	1,863,689	3.2
2004	56,164,505	54,610,826	97.2	54,631,514	97.2	2,256,627	4.0

Source: St. Mary’s County Department of Finance

County's Largest Taxpayers

The following table sets forth a list of the County's ten largest taxpayers in respect of ad valorem property taxes for fiscal year 2009.

St. Mary's County Ten Largest Taxpayers (Real and Personal Property Tax)

<u>Name of Taxpayer</u>	<u>Assessed Value</u>
1. Southern Maryland Electric Cooperative	\$71,481,930
2. Great Mills IV, GM V, 3 rd , 4 th & 5 th Exploration, Red Cedar (all LLCs)....	57,920,433
3. Mid-Atlantic Military	49,048,150
4. Rachelle Millison, Trustee.....	46,174,809
5. Verizon-Maryland	42,064,660
6. Arrowhead, Beck & Beck (all LLC's).....	31,992,189
7. Thomas Builders, LLC	31,045,330
8. Cherry Cove Land Dev. Inc.....	28,627,346
9. Liberty Home Builders, Hickory Hills Ltds	26,466,770
10. Exploration One/6 th Exploration.....	23,374,670

Source: St. Mary's County Treasurer's Office.

Income Tax

The rate of local income taxation is set by the County, but collections are administered by the State. The local income tax is levied as a percentage of Maryland taxable income. Alternatively, the County must levy a local income tax at a rate equal to at least 1.00%, but not in excess of 3.20%. The County's local income tax rate remains at 3.0%. A distribution to the County of local income tax collections are made by the State in ten periodic payments.

STATE AND FEDERAL ASSISTANCE

During fiscal year 2008, the County received intergovernmental State and Federal grants for operating purposes in the amount of \$6,187,935. Included in that amount are \$820,242 for State aid for police protection, a \$470,592 State prisoner housing subsidy grant, \$1,136,292 for transportation services, and various other grants for social services, public safety, recreation, and economic development.

The State also shares motor vehicle related revenues with the counties (motor fuel taxes, vehicle titling taxes, registration fees) and the funds are distributed based on road mileage and vehicle registrations. This State-shared tax distribution amounted to \$7,758,624 for St. Mary's County in fiscal year 2008.

State aid for public education in St. Mary's County for fiscal year 2008 amounted to \$95,227,043 and Federal impact aid amounted to \$2,817,528. Fiscal year 2009 State aid was estimated to be \$102,824,163 and general Federal revenues were projected to be \$1,978,000. State and Federal revenues for education are accounted for in the County budget process but are received directly by the Board of Education and are not recorded in the County government financial records.

SUMMARY OF REVENUES AND EXPENDITURES

The following table indicates the General Fund revenues and expenditures for the five most recent fiscal years ended June 30:

General Fund Summary of Revenues and Expenditures Transfers and Application of Accumulated Fund Balance

	Fiscal Year				
	2008	2007	2006	2005	2004
Revenues:					
Taxes	\$159,196,174	\$147,679,540	\$142,114,909	\$131,404,304	\$123,134,531
Licenses and Permits.....	1,438,858	1,556,009	1,267,425	1,288,530	1,604,784
Intergovernmental Revenue.....	6,187,935	6,374,662	6,705,837	5,852,959	5,285,845
Charges for Services.....	5,712,489	5,977,161	5,258,972	5,221,939	5,109,259
Fines and Forfeits.....	242,871	274,885	267,731	216,458	235,997
Miscellaneous.....	3,186,018	4,952,801	3,530,719	1,250,634	523,504
Total Revenues.....	<u>\$175,964,345</u>	<u>\$166,815,058</u>	<u>\$159,145,593</u>	<u>\$145,234,824</u>	<u>\$135,893,920</u>
Expenditures:					
General Government.....	\$ 19,632,188	\$ 19,161,704	\$ 17,121,275	\$ 15,690,553	\$ 14,531,233
Public Safety	31,001,012	27,457,553	24,141,881	22,147,827	23,203,635
Public Works.....	6,950,820	9,960,632	8,743,272	7,640,738	7,462,084
Health.....	1,249,107	1,230,102	1,202,193	1,160,411	1,106,421
Social Services.....	4,452,880	3,954,705	3,602,590	3,300,461	3,223,880
Education	80,511,078	72,180,913	66,793,021	62,761,049	59,930,537
Recreation and Parks.....	3,729,497	3,135,799	2,891,273	2,534,418	2,349,164
Libraries	2,250,746	2,015,100	1,781,142	1,666,464	1,634,103
Conservation of Natural Resources	379,302	340,474	314,206	276,734	289,431
Urban Development and Housing	1,210,838	1,140,623	902,306	811,271	812,400
Economic Development/Opportunity.....	2,172,051	2,067,301	2,500,453	2,257,913	1,584,725
Economic Opportunity.....					
Debt Service.....	12,555,895	12,664,680	12,856,499	12,075,518	10,646,013
Intergovernmental.....	53,796	58,879	55,370	48,936	48,129
Miscellaneous.....	11,249,693	4,785,409	1,038,066	809,481	930,267
Total Expenditures.....	<u>\$177,398,903</u>	<u>\$160,153,874</u>	<u>\$143,943,547</u>	<u>\$133,181,774</u>	<u>\$127,752,022</u>
Excess (Deficiency) of Revenue over Expenditures	(1,434,558)	6,661,184	15,202,046	12,053,050	8,141,898
Other Financing Sources (Uses):					
Fund balance used for non-recurring costs	14,618,243	17,728,277	-	-	-
Transfers to reserves	(1,334,731)	(743,223)	-	(942,252)	(377,820)
Other, net.....	(2,023,693)	(14,228,277)	(4,340,017)	(500,000)	-
Net.....	<u>(2,023,693)</u>	<u>(14,228,277)</u>	<u>(4,340,017)</u>	<u>(500,000)</u>	<u>-</u>
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses.....	<u>\$9,825,261</u>	<u>\$9,417,961</u>	<u>\$ 10,862,029</u>	<u>\$ 10,610,798</u>	<u>\$7,764,078</u>

Source: St. Mary's County Department of Finance.

FISCAL YEAR 2010 BUDGET

The approved General Fund Operating Budget for fiscal year 2010 is \$199,303,995, a decrease of \$3,294,929 when compared to the fiscal year 2009 budget of \$202,598,924. The budget is financed with a property tax rate of \$0.857 per \$100 of assessed valuation for real property and \$2.143 per \$100 of assessed valuation on personal and other operating property, which is the same as the fiscal 2009 rate. The local income tax rate is 3.00% of the individual's State taxable income, which the same as fiscal year 2009 rate.

The approved fiscal year 2010 capital budget for St. Mary's County is \$20,684,805 and the five-year capital program planned for fiscal years 2011 through 2015 amounts to \$195,449,525.

CERTAIN DEBT INFORMATION

General

The County has no power to issue general obligation bonds except that conferred by legislation approved by the Maryland General Assembly. The General Assembly enacted legislation authorizing and empowering the County, from time to time, to borrow in the amounts listed below in order to finance the construction, improvement or development of public facilities in the County in the following year and amounts:

1996.....	10,000,000
1997.....	10,000,000
1998.....	20,000,000
1999.....	25,000,000
2000.....	10,000,000
2001.....	20,000,000
2003.....	25,000,000
2005.....	20,000,000
2008.....	35,000,000

Pursuant to these authorities, the County issued serial maturity bonds in the amount and years listed as follows:

1996.....	7,040,000
1997.....	26,555,000
1999.....	29,575,000
2001.....	25,000,000
2002 Refunding.....	20,755,000
2003 GOB & Refunding.....	33,985,000
2005.....	16,260,000
2008 Refunding.....	6,275,000

In its 1985 session, the General Assembly enacted legislation authorizing the County to issue general obligation bonds or to engage in alternative financing arrangements in an aggregate amount not to exceed \$2,000,000 in order to establish a revolving fund for the purchase of fire fighting and rescue equipment and facilities for volunteer fire and rescue squad organizations. (See "COUNTY SERVICES – Police and Fire"). This fund was established by the Board of County Commissioners in 1998 and is providing low-interest loans to fire and rescue organizations. In its 2001 session, the General Assembly increased the amount of the revolving fund not to exceed \$3,000,000 effective October 1, 2001. Appropriation Level was increased to \$5 Million, House Bill 429, Chapter 324 2006 Legislation

Legal Debt Limitation

Unless and until otherwise provided by the Board of County Commissioners within the limitations provided by public general law, the aggregate amount of bonds and other evidences of indebtedness outstanding at any one time may not exceed 2% upon the assessable basis of the County. However, (1) tax anticipation notes or other evidences of indebtedness having a maturity not in excess of 12 months, (2) bonds or other evidences of indebtedness issued or guaranteed by the County payable primarily or exclusively from taxes levied in or on, or other revenues of, special taxing areas or districts heretofore or hereafter established by law and (3) bonds or other evidences of indebtedness issued for self-liquidating and other projects payable primarily or exclusively from the proceeds of assessments or charges for special benefits or services are not subject to, or be included as bonds or evidences of indebtedness, in computing or applying the percent limitation described above.

All bonds or other evidences of indebtedness issued under the authority of the Metropolitan Commission Enabling Act are exempt from the 2% debt limitation described in the preceding paragraph, but are subject to the debt limitation as from time to time provided in the Metropolitan Commission Enabling Act. Presently, the total principal amount of bonds issued pursuant to the Metropolitan Commission Enabling Act for any sanitary district may not exceed 25% of the assessed valuation within that sanitary district.

The following chart shows the County’s present legal debt margin.

**Schedule of Legal Debt
Margin of the County Under Existing Law**

Estimated assessed value as of July 1, 2009.....	\$10,435,846,394
Debt limit	2.0%
Borrowing limitation under the law	\$ 208,716,928
Outstanding debt issued as of July 1, 2009	\$ 87,223,945
Debt margin as of July 1, 2009.....	\$ 121,492,983
Ratio of debt to assessed value.....	1.16%

*Includes only debt which is subject to the legal debt limitation. The estimated assessed value represents the Final Assessment from State Department of Assessments 2/13/2009, Constant Yield Letter.

Other County Debt

On January 15, 2002, the County issued \$20,000,000 of general obligation bonds as the Hospital Bonds of 2002 and loaned the proceeds thereof to St. Mary’s Hospital of St. Mary’s County, Inc. (the “Hospital”). The Hospital applied the proceeds of such loan to fund capital improvements to its facility in Leonardtown, Maryland, including the construction of approximately 67,000 square feet of new space, the renovation of approximately 40,000 square feet of existing space, and site and infrastructure improvements. The 2002 Hospital Bonds are general obligations of the County and are payable in the first instance from payments made by the Hospital to the County under a loan agreement. The County expects that such payments will be adequate to cover debt service on the 2002 Hospital Bonds. Pursuant to the Code of St. Mary’s County, all bonds issued by the County Commissioners for the benefit of the Hospital are excluded in computing or applying the County debt limitation.

The County is contingently liable as guarantor of bonds issued by the St. Mary’s County Metropolitan Commission under the Metropolitan Commission Enabling Act. Commission bonds are payable in the first instance from the benefit assessments and connection and service charges. The County expects these funds to be adequate to cover debt service on the Commission’s bonds. All bonds or other evidences of indebtedness issued by the Commission are exempt from the County debt limitation. (See “COUNTY SERVICES – Water Supply and Sewerage”.)

On September 29, 2000, the Board of County Commissioners entered into a Loan Agreement with the Maryland Water Quality Financing Administration to finance the capping of cells 1, 2 and 4 of Landfill Area B. This loan, in the principal amount of \$3,225,318, is payable in equal annual installments over a 15-year period, with interest at 2.4%.

On May 26, 2004, the Board of County Commissioners entered into a Loan Agreement with the Maryland Water Quality Financing Administration to finance the capping of St. Andrews Landfill Closure, cells 3 & 5. This loan, in the principal amount of \$4,222,307 is payable in equal annual installments over a 15-year period, with interest of 1.10%.

[remainder of page intentionally left blank]

Schedule of Debt Service Requirements

The following tables set forth the schedule of debt service requirements for certain of the County debt outstanding as of June 30, 2009.

	General Obligation Bonds, Notes and Loans (1)		Total Debt Service(2)
	Principal	Interest	
2010	\$7,856,678	\$3,445,760	\$11,302,437
2011	8,113,945	3,154,209	11,268,153
2012	7,200,199	2,890,545	10,090,744
2013	7,438,469	2,624,078	10,062,547
2014	5,482,200	2,382,129	7,864,329
2015	5,696,152	2,161,857	7,858,009
2016	5,811,478	1,927,987	7,739,465
2017	5,886,705	1,671,286	7,557,991
2018	6,140,283	1,415,764	7,556,048
2019	6,280,148	1,142,151	7,422,300
2020	6,338,632	840,624	7,179,256
2021	4,158,632	599,078	4,757,710
2022	4,353,632	407,241	4,760,873
2023	2,608,632	251,444	2,860,076
2024	2,718,632	132,544	2,851,176
2028	<u>1,139,528</u>	<u>47,813</u>	<u>1,187,341</u>
Total	<u>\$87,223,945</u>	<u>\$25,094,510</u>	<u>\$112,318,455</u>

(1) Does not include the 2002 Hospital Bonds, certain interest-free State loans payable out of special assessments, bonds issued by the Metropolitan Commission, or the St. Mary's County Building Authority Commission \$8,910,000 Nursing Home Project and Refunding Bonds of 1992, or the \$8,760,000 Certificates of Participation for the St. Mary's County State Multi-Service Center.
 Source: St. Mary's County Department of Finance.

[remainder of page intentionally left blank]

**Schedule of Debt Service Requirements as
Adjusted for the Issuance of the Bonds**

Fiscal Years Ending <u>June 30</u>	Total Debt Service (1)	LESS: Refunded Bonds Debt Service	Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A		Consolidated Public Improvement Taxable Build America Bonds- Direct Payment to Issuer Series 2009B		Consolidated Public Improvement Refunding Bonds Series 2009C		Adjusted Total Debt Service
			Principal	Interest (2)	Principal	Interest (3)(4)	Principal	Interest (5)	
2010	\$11,302,437	\$ 348,198	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$10,954,240
2011	11,268,153	696,395	1,220,000	451,370	-	1,015,724	-	609,002	13,867,854
2012	10,090,744	696,395	1,235,000	365,475	-	909,604	-	545,375	12,449,803
2013	10,062,547	1,885,576	1,245,000	328,275	-	909,604	1,240,000	532,975	12,432,825
2014	7,864,329	1,887,135	1,260,000	290,700	-	909,604	1,385,000	499,800	10,322,298
2015	7,858,009	1,889,920	1,280,000	255,800	-	909,604	1,430,000	457,575	10,301,068
2016	7,739,465	1,888,705	1,300,000	223,550	-	909,604	1,470,000	414,075	10,167,989
2017	7,557,991	1,888,254	1,330,000	187,350	-	909,604	1,515,000	369,300	9,980,991
2018	7,556,048	1,888,588	1,360,000	140,200	-	909,604	1,580,000	307,075	9,964,339
2019	7,422,300	1,889,750	1,395,000	85,100	-	909,604	1,655,000	234,475	9,811,729
2020	7,179,256	1,891,850	1,430,000	28,600	-	909,604	1,720,000	166,975	9,542,585
2021	4,757,710	1,895,031	-	-	1,470,000	874,691	1,790,000	103,488	7,100,858
2022	4,760,873	1,899,056	-	-	1,510,000	802,406	1,860,000	37,200	7,071,423
2023	2,860,076	-	-	-	1,555,000	725,187	-	-	5,140,263
2024	2,851,176	-	-	-	1,605,000	643,209	-	-	5,099,385
2025	1,187,341	-	-	-	1,655,000	556,599	-	-	3,398,940
2026	-	-	-	-	1,710,000	464,669	-	-	2,174,669
2027	-	-	-	-	1,765,000	367,576	-	-	2,132,576
2028	-	-	-	-	1,825,000	267,748	-	-	2,092,748
2029	-	-	-	-	1,890,000	164,640	-	-	2,054,640
2030	-	-	-	-	1,960,000	55,860	-	-	2,015,860
Total	<u>\$112,318,455</u>	<u>\$20,644,853</u>	<u>\$13,055,000</u>	<u>\$2,356,420</u>	<u>\$16,945,000</u>	<u>\$14,124,742</u>	<u>\$15,645,000</u>	<u>\$4,277,315</u>	<u>\$158,077,080</u>

(1) Totals may not add due to rounding.

(2) Interest rates range from 2.50% to 4.00%.

(3) Interest rates range from 4.75% to 5.70%.

(4) Gross interest shown; does not take into account 35% interest subsidy due from the federal government.

(5) Interest rates range from 2.00% to 5.00%.

The following table sets forth the County’s long-term debt per capita and ratios of debt to assessed value and debt to estimated market value for the five most recent fiscal years:

<u>Fiscal Year</u>	<u>County Debt</u>	<u>Estimated Population</u>	<u>Estimated Market Value</u>	<u>Net Debt Per Capita</u>	<u>Debt to Estimated Value</u>
2008	\$97,128,887	101,578	\$8,614,608,733	\$956	1.13%
2007	104,448,630	99,658	7,653,919,494	1,048	1.36
2006	112,864,817	97,737	6,812,788,194	1,155	1.66
2005	119,772,201	95,816	6,172,422,787	1,250	1.94
2004	108,255,001	93,895	5,791,534,467	1,153	1.87

Source: St. Mary’s County Office of Finance. Note 7 in Financial Statements, less exempt financing.

The following table sets forth the County’s debt service expenditures, exclusive of debt service in respect of Metropolitan Commission bonds and bonds issued for the benefit of the Hospital and the Building Authority Commission Bonds of 1992 and Certificates of Participation of 1988 as a percentage of General Fund revenues for the five most recent fiscal years ended June 30:

<u>Fiscal Year</u>	<u>General Fund Revenues</u>	<u>Debt Service Expenditures</u>	<u>Percentage</u>
2008	\$175,964,345	\$12,555,895	7.1%
2007	166,815,058	12,664,680	7.6
2008	159,145,593	12,856,499	8.1
2009	145,234,824	12,075,518	8.3
2004	135,893,920	10,646,013	7.8

Source: St. Mary’s County Department of Finance.

The County has an above average rate of debt retirement as shown in the following table:

Rapidity of Debt Amortization*
Fiscal Years 2010-2025

<u>Number of Years</u>	<u>Principal Retired</u>	<u>Percent of Debt Retired</u>
5	\$36,091,491	41%
10	29,814,766	76
15	20,178,160	99
20	1,139,528	100

*Does not include the Bonds offered herein.

Capital Financing

The Board of County Commissioners has carefully developed the County’s capital budget and program to meet the demands of growth and an aging infrastructure. The fiscal year 2010 budget reflects several projects related to the expansion and renovation of the Adult Detention Center, to address its capacity issues. The Board’s attention continues to be directed to the need for additions and renovations to public school facilities, highway maintenance, park expansion and development projects, and various other public improvements. Almost 21% of the budget is to be financed from bond proceeds while the balance of the financing comes from other local revenue sources and State and Federal funds.

The adopted five-year capital program for fiscal year 2011 through 2015 amounts to \$195.5 million. Approximately 29% of the program is targeted for public school projects and almost 37% is planned for various public facility projects. The program also includes a new Library for the community, various park projects, and agricultural land preservation projects. The County’s financial planning for the capital budget and program attempts to provide a balanced approach which utilizes current revenues (pay-as-you-go general funds, transfer taxes, impact fees) as well as bonded indebtedness. The financial plan for fiscal years 2011 through 2015 is structured to provide overall project financing as follows: 38% from general obligation bonds, 21% from current revenues (transfer taxes, impact fees, general fund), and 41% from State, Federal and other sources. The following table presents the capital budget and five-year capital program as adopted by the Board of County Commissioners:

Fiscal Year 2010 Capital Improvements Budget and Program

Capital Project	Total	Approved	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
	Project Cost	Budget					
Capital Project Summary:							
Public Facilities.....	\$ 73,827,186	\$ 2,296,000	\$ 24,568,687	\$ 29,059,250	\$ 9,252,860	\$2,663,000	\$ 5,987,389
Land Conservation.....	24,833,998	4,167,333	4,133,333	4,133,333	4,133,333	4,133,333	4,133,333
Highways.....	39,847,100	4,147,100	11,159,000	10,129,000	6,474,000	3,964,000	3,974,000
Solid Waste.....	5,680,000	380,000			5,300,000		
Parks Acquisition & Development.....	6,285,605	809,932	573,909	1,207,409	2,893,411	276,409	524,535
Public Landings Acq. & Development.....	236,720	86,720	30,000	30,000	30,000	30,000	30,000
Public Schools.....	65,423,720	8,797,720	12,584,000	5,500,000	13,222,000	11,488,000	13,832,000
Total Capital Projects.....	<u>\$216,134,329</u>	<u>\$20,684,805</u>	<u>\$53,048,929</u>	<u>\$50,058,992</u>	<u>\$41,305,604</u>	<u>\$22,554,742</u>	<u>\$28,481,257</u>
Capital Project Financing:							
County Bonds.....	\$ 77,427,388	\$ 4,195,953	\$ 28,033,045	\$24,937,233	\$15,282,289	\$2,313,783	\$2,665,085
Transfer Tax.....	30,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Impact Fees.....	15,249,139	600,000	537,500	1,388,750	4,115,326	3,974,000	4,633,563
General Fund Transfer.....	3,000,000	500,000	500,000	500,000	500,000	500,000	500,000
State/Federal Funds.....	83,893,802	9,597,352	17,820,884	17,075,509	15,250,489	9,616,959	14,532,609
Other Sources.....	6,564,000	791,500	1,157,500	1,157,500	1,157,500	1,150,000	1,150,000
Total Project Financing.....	<u>\$216,134,329</u>	<u>\$20,684,805</u>	<u>\$53,048,929</u>	<u>\$50,058,992</u>	<u>\$41,305,604</u>	<u>\$22,554,742</u>	<u>\$28,481,257</u>

Source: St. Mary's County Department of Finance.

Future Plans to Issue County Debt

The County has no plans to issue any additional bonds in fiscal year 2010.

CERTAIN ECONOMIC AND DEMOGRAPHIC FACTORS

Economic Growth and Development

Since 1982, the Board of County Commissioners has maintained a philosophy of assisting businesses and developing tourism in the County. Integral to the efficient execution of that philosophy was the creation of the Department of Economic and Community Development. The Department's objectives include defense and high technology industry growth and diversification; entrepreneurial development and new business incubation; expansion of the tourism and agriculture industries; labor force development; and community facilities and infrastructure improvements. Activities include marketing and public relations; policy development; information collection and dissemination; market expansion for existing businesses; liaison to private and public resources; and direct financial and technical assistance. Since 1998, the Department has coordinated public-private partnerships to provide business and community development assistance with partners that include the St. Mary's Chamber of Commerce, the Community Development Corporation and the Patuxent Partnership.

U.S. Naval Facilities

The Naval Air Station Patuxent River complex ("Pax River") is headquarters for the Naval Air Warfare Center Aircraft Division, the Naval Air Systems Command, and more than 50 tenant activities. The Air Station has been located in the County since 1941. Consolidation and expansion in the 1990s made Pax River the Navy's full spectrum research, development, test and evaluation, engineering and fleet support center for air platforms. Today, approximately 22,500 workers directly support the Navy in St. Mary's County. Specialized labs and expertise support technologies including aerial vehicles, propulsion, man-machine interface, crew survivability, training, test and evaluation, simulation, modeling, communications, materials and chemistry, sensors, computer science and logistics. The activities conducted at the naval complex have encouraged the growth and development of high technology in the County. The number of technology workers has quintupled in the last ten years and St. Mary's County leads the State in its proportion of technology workers.

Population

During the period between 1950 and 1990, the population of the County increased approximately 161% as reflected in the following table. The 2000 Census shows that the County has experienced a 17.8% growth in population in the past ten years.

<u>Year</u>	<u>Population</u>	<u>% Growth</u>
1950	29,111	--
1960	38,915	33.7%
1970	47,388	21.8
1980	59,895	26.4
1990	75,974	26.8
2000	86,211	13.5
2008 (est.)	101,578	17.8

Source: United States Department of Commerce, U.S. Census Bureau. Maryland Department of Planning.

Income

A comparison of St. Mary's County and the State of Maryland personal income is presented in the following table:

<u>Calendar Year</u>	<u>Personal Income (\$000's)</u>		<u>Percent Change from Previous Year</u>	
	<u>St. Mary's County</u>	<u>State of Maryland</u>	<u>St. Mary's County</u>	<u>State of Maryland</u>
2007	\$3,693,113	\$261,114,676	6.6%	6.2%
2006	3,465,354	245,878,837	6.6	5.5
2005	3,251,496	232,950,333	4.8	5.8
2004	3,103,305	220,126,790	6.1	7.0
2003	2,923,956	205,737,071	7.1	3.5

Source: U.S. Bureau of Economic Analysis, April 2009.

A comparison of St. Mary's County and the State of Maryland per capita personal income is presented in the following table:

<u>Calendar Year</u>	<u>Per Capita Personal Income</u>		<u>Percent Change from Previous Year</u>	
	<u>St. Mary's County</u>	<u>State of Maryland</u>	<u>St. Mary's County</u>	<u>State of Maryland</u>
2007	\$36,835	\$46,471	4.7%	5.9%
2006	35,178	43,889	4.8	5.0
2005	33,560	41,781	2.6	5.1
2004	32,706	39,741	3.6	6.1
2003	31,574	37,441	3.9	2.4

Source: U.S. Bureau of Economic Analysis, April 2009

A comparison of St. Mary's County and the State of Maryland median household income is presented in the following table:

<u>Calendar Year</u>	<u>Median Household Income</u>		<u>Percent Change from Previous Decade</u>	
	<u>St. Mary's County</u>	<u>State of Maryland</u>	<u>St. Mary's County</u>	<u>State of Maryland</u>
2008	\$80,624	\$70,545	47.4%	33.5%
1999	54,700	52,850	47.2	34.2

Source: 2008 American Community Survey 1-Year Estimates, 1999-2008 Census, U.S. Census Bureau.

St. Mary's County median household income growth is the highest in Maryland with counties population 65,000 or greater during 1999-2008. The County's median household income ranks sixth in the State of Maryland and is above the state average.

In 1999, our median household income was 3.5% above state average (St. Mary's County \$54,700, Maryland \$52,850). In 2008, we were 14.3% above the state average (St. Mary's County \$80,624, Maryland \$70,545).

Non-Defense Industries

Leisure and Hospitality. There has been significant interest and growth in this sector. With the slowdown in residential construction, tourism has emerged as the #2 industry in the County. Going forward, increased focus on the County's natural assets of the history and heritage as the Mother County of Maryland, and the outdoor recreational possibilities of a rural peninsula with vast landscapes and more than 500 miles of shoreline are the basis for a targeted tourism strategy aimed at the interests of a younger, more health-conscious visitor.

In terms of accommodations, three new hotels opened in 2009 adding 156 rooms. Total rooms available are now 903, double the availability earlier in the decade. The new hotels are Executive Inn & Suites Park Avenue Hotel, Leonardtown (41 rooms), River Creek Lodge, St. George Island (28 rooms), and TownePlace Suites Lexington Park, Lexington Park (87 rooms). An additional 234 rooms are planned to be added in 2010 including Country Inn & Suites (87), Home2 Suites (94), and Comfort Inn (53).

Projected hotel projects 2011 and beyond include Courtyard by Marriott (120 rooms) and Comfort Suites on Route 235 (58). Other possible hotel projects include Hickory Hills, Park Place, and Lexington Exchange.

In terms of visitor spending, for calendar year 2006 to 2007, Global Insights reported a 2.7% or \$4.3 million increase in spending by visitors. From fiscal year 2008 to fiscal year 2009, there was a 6.74% or \$748,577 increase in sales tax generated by hospitality and tourism sectors and over one million (1,045,569) visitors reported to sites and attractions. While the State of Maryland reported a decrease of 5% in accommodations tax, St. Mary's County increased 1% and was only one of five counties to increase. Other positive tourism and hospitality figures include a 16% increase in site attractions, Welcome Center visitation increase of 21%, and press coverage increase of 211%.

There have been significant strides to develop Leonardtown as a destination. The Leonardtown Wharf public park opened in May 2008 and has become a major asset to the County's tourism industry. Places of interest include a visitors pavilion, picnic area, canoe/kayak landing, wetlands featuring many bird species, promenade/boardwalk, and restaurants just a stroll away in Leonardtown Square. Complementing the Wharf is the recently opened Port of Leonardtown Winery, which is home to the Southern Maryland Winegrowers Cooperative. These facilities will offer local farmers an opportunity to grow grapes and cooperatively produce local wines as a coop member. An active business association with over 100 members is an important key to Leonardtown's Downtown Business Revitalization. Leonardtown hosts many family oriented events attracting thousands of people year round. New residential development (Leonard's Grant) is successfully going forward and part of mixed-use vision. The County has recently acquired property in Leonardtown for a future school site and other public uses that will complement the development of Leonardtown.

Agriculture and Seafood. More than 80% of the County's land is zoned RPD (Rural Preservation District). Traditional crop farming and commercial fishing continue but are on the decline. Increasingly, alternative forms of agriculture including agritourism, farm markets, organic farms, oyster farms, wineries, aquaculture, charter tours of lighthouses and other points of interest have developed into profitable ventures.

Small Business Creation. A significant amount of new business growth in the defense sector has come organically. For 2009, there are 82 homegrown technology firms out of 220 technology firms in the County. Total employment in these firms total about 3,100, fully one-third of the County's Professional and Business Services industry.

Chamber of Commerce membership remains strong. The vast majority (90%) of Chamber members are not in the defense sector. Membership retention has consistently averaged about 92% this decade, better than the state and national averages. Even in the past year when the rate fell to about 87% due to the economy, most other Chambers experienced a much greater loss rate. Retention has stabilized in 2009. New memberships are on the rise as many new start-up companies have entered the market. Another indicator of small business interest is the formation of business associations that has occurred in 2009. The new groups include a South County Business Association, St. Mary's Square Merchants Association, and an emerging Lexington Park Business & Community Association. These three organizations complement a successful Leonardtown Business Association.

New Mixed Use Projects. Despite the economy, new mixed use projects are underway. Projects under construction or under development include the following:

1. Park Place in California 30-acre mixed-use, four restaurants including Olive Garden, Red Robin, Buffalo Wild Wings; plus hotel suites and 100,000 SF defense contractor office facility, additional office space, and a church (under construction).
2. Lexington Village Shopping Center in Lexington Park includes Kohl's, 4,000 SF bank/fast food, 7,500 SF full service restaurant and five other pad sites for other retail including Rite Aid, Sonic (under construction).
3. Charlotte Hall Square in Charlotte Hall 40,000+ SF retail includes 20,000+ SF True Value (now open), remaining being leased, plus 2 pad sites including AutoZone (under construction).
4. Vogel Charlotte Hall in Charlotte Hall, 73,350 SF retail space include Cedar Point Federal Credit Union (under construction).
5. Lexington Exchange in California, 140 acres approved for mixed use includes R&D, retail and office. Possible Home Depot, Theater Complex (under development).
6. St. Mary's Marketplace shopping center and retail in California 130,000 SF (under development).
7. Glazed Pine in Lexington Park 1,295,004 SF uses include retail, community center, flex space and office space. Also includes 248 mixed residential units (under development).
8. Charlotte Hall property adjacent to 7/11, 55,000 SF Safeway, plus additional retail (under development).
9. PNC Bank Branch, California (expansion).

Health Services. St. Mary's Hospital, the largest private employer and only hospital in St. Mary's County, has merged with MedStar Health, the region's largest nonprofit healthcare system. St. Mary's Hospital is the ninth hospital in MedStar Health's network and the first hospital in the Southern Maryland region to join the healthcare system. The community will benefit from the merger, as St. Mary's Hospital will have additional opportunities in, and access to, medical teaching and residency programs, clinical trials, research programs, physician recruitment and outpatient treatment programs through MedStar Health. St. Mary's Hospital already has an established relationship with MedSTAR Transport, as well as Washington Hospital Center, which will both be expanded upon as a result of the merger. St. Mary's Hospital was recently recognized with the 2009 Delmarva Foundation Excellence Award for Quality Improvement and joins three other MedStar hospitals in receiving this distinction. In addition, St. Mary's Hospital was the first hospital in Southern Maryland to implement a fully integrated electronic medical records system, a barcode medication administration device and computerized physician order entry. An upcoming Centennial capital project will increase St. Mary's Hospital footprint 50%.

Education Services. The higher education sector continues to grow in support of the workforce development needs of the County. The College of Southern Maryland enrollments are up 10% this past year. A new Wellness Center is under construction and to be completed in 2010. In addition, a new regional 17,858-square-foot Center for Trades and Energy Training facility was established at CSM and will house non-credit construction career starter, apprenticeship and advanced skills programs. St. Mary's College of Maryland, is a nationally-recognized, public honors college, and is expanding its facilities, enrollments, and programs. The Southern Maryland Higher Education Center is also expanding its programs and enrollments with its new University of Maryland Clark Engineering School BS Aerospace and Mechanical Engineering to serve the demand for a four-year aerospace and mechanical engineering degree. The Patuxent River Naval Air Station's tenant commands NAVAIR and NAWCAD have Education Partnership Agreements with all three (and other) institutions of higher learning.

Retail Sales

Retail sales as measured by the growth in retail sales tax collections have increased as follows over the past five years for the counties in Southern Maryland and the State of Maryland.

Retail Sales Tax Collections (000's)

	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2003</u>	<u>Percentage Increase</u>
Calvert County	\$32,151	\$20,653	55.7%
Charles County	92,450	66,769	38.5
St. Mary's County	45,105	32,866	37.2
State of Maryland	3,758,204	2,720,163	38.2

Source: Comptroller of the Treasury Consolidated Revenue Reports, Fiscal Year 2008 and Fiscal Year 2003.
Tax rate increased from 5% to 6% effective January 3, 2008.

Education

The following table sets forth the years of school completed by persons 25 years and older as a percentage of the population described by the U.S. Census for St. Mary's County and the other counties in Southern Maryland.

	<u>Calvert</u>	<u>Charles</u>	<u>St. Mary's</u>
Elementary (grades K-8)	1.5%	3.5%	3.0%
9th to 12th grade (no diploma)	6.2	7.5	8.3
High school graduate (includes equivalency)	34.2	30.4	35.7
College			
No degree	20.9	24.1	19.0
Associate degree	6.3	8.4	6.1
Bachelor's degree	19.2	16.6	18.2
Graduate/Professional degree	11.8	9.6	9.6

Source: 2007 American Community Survey 1-Year Estimates, U.S. Census Bureau.

Dropout rates represent the percentage of students in grades 9-12 who withdrew from school before graduation or before completing a Maryland-approved educational program during the July to June academic year. A rate of 3.0% or less is considered satisfactory by State standards.

Dropout Rates, Grades 9-12, 2007-2008

Calvert County	2.00%
Charles County	2.69
St. Mary's County	2.80
State of Maryland	3.40

Source: Dropout Rates of Maryland Public High Schools Grades 9-12: 2007-2008, The Fact Book 2007-2008
Maryland State Department of Education.

Technology in Education

The State of Maryland regularly assesses the availability and utilization of computers in the K-12 classroom. Following is information relevant to technology in the St. Mary's County Public School System.

	<u>Student: Computer Ratio</u>
St. Mary's County.....	3.2:1
Calvert County.....	4.2:1
Charles County.....	3.4:1
State of Maryland.....	3.4:1

Source: Maryland State Department of Education. "Where Do We Stand in 2007? A Progress Report on Technology Resources in Maryland Schools." April 2007.

Teacher knowledge and skills are also surveyed with respect to several factors. Following is the percentage of teachers who assess themselves at the intermediate level or above in the integration of technology in the classroom.

St. Mary’s County.....	76.38%
Calvert County.....	76.30
Charles County.....	76.75
State of Maryland.....	74.27

Source: Maryland State Department of Education. “Where Do We Stand in 2007? A Progress Report on Technology Resources in Maryland Schools.” April 2007.

Higher Education

St. Mary’s County hosts a variety of outstanding higher education institutions offering graduate, undergraduate, noncredit, continuing education and enrichment programs.

Established in 1994 as the State of Maryland’s provider of graduate degree programs for Southern Maryland citizens, the Southern Maryland Higher Education Center (“SMHEC”) recruits and selects graduate degree programs and universities that meet the professional development needs of the Southern Maryland community. With nine university partners serving students at SMHEC, including the Capitol College, Catholic University of America, College of Notre Dame of Maryland, George Washington University, Gratz College, Johns Hopkins University, Towson University, and the University of Maryland University College and the University of Maryland College Park. SMHEC presents 90 plus academic programs in the areas of engineering, applied sciences, management, nursing and education. Bachelor’s degrees, graduate certification programs, graduate certificate programs, and doctoral degrees are presented at the SMHEC.

The SMHEC is a premier facility for training programs, including those for U.S. Navy military and civilian personnel and the defense support industry. Utilizing two classroom buildings in the enhancement of higher education opportunities, the Center now encompasses 60,000 square feet and a total of 35 high-tech classrooms, with plans for a third building underway. The second building, featuring state-of-the art instruction and training equipment and communications, was opened in 2003.

St. Mary’s College of Maryland, located in St. Mary’s City, is a public liberal arts honors college offering Bachelor of Arts degrees and continuing education programs. The College’s enrollment is approximately 2,000 full-time students and 100 part-time students. Majors include art, dramatic arts, music, language and literature, human development, psychology, philosophy, history, political science, anthropology, sociology, public policy, economics, mathematics, biology, chemistry, physics, and natural science.

Florida Institute of Technology is an accredited university. Florida Tech's off-campus site, Patuxent River Site, is located on the Naval Air Station and all courses for the eleven degree programs offered are taught by experienced professionals who are currently working in their field. The Patuxent Site offers 11 masters degrees. There are approximately 35 graduates each year and approximately 150 students enrolled in about 25 courses offered each semester.

Embry-Riddle Aeronautical University specializes in aviation and aeronautical education. The Patuxent River campus offers Associate/Bachelor of Science degrees and a Masters degree. Approximately 200 plus students are enrolled for each of the nine five-week terms with 35-40 students graduate yearly.

The University of Tennessee Space Institute (“UTSI”) is a graduate education and research institution internationally-recognized for its graduate study and research.. Approximately 15 students are enrolled each year and approximately six students graduate yearly.

The College of Southern Maryland (“CSM”) is a regionally accredited public two-year institution with an emphasis on workforce development. The St. Mary’s County campus is currently comprised of 3 buildings on 62 acres. The campus offers an array of associate’s degree programs, industry certifications, career training, and wellness and fitness activities. CSM is known as a progressive, innovative and technologically-advanced institution. CSM also serves as a catalyst for business, industry and government to identify the resources needed to grow and maintain a healthy economy and community.

CSM prepares its students for transfer to bachelor’s degree programs and provides the tools and resources needed to immediately succeed in a competitive marketplace. Approximately 2,000 students are enrolled each term at the St. Mary’s (Leonardtown) campus. CSM offers over 73 associate degree programs of study, 42 certificate programs of study and 30 letters of recognition, in addition to a variety of continuing education courses. CSM provides students of all ages with a wide variety

of convenient and affordable educational options, including traditional classroom settings as well as alternative learning formats such as weekend and evening online classes, and web-hybrid courses which offer a mix of online and traditional classroom face-to-face instruction.

Housing

The numbers of building permits issued by the County for the last five years are listed below:

<u>Year</u>	<u>Permits</u>
2008.....	485
2007.....	1,080
2006.....	825
2005.....	879
2006.....	1,361

Note: Includes homes, mobile homes, townhouses and apartment units.
 Source: St. Mary’s County Department of Land Use and Growth Management.

The age of the County’s housing stock was determined by the 2000 Census survey to be relatively low. A comparison of housing units in the Southern Maryland counties is set forth below:

	<u>Calvert</u>	<u>Charles</u>	<u>St. Mary’s</u>
1990-2000	37.4%	27.9%	27.5%
1980-1989	23.1	25.8	21.3
Older than 1980	39.4	46.5	51.1

Source: DP-4. Profile of Selected Housing Characteristics: 2000; Census 2000 Summary File 3 (SF 3)-Sample Data. U.S. Census Bureau.

Business and Industrial Composition

In the following table, statistics are provided relating to the distribution of employment by employer classification. These figures exclude railroad, domestic service, self-employed, agricultural and unpaid family workers.

<u>Classification</u>	<u>Number of Reporting Units</u>	<u>%*</u>	<u>Quarterly Average Employment</u>	<u>%*</u>
Natural Resources and Mining.....	15	.7	43	.1
Construction.....	325	15.8	1,623	4.1
Manufacturing.....	36	1.8	502	1.3
Trade, Transportation and Utilities.....	441	21.5	6,608	16.8
Information.....	26	1.3	268	.7
Financial Activities.....	145	7.1	906	2.3
Professional and Business Services.....	415	20.2	9,162	23.3
Education and Health Services.....	195	9.5	4,171	10.6
Leisure and Hospitality.....	194	9.4	3,178	8.1
Other Services and Unclassified.....	171	8.3	902	2.3
Local Government.....	39	1.9	3,829	9.7
State Government.....	8	.4	795	2.0
Federal Government.....	44	2.1	7,393	18.8
Total.....	<u>2,054</u>	<u>100.0</u>	<u>39,382</u>	<u>100.0</u>

*Columns may not add due to rounding.
 Source: Maryland Department of Labor, Licensing and Regulation. Office of Labor Market Analysis and Information, “Employment and Payrolls First Quarter 2009.”

Employment Classification

The 2000 Census survey determined the worker classification for employed persons 16 and over. Comparative figures for the Southern Maryland counties are presented below:

	<u>Calvert</u>	<u>Charles</u>	<u>St. Mary's</u>
Private wage and salary workers	67.1%	66.2%	64.8%
Government workers	26.5	29.2	28.8
Self-employed workers (not incorporated business)	6.1	4.3	6.0
Unpaid family workers	0.3	0.3	0.3

Source: DP-3. Profile of Selected Economic Characteristics: 2000; Census 2000 Summary File 3 (SF 3)-Sample Data. U.S. Census Bureau.

Employment

Representative employment figures for some of the larger employers in the County follow:

<u>Employer</u>	<u>September 2009 Employment</u>
Public:	
Federal*: Civil Service	8,176
Military	2,789
State:	
State Government	834
St. Mary's College of Maryland	425
County:	
Public Schools	1,950
County Government	730
Charlotte Hall Veteran's Home	450
St. Mary's Nursing Center	209
Private/Defense Contractors:	
DynCorp, a CSC Company	1,068
Wyle	853
BAE Systems	750
SAIC/EMA	536
CSC	493
Booz Allen Hamilton	405
L-3 Services Group	400
General Dynamics	384
Mantech	375
J F Taylor	262
Northrup Grumman	251
Sabre Systems	250
National Technologies Assoc.	245
DCS Corporation	236
Eagle Systems	178
Private/Non Defense:	
St. Mary's Hospital	1,140
Walmart	620
McKay's Foodland	340
Burch Oil	242
Harry Lundeburg (Paul Hall) School of Seamanship	210
Lowe's Home Improvement	188
Target Corporation	185

Source: St. Mary's County Department of Economic and Community Development.

* Source: Public Affairs Office, Naval Air Station Patuxent River, May 5, 2009.

The following table sets forth St. Mary’s County’s unemployment rate as compared with other counties of Southern Maryland, the State of Maryland and the United States for the years 2004 -2008 and a nine month average for 2009.

Average Annual Unemployment Rate

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Calvert County	5.9%	3.6%	2.9%	3.1%	3.4%	2.8 %
Charles County	5.9	3.7	2.9	3.1	3.4	2.6
St. Mary’s County	5.6	3.7	3.0	3.3	3.6	2.3
State of Maryland	7.0	4.4	3.5	3.8	4.5	4.0
United States	9.7	5.8	4.6	4.6	5.1	5.4

Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information. Bureau of Labor Statistics, U.S. Department of Labor.

The number of persons living in the St. Mary’s County who were available for work and composed the County’s labor force numbered 50,172 in September 2009, while total employment was 47,346 resulting in an unemployment rate of 5.6% for this period. Comparative September 2009 unemployment rates are given below for other counties of Southern Maryland, the State of Maryland and the United States.

Calvert County	5.9%
Charles County.....	5.9
St. Mary’s County	5.6
State of Maryland.....	7.4
United States	9.4

Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information, “Civilian Labor Force, Employment, and Unemployment by Place of Residence, September 2009.

Commuting Patterns

The 2000 Census survey determined the work commuting patterns for the labor forces of each of Maryland’s counties and the City of Baltimore. Of the counties located in Southern Maryland, St. Mary’s County has the largest percentage of its labor force (those 16 and over) who work within their resident county. Comparative figures for the Southern Maryland counties are presented below:

Calvert County	42.7%
Charles County.....	42.1
St. Mary’s County	74.2

Source: Census 2000 Summary File 3 (SF 3) – Sample Data, U.S. Census Bureau.

LITIGATION

The County is party to numerous legal proceedings, many of which normally recur in governmental operations. The legal proceedings to which the County is a party are not, in the opinion of the County Attorney, likely to have a material adverse impact on the County’s financial position.

EXPERTS

The audited financial statements included in Appendix A have been examined by Murphy and Murphy, P.A., independent certified public accountants for the County to the extent stated in the reports of such firms appearing herein. The audited financial statements have been included in reliance upon the reports of such firm, which reports are given upon their authority as experts in auditing and accounting.

INVESTMENT OF COUNTY FUNDS

County funds are invested by the Chief Finance Officer in accordance with the County's investment policy which conforms to State of Maryland law on the investment of public funds. The County does not leverage its investment portfolio, buy reverse repurchase agreements or enter into interest rate swaps or other derivatives. It does no borrowing or lending of securities. The County invests primarily in obligations of the United States government, its agencies or instrumentalities, repurchase agreements, and bankers' acceptances. The repurchase agreements into which the County enters are collateralized by United States government treasury obligations and obligations of agencies and instrumentalities of the United States government, held by an independent third party custodian and marked to market daily.

CONTINUING DISCLOSURE

The County will execute a Continuing Disclosure Agreement (the "Disclosure Agreement") prior to or simultaneously with the issuance of the Bonds. In the Disclosure Agreement, the County will covenant for the benefit of the Beneficial Owners from time to time of the Bonds to provide certain financial information and operating data relating to the County (the "Annual Report") by not later than March 31 each year, commencing March 31, 2010, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the County with each Nationally Recognized Municipal Securities Information Repository and the State Information Repository (if any). The notices of material events, if any, will be filed by the County with the Municipal Securities Rulemaking Board and the State Information Depository (if any). The County has made these covenants in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

The County has never failed to provide or notice of any material event as required by any undertaking pursuant to the Rule. On one occasion, the County failed to provide financial information as required by the Rule, by not timely filing a report. Such report was subsequently filed.

The form of the Disclosure Agreement is set forth in Appendix C.

SALE AT COMPETITIVE BIDDING

The Bonds were offered by the County at a competitive bidding on November 17, 2009, in accordance with the respective Official Notices of Sale (the forms of which are attached as Appendix D). The interest rates shown on the inside front cover page of this Official Statement are the interest rates to the County resulting from the award of the Bonds at the competitive bidding. The yields or prices shown on the cover page of this Official Statement were furnished by the successful bidders for the Bonds. All other information concerning the nature and terms of any reoffering should be obtained from the successful bidders for the Bonds and not from the County.

FINANCIAL ADVISOR

Davenport & Company LLC, Towson, Maryland, has rendered financial advice to the County in the preparation of this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Arbitrage Group, Inc., Tuscaloosa, Alabama, a firm of independent arbitrage agents, upon delivery of the Series 2009C Bonds, will deliver to the County its attestation report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of the computations performed by Davenport & Company LLC relating to (a) the sufficiency of the anticipated receipts from the Government Obligations, together with the initial cash deposit, if any, to pay, when due, the principal of, the redemption premium, if any, and interest due on the Public Improvement Refunded Bonds and including the respective dates on which such bonds are redeemed, and (b) the "yield" on the Government Obligations and on the Series 2009C Bonds.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representation is made that any estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of any of the Bonds.

The execution of this Official Statement and its delivery has been approved by County Commissioners of St. Mary's County.

**COUNTY COMMISSIONERS OF
ST. MARY'S COUNTY**

By: S/FRANCIS JACK RUSSELL
Francis Jack Russell
President
Board of County Commissioners

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

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2008

Murphy & Murphy, CPA, LLC

The County Commissioner for St. Mary's County, Maryland

June 30, 2008

Table of Contents

	<u>Page</u>
Independent Auditor's Report	A-3 – A-4
Management's Discussion and Analysis	A-5 – A-15
<u>Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Assets	A-16 – A-17
Statement of Activities	A-18 – A-19
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	A-20
Statement of Revenues, Expenditures and Changes in Fund Balance	A-21
Reconciliations of the Government Funds to the Governmental Activities	A-22
Proprietary Fund Financial Statements	
Balance Sheet	A-23
Statement of Revenues, Expenses, and Changes in Fund Net Assets	A-24
Statement of Cash Flows	A-25
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets – Sheriff's Office Retirement Plan	A-26
Statement of Changes in Fiduciary Net Assets – Sheriff's Office Retirement Plan	A-27
Statement of Fiduciary Net Assets – Other Post-Employment Benefits Trust	A-28
Statement of Changes in Fiduciary Net Assets – Other Post-Employment Benefits Trust	A-29
Notes to Financial Statements Index	
Notes to Financial Statements	A-30 – A-110
Required Supplementary Information	
Statement of Revenues, Expenditures, Encumbrances and Other Financing	
Sources and Uses – Budget (Non-GAAP) Basis and Actual-General Fund	A-112
Sheriff's Office Retirement Plan	A-113



Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the fiduciary fund activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2008, which collectively comprise the County Commissioners for St. Mary's County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's Commissioners for St. Mary's County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of St. Mary's County, Maryland, which represents 37% and 49%, respectively, of the assets and revenues of the total reporting entity. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions on the financial statements, insofar as they relate to the amounts included for the Board of Education of St. Mary's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide 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 fiduciary fund activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of June 30, 2008, 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.

As discussed in Note 1 to the financial statements, the County Commissioners for St. Mary's County, Maryland adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2008, on our consideration of the County Commissioners for St. Mary's County, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal

Member: AICPA Private Companies Practice Section

8023 Malcolm Road ◀ Clinton, Maryland 20735-1717 ◀ (301) 856-4100 ◀ Fax: (301) 856-4105
108 Lagrange Avenue ◀ La Plata, Maryland 20646-9592 ◀ (301) 609-7515
(301) 870-3677 ◀ Fax: (301) 609-7510 ◀ email: tim.murphy@murphycpa.com

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis, the statement of revenues, expenditures, encumbrances and other financing sources and uses – budget (NON-GAAP) basis and actual – general fund, and the schedules of employer contributions and funding progress for the Sheriff's Office Retirement Plan on pages 3-13, 108 and 109, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County Commissioners for St. Mary's County, Maryland's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements on pages 110 and 111 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedule of revenues and other financing sources budgetary (Non-GAAP) basis and actual general fund presented on pages 112 and 113, and the schedule of expenditures and other financing uses budgetary (Non-GAAP) basis and actual general fund presented on pages 114 through 118 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

La Plata, Maryland
December 4, 2008

Murphy + Murphy, CPA, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Financial Report of St. Mary's County, Maryland presents a narrative overview and analysis of the financial activities of St. Mary's County Government for the fiscal year ended June 30, 2008. We encourage readers to use the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets of St. Mary's County Government exceeded its liabilities at the close of the most recent fiscal year by \$198.9 million (*net assets*). Approximately \$15.8 million, or approximately 7.9%, is attributable to the County's enterprise funds, which include business-type activities for Solid Waste and Recycling (new in FY2008), Medical Adult Daycare services, Recreation and Parks and the Wicomico Golf Course. Approximately 28.6% of the total net assets, or \$56.2 million (*unrestricted net assets*), may be used to meet ongoing obligations to citizens and creditors. Unrestricted net assets related to governmental activities are \$56 million. The unrestricted net assets for the enterprise funds total \$.2 million. Other components of the net assets are \$37.1 million of restricted net assets and approximately \$105.7 million of net investment in capital assets. The net investment in capital assets represents the capitalized assets, net of accumulated depreciation and outstanding debt.
- The Government's overall net asset position reflects an increase of \$26.7 million over the prior year.
- As of June 30, 2008, the County's governmental funds reported combined fund balances of \$74.3 million, a decrease of \$15.3 million over the prior year. The general fund and the capital projects fund reflected decreases of \$5.8 and \$10.1 million, respectively. The fund balance for the non-major funds increased \$.6 million. The County's governmental fund balances at June 30, 2008 include \$37.2 million for capital projects, \$37.4 million in general funds, and \$.3 million in other non-major funds. The general fund balance includes \$1.5 million that is reserved, the largest components of which are encumbrances and inventory. In addition, the general fund reflects designations of approximately \$24.9 million, including a bond rating reserve of \$11.4 million and a Rainy Day Fund of \$1.625 million. Of the remaining \$11.9 million, \$10 million is designated for supplemental one-time contributions to trusts to fund the Post Retirement Health liabilities (OPEB) for the County and the Public School System. These designations also include \$500,000 in pay-go funding for capital projects as well as a variety of other non-recurring expenditures, budgeted in FY2009, principally equipment and technology. The County's undesignated fund balance is approximately \$11.1 million, and will be considered for use in the FY2010 budget. The non-major funds are special purpose funds that correspond to special assessments, the Emergency Services Support Fund, and a revolving loan fund set up to assist volunteer fire and rescue squads in their acquisition of capital assets, including rolling stock and buildings. The special assessments fund reflects a deficit because expenditures are incurred by the County and then are reimbursed by various entities pursuant to written agreements over varying periods of time, which correspond to the underlying asset. The decrease in the capital projects fund balance reflects the fact that expenditures, which were planned, utilized resources that had been accumulated, such as transfer taxes and impact fees, which are dedicated to capital projects.
- The business-type operating activities reflect a net increase in net assets of \$14 million, of which \$11.4 million is due to the transfer of capital assets, net of accumulated depreciation and related debt, from the Governmental Fund to the new Solid Waste and Recycling Fund, which was established as an enterprise fund effective for FY2008. Fee-based recreation activities posted a decrease of \$79,602. This fund is an accumulation of a large number of recreation activities, and fees will be adjusted so that the fund, over the long term, breaks even, with no significant net assets being accumulated. Additionally, the County has begun to provide a General Fund subsidy of \$50,000 to mitigate these results. The Wicomico Golf Course reflects an increase of \$1.6 million, due

principally to the transfer of the assets under construction, for which debt had been taken out in FY2007. As planned, the asset was transferred from the Capital Projects fund to the Wicomico Golf Course Fund in FY2008. The net assets of the Medical Adult Daycare Fund decreased \$55,915. This was net of the \$287,301 subsidy from the General Fund. Continued focus on this activity is expected in order to determine whether it can function as a self-supporting fund or whether alternatives for services or funding should be considered. In the meantime, the Board of County Commissioners intends to subsidize this activity so that it can achieve a break-even status as a fund.

- At June 30, 2008, the unreserved fund balance for the general fund (primary operating fund) was \$35.9 million, or 20.2% of general fund expenditures, excluding pass-throughs. Designated fund balance of the general fund was \$24.9 million, or 69.2% of unreserved fund balance.
- St. Mary's County Government's total general obligation indebtedness, including general obligation bonds and Water Quality loans, decreased by \$6.7 million during the fiscal year ended June 30, 2008. Additions included \$2.4 million of exempt financing for vehicles and equipment, \$1.1 million in State loans for capital projects, and the net effect of the general obligation bond refunding of \$255,000. Additional accruals for compensated absences were \$268,561. Payments on the debt totaled \$10.1 million, with another reduction in the amount of \$600,000, representing the revision of estimated post-closure costs of the landfill.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of St. Mary's County Government that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of St. Mary's County Government include general government, public safety, public works, health, social services, economic development, agricultural land preservation and recreation and parks, community services, planning and zoning, and permits and inspections. The business-type activities of St. Mary's County Government include the Medical Adult Daycare Services, Wicomico Golf Course and the Recreation Activities, including an indoor swimming pool.

The government-wide financial statements include not only St. Mary's County Government itself (known as the *primary government*), but also legally separate component units. St. Mary's County Government has the following component units: St. Mary's County Board of Education, St. Mary's County Board of Library Trustees, the Metropolitan Commission, and the Building Authority. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 14 to 17 of this report.

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

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

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

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

St. Mary's County Government adopts an annual appropriated budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, the County's primary fund. The basic governmental fund financial statements can be found on pages 18 to 19 of this report.

Proprietary funds: Proprietary funds, also known as *Enterprise funds*, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Beginning in FY2008, St. Mary's County Government uses an enterprise fund to account for its Solid Waste and Recycling Activities, for which a fee was instituted and which is expected to become fully self-supporting with the construction and operation of a new solid waste transfer station. In addition, the Government accounts for its Medical Adult Daycare Services, the Wicomico Golf Course, and fee-based Recreation Activities using enterprise funds. The proprietary fund financial statements can be found on pages 21 to 23 of this report.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support St. Mary's County Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary Funds are established for retiree benefit trusts, specifically the Sheriff's Office Retirement plan and the newly established Retiree Benefit Trust of St. Mary's County, Maryland. The basic fiduciary fund financial statements can be found on pages 24 to 27 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 28 to 107 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning St. Mary's County Government's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 108 and 109 of this report. Other supplementary information can be found on pages 110 to 120.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's overall financial condition and position. In the case of St. Mary's County, assets exceeded liabilities by \$198.9 million at the close of the current fiscal year. St. Mary's County Government's net assets are divided into three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Approximately 53.1% of the County's net assets reflect its investment in capital assets net of depreciation (e.g., land and easements, buildings, machinery, equipment, infrastructure and improvements), less any outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent 18.3% of total net assets. Restricted net assets are resources that are subject to external restrictions on how they may be used. Unrestricted net assets of the government have a balance of \$56.9 million (28.6% of total net assets) which may be used to meet the government's ongoing obligations to citizens and creditors.

ST. MARY'S COUNTY GOVERNMENT'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
ASSETS						
Current Assets	\$126,316,492	\$117,862,456	\$ 2,390,991	\$1,612,450	\$128,707,483	\$119,474,906
Other Non-Current Assets	21,496,045	22,808,969	0	0	21,496,045	22,808,969
Capital Assets, net of accumulated depreciation	<u>193,261,478</u>	<u>193,738,874</u>	<u>16,920,487</u>	<u>2,447,826</u>	<u>210,181,965</u>	<u>196,186,700</u>
Total Assets	<u>\$341,074,015</u>	<u>\$334,410,299</u>	<u>\$19,311,478</u>	<u>\$4,060,276</u>	<u>\$360,385,493</u>	<u>\$338,470,575</u>
LIABILITIES						
Current Liabilities	33,545,594	31,558,735	1,281,740	794,062	34,827,334	32,352,797
Non-current Liabilities	<u>124,388,090</u>	<u>132,393,120</u>	<u>2,264,438</u>	<u>1,503,153</u>	<u>126,652,528</u>	<u>133,896,273</u>
Total Liabilities	<u>157,933,684</u>	<u>163,951,855</u>	<u>3,546,178</u>	<u>2,297,215</u>	<u>161,479,862</u>	<u>166,249,070</u>
NET ASSETS						
Invested in Capital Assets, net of related debt	90,843,291	84,397,097	14,822,415	1,047,424	105,665,706	85,444,521
Restricted	36,326,286	46,668,025	747,128	0	37,073,414	46,668,025
Unrestricted	<u>55,970,754</u>	<u>39,393,322</u>	<u>195,757</u>	<u>715,637</u>	<u>56,166,511</u>	<u>40,108,959</u>
Total Net Assets	<u>183,140,331</u>	<u>170,458,444</u>	<u>15,765,300</u>	<u>1,763,061</u>	<u>198,905,631</u>	<u>172,221,505</u>
Total Liabilities and Net Assets	<u>\$341,074,015</u>	<u>\$334,410,299</u>	<u>\$19,311,478</u>	<u>\$4,060,276</u>	<u>\$360,385,493</u>	<u>\$338,470,575</u>

At June 30, 2008 St. Mary's County Government reports positive balances in all three categories of net assets as a whole.

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

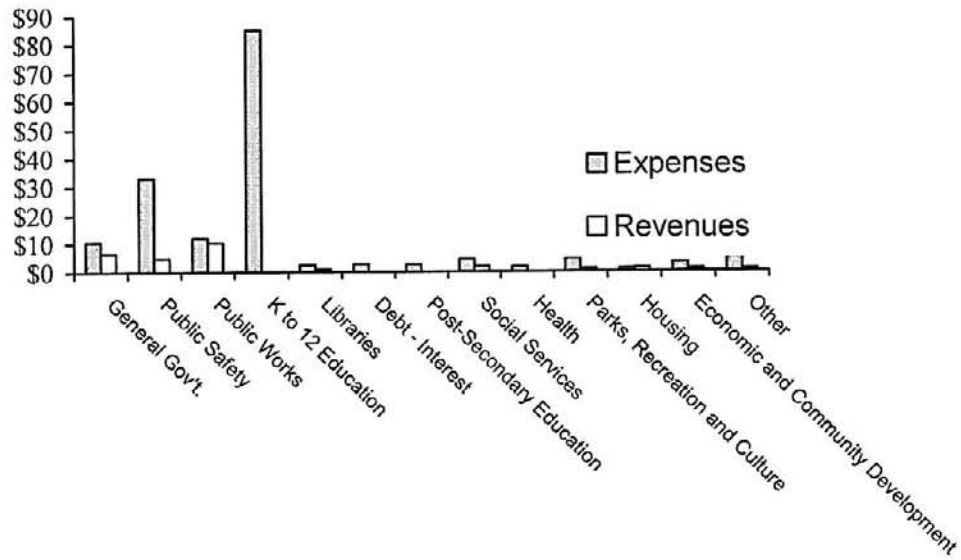
ST. MARY'S COUNTY GOVERNMENT'S CHANGES IN NET ASSETS
Years Ended June 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business -Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program Revenues:						
Charges for Services	\$10,684,183	\$11,461,054	\$3,953,431	\$3,455,111	\$14,637,614	\$14,916,165
Solid Waste/Recycling Fees	0	0	2,277,540	0	2,277,540	0
Operating Grants and Contributions	16,245,566	15,494,553	346,544	412,511	16,592,110	15,907,064
Capital Grants and Dedicated Fees or Taxes	1,308,781	3,833,371	0	0	1,308,781	3,833,371
General Revenues:						
Property Taxes	77,889,130	69,853,139	0	0	77,889,130	69,853,139
Income Taxes	62,829,665	58,521,923	0	0	62,829,665	58,521,923
Other Taxes	17,965,403	21,261,750	0	0	17,965,403	21,261,750
Investment Earnings	3,001,001	4,493,631	51,706	57,688	3,052,707	4,551,319
Fines	0	0	32	0	32	0
New Debt	0	1,350,000	0	(1,350,000)	0	0
Construction in Progress-Wicomico Clubhouse	(1,570,909)	0	1,570,909	192,152	0	192,152
Transfer (MADS Subsidy and SW/REC Subsidy)	(1,810,994)	0	1,810,994	0	0	0
Transfer Capital Assets-Solid Waste Facilities	(776,663)	0	776,663	0	0	0
Debt Transfer	575,508	0	(575,508)	0	0	0
Retirement of Debt	0	0	0	7,880	0	7,880
Gain/Loss on Disposals and/or Transfers	0	0	3,931	975	3,931	975
Transfer of Capital Assets net of accumulated depreciation	0	0	12,020,143	0	12,020,143	0
Transfer to OPEB Trust	(3,439,138)	0	0	0	(3,439,138)	0
Miscellaneous	5,889,138	27,491,810	0	0	5,889,138	27,491,810
Total Revenues	188,790,671	213,761,231	22,236,385	2,776,317	211,027,056	216,537,548
Program Expenses:						
General Government	10,613,195	20,780,607	0	0	10,613,195	20,780,607
Public Safety	32,998,160	30,484,473	0	0	32,998,160	30,484,473
Public Works	12,032,412	16,477,927	3,920,107	0	15,952,519	16,477,927
Health	1,815,133	1,230,102	0	0	1,815,133	1,230,102
Social Services	4,407,680	4,534,717	0	0	4,407,680	4,534,717
Primary and Secondary Education	85,119,750	88,796,177	0	0	85,119,750	88,796,177
Post-Secondary Education	2,628,285	2,588,285	0	0	2,628,285	2,588,285
Parks, Recreation, and Culture	5,002,944	7,573,848	4,314,039	3,994,943	9,316,983	11,568,791
Housing	1,210,838	1,271,372	0	0	1,210,838	1,271,372
Libraries	2,443,366	2,203,280	0	0	2,443,366	2,203,280
Conservation of Natural Resources	379,302	340,474	0	0	379,302	340,474
Economic Development and Opportunity	3,321,142	6,363,847	0	0	3,321,142	6,363,847
Debt Interest	2,833,088	3,634,372	0	0	2,833,088	3,634,372
Inter-governmental	53,796	58,879	0	0	53,796	58,879
Other	11,249,693	4,785,409	0	0	11,249,693	4,785,409
Total Expenses	176,108,784	191,123,769	8,234,146	3,994,943	184,342,930	195,118,712
Change in Net Assets	12,681,887	22,637,462	14,002,239	(1,218,626)	26,684,126	21,418,836
Net Assets - Beginning	170,458,444	147,876,368	1,763,061	2,926,301	172,221,505	150,802,669
Prior Period Adjustment	0	(55,386)	0	55,386	0	0
Net Assets - Ending	\$183,140,331	\$170,458,444	\$15,765,300	\$1,763,061	\$198,905,631	\$172,221,505

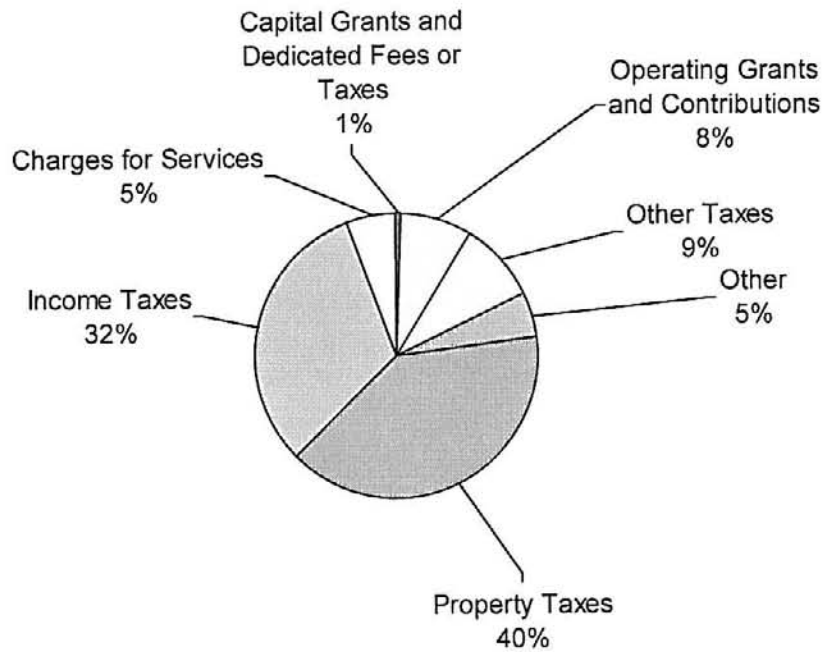
Governmental activities: Governmental activities reflected an increase in net assets of \$12.7 million. The governmental funds reflected a net decrease of \$15.3 million, reflecting the planned use of fund balances for capital projects as well as non-recurring expenditures such as supplemental transfers to fund OPEB trusts.

Business-type activities: Business-type activities reflected an increase in net assets of \$14 million, reflecting the construction of the Wicomico Golf Course Club House and transfer of capital assets to the new Solid Waste and Recycling Fund. The Medical Adult Daycare and Recreation and Parks posted decreases.

Expenses and Program Revenues – Governmental Activities
(in millions)



Revenues By Source – Governmental Activities



Financial Analysis of the Government's Funds

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

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

As of June 30, 2008, St. Mary's County Government's governmental funds reported combined ending fund balances of \$74.3 million, a decrease of \$15.3 million over the prior year. Approximately \$37.8 million, or 50% of this total, constitutes *unreserved fund balance*, which is available for spending at the government's discretion, including \$11.5 million for the 2009 budget. The application of this level of fund balance to the subsequent year's budget is discussed elsewhere in this section. Reserved fund balance includes \$35.8 million for capital projects as well as approximately \$1.5 million committed to liquidate encumbrances, for inventories, or dedicated for a variety of restricted purposes. The reserved fund balance does not significantly affect the availability of fund resources for future use.

The general fund is the chief operating fund of St. Mary's County Government and is central to the budget process and management of current resources. At June 30, 2008, unreserved fund balance of the general fund was \$35.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20% of total general fund expenditures, excluding pass-throughs, while total fund balance represents 21% of that same amount. The elevated level of fund balance reflects several unusual revenue and expense deviations, as well as the County's set-aside of \$10 million to use in the FY2009 budget for supplemental one-time funding of the OPEB trusts.

The revenue variances are principally property taxes. St. Mary's County reflected significantly higher property tax assessments, based on State reports, than what was budgeted. This positive variance was partially offset by lower than budgeted income tax revenue for the fiscal year. Other revenue variances, though lesser in amount, were experienced in higher than budgeted energy taxes, a reflection of the prices, and lower than budgeted recordation taxes, a reflection of the slowing real estate market. The FY2009 budget was revised to consider these trends. With respect to investment income, the County budgets based on sustainable levels of cash reserves. To the extent that the County carried high cash/investment balances in the interim related to capital projects and the planned pre-funding of OPEB trusts, income from these investment balances was not factored into the budget.

In addition to revenue variances, the FY2008 report reflects expenditure savings. Though there was both an emergency reserve and a budget stabilization reserve budgeted for FY2008, \$2 million of these funds remained unspent. When the FY2008 budget was adopted, there were concerns that the income tax revenue estimated might not be realized and also that the State, given its budget challenges, might either withhold allocations or pass through costs to the County. The surge in property taxes helped to offset the income tax shortfall, which was realized in part due to a mid-year change by the State to the personal exemption amount. Actions by the State to balance its budget by shifting costs or withholding allocations did not materialize in FY2008. Recognizing that the economic and State situation were cause for continuing concern, the County did not re-program these funds, instead allowing the budgetary authority to lapse, which makes them available to address future needs. Approximately \$1 million was realized due to savings in personal services accounts (compensation), resulting from the net effect of turnover and savings due to vacancies. In addition, throughout all departments, there is an accumulation of individually small positive expense variances. This reflects the County's disciplined approach to budgeting, including adherence to budgeted activities, judicious review of supplemental budget requests, using an encumbrance-based approach, and prudent fiscal management at all levels. There was also neither a significant snowfall nor other unplanned event that required the use of significant emergency reserve funds.

The Board's philosophy is to build a budget based on sustainable levels of revenues, and use any excess generated in one year to fund non-recurring items in a subsequent budget. With the low property tax rate and an income tax rate that is less than the maximum allowed by the State, the County has maintained ample capacity for revenue enhancement, should future needs arise. The positive fund balance generated in FY2008 will be considered in the FY2010 budget process, with emphasis placed on funding significant and needed non-recurring items, such as additional pre-funding of the OPEB requirements, capital expenditures, and pay-go funding for capital projects. Additionally, given the various scenarios for the State's balancing of its own budget as well as the general economic conditions, these funds may also be used to bridge funding gaps that may occur due to reductions in funding from sources such as the State or from grants as well as to bridge the gap for selected revenues that may be temporarily lower than normal due to cyclical economic conditions.

The fund balance of St. Mary's County Government's general fund decreased by \$5.8 million during the fiscal year ended June 30, 2008. This reduction was less than the \$14.5 million that was planned, largely due to the factors identified previously. The County's financial report reflected positive variances for both revenues and expenses, the principal variances being:

- Property tax revenues exceeded budget by \$7 million, a reflection of the increase in the value and number of properties assessed, and the impact of taxable assessment increases that result when a residential property is sold and is then taxed at full value rather than any increase being limited to 5%.
- Income tax revenues were \$2.4 million less than budgeted. This trend started to appear at the time of the adoption of the budget, and subsequent budgets were adjusted to take this trend into account.
- Positive expenditure variances were realized throughout County departments, a reflection of conservative budget estimates, strong management of expenditures to match budgeted priorities, and continued focus on efficiency and effectiveness.

The capital projects fund has a total fund balance of \$36.4 million, which reflects the accumulated unspent balances of impact fees, recordation taxes, and transfer taxes, as well as the unspent portion of the \$14 million pay-go transfer in FY2007. These funds have been budgeted and the capital projects are in progress. Also included in this balance is \$662,112 designated in reserve, available at the direction of the Board of County Commissioners, to cover unanticipated costs, through a supplemental budgetary process.

Proprietary funds: St. Mary's County Government's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, unrestricted net assets of the Wicomico Golf Course Fund accounted for \$366,261, and the newly established Solid Waste and Recycling Fund accounted for \$329,673. The Recreation Activities Fund reflected a deficit of \$142,931, and the Medical Adult Daycare Services reflected a deficit of \$357,246. On a combined basis, there was a \$.2 million increase in unrestricted net assets. Factors concerning these funds' finances are addressed in the discussion of St. Mary's County Government's business-type activities.

General Fund Budgetary Highlights

The final budget for the General Fund was approximately \$1.4 million higher than the original budget. The increase reflects principally the net effect of new or increased grants received. During the year, revenues exceeded budget and expenditures were less than budgetary estimates. Because of these positive variances, there was no need to draw upon the appropriated use of fund balance for budget stabilization, which was budgeted at \$1,582,778 for FY2008.

Capital Asset and Debt Administration

- Capital assets:** St. Mary's County Government's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$210.2 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure and land development rights. The net increase in St. Mary's County Government's investment in capital assets for the fiscal year ended June 30, 2008 was \$14 million. A capital assets transfer of approximately \$12 million was made to the Solid Waste and Recycling proprietary fund resulting in a decrease in governmental activities and an increase in business-type activities. It should be noted that the capital asset balances include the County's infrastructure (i.e., roads), as the County has fully implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$24,805,834	\$23,513,010	\$1,078,666	\$1,078,666	\$25,884,500	\$24,591,676
Building and Improvements	54,783,177	55,114,287	752,380	704,842	55,535,557	55,819,129
Facilities Under Construction	8,462,494	4,873,878	1,818,447	247,538	10,280,941	5,121,416
Solid Waste Facilities	0	10,746,208	11,522,871	0	11,522,871	10,746,208
Infrastructure	92,995,165	85,961,618	281,165	297,859	93,276,330	86,260,477
Vehicles	3,408,181	4,375,937	1,450,950	94,027	4,859,131	4,469,964
Equipment	8,806,627	9,153,936	16,008	24,894	8,822,635	9,178,830
	<u>\$193,261,478</u>	<u>\$193,738,874</u>	<u>\$16,920,487</u>	<u>\$2,447,826</u>	<u>\$210,181,965</u>	<u>\$196,186,700</u>

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

- \$3.6 million in buildings and improvements were placed in service in FY2008, including Three Notch Trail and asphalt overlay project.
- Approximately \$10 million in roads were added to the County system, including projects developed by third parties.
- Park improvements at Seventh District Park and Chancellor's Run Park were completed and capitalized in FY2008, totaling approximately \$.9 million.
- Vehicles were purchased to replace aging vehicles for the Sheriff's Department, St. Mary's Transit System, and other government activities.
- Land purchases principally relating to Agricultural Land Preservation and roadway improvements were added to our capital asset base in FY2008, including the land purchased for the FDR Boulevard connector (approximately \$1.2 million).
- Facilities currently under construction include Patuxent Naval Museum and the County Office Building.

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

Long-term debt: At June 30, 2008, St. Mary's County Government had the following total general obligation bonded debt, and other similar obligations outstanding, as set forth in the table below. The full faith and credit and unlimited taxing power of the County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the bonds.

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

Primary Government

	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>Amounts due within one year</u>
General Obligation Bonds(GOB) – County	\$ 97,715,000	\$ 89,935,000	\$ 7,735,000
Less: Amount Deferred on Refunding	(1,771,663)	(1,759,662)	(12,445)
Water Quality Loan	5,673,656	5,163,120	518,962
State Loans	775,070	1,789,103	83,822
Surplus Property Transfer of Debt	284,904	241,664	45,275
Exempt Financing (Equipment & Vehicles)	<u>4,064,816</u>	<u>5,048,967</u>	<u>1,421,217</u>
	<u>\$106,741,783</u>	<u>\$100,418,192</u>	<u>\$ 9,791,831</u>
GOB sold on behalf of St. Mary's Hospital	<u>\$ 19,540,000</u>	<u>\$ 18,190,000</u>	<u>\$ 1,405,000</u>

Business-Type Activities

	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>Amounts due within one year</u>
Exempt Financing (Equipment)	<u>\$1,400,402</u>	<u>\$2,098,072</u>	<u>\$282,776</u>

St. Mary's County Government's total general obligation bonded debt decreased by a net \$6.7 million, principally due to principal payments, offset by draws for exempt financing of vehicles and equipment, State loans for capital projects, and adjustments of accruals for compensated absences. Repayments include \$1,350,000 for the Hospital loans; the Hospital fully reimburses the County for costs and debt service payments related thereto; the debt service is not funded by general funds of the County.

St. Mary's County Government has maintained an "AA" rating from both Standard and Poors and Fitch Ratings and an "Aa3" rating from Moody's Investors Service, Inc. The debt affordability guidelines for St. Mary's County Government were previously set by the Board of County Commissioners, on the advice of the County's financial advisor. The guidelines were approved at a debt to assessed value of 2%, and debt service as a percent of current general fund revenue of 12%. The County is well within these parameters, and monitors capital budgets and 5-year plans to ensure it remains within the limitations.

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

Economic Factors and Next Year's Budgets and Rates

- Net taxable income for calendar year 2007 (the latest data available) for County residents was approximately \$2 billion and continues to demonstrate healthy growth, with a 5-year average annual growth of 8.6%
- The County's assessable base increase generally ranges between 8% and 10%, compared to what had been an average annual increase of approximately 6%. This reflects increased assessed values and a growth in the assessable base due to new construction as well as the general diversification of the tax base.
- The business community in St. Mary's County continues to experience positive growth; technology companies have doubled since 1998. This trend reflects the strong position and growth of the Patuxent River Naval Air Base, which is involved in Navy aviation research, development, acquisition, testing and evaluation at NAS Pax River.

- The largest private employers in the County continue to increase their number of employees, and the Navy-related employment is expected to maintain its current levels, with continued growth in private sector activity. There is continued growth in the number and the diversity of high tech firms.
- Department of Defense capital improvement in St. Mary's County continues to be strong, with commitments by the Government for a variety of programs
- Tourism has been strong, with increased numbers of visitors; there continues to be development of hotels and expansion of accommodations, a reflection of the business growth as well as increased tourism opportunities and activity.
- Commercial office space as well as retail , and hotel/motel development continues to increase, further diversifying our tax base.
- Median household income (\$75,769) is slightly below the State average; however, it is increasing at a consistent rate similar to the rate of increase in the State and the tri-county area.
- The average unemployment rate for the County is 3.5%, and remains well below that of the State or the U.S.

Measures begun in FY2005 and FY2006 to balance tax relief as well as budgetary stability continue. Though property and income tax rates for FY2008 remained unchanged from FY2007, the County reduced the energy tax rate again, in its FY2009 budget. The sustainability of the revenue stream needed to fund future operations was evaluated on a multi-year basis, and revenues continue to be budgeted based on sustainable levels. The Board of County Commissioners prefers to budget at levels that have a high probability of being realized. This then allows any excess to be reflected as fund balance, and subsequently that excess is used to fund only non-recurring expenditures (such as pay-go capital project funding, one-time technology allocations, supplemental payments into the OPEB trust) in the subsequent year's budget.

All of these factors were considered in preparing the St. Mary's County Government's budget for the 2009 fiscal year. The FY2009 budget is \$16.9 million, or 9% higher than FY2008. Recognizing a need to ensure better coordination and more efficient and effective delivery of human services programs to County citizens, the County set up a new department, which is funded principally by grant funds. Absent this assumption of the \$5.5 million grant funded Human Services programs, the budget increase is closer to 6%. In adopting the budget for FY2009, the County considered long-term projections of revenues and expenses. Acknowledging the continued uncertainty about the State's budget situation and the economy at large, the FY2009 budget included a revenue stabilization reserve as well as funding for an emergency reserve, while still maintaining its bond rating reserve and fully funding its annual required contribution for OPEB. The local economy is expected to be stable and reflect modest growth. The Board intends to continue and expand its use of multi-year projections for the operating budget as well as the 6 year planning cycle for capital projects. FY2009 does include a planned sale of \$35 million in general obligation bonds; the County has not sold bonds since 2005. Even with the planned sale, the County stays well under its debt capacity parameters. The continued focus will be to assure that adequate and sustainable resources are identified to address prioritized needs – both capital and operating – now and for the future.

Requests for Information

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Primary Government		Component Units				
	Governmental Activities	Business-Type Activities	Total	Board of Education	Library	Metropolitan Commission	Building Authority
ASSETS							
Cash and cash equivalents	\$81,772,634	\$479,875	\$82,252,509	\$30,914,438	\$201,568	\$6,397,782	\$375
Internal balances	(1,695,735)	1,695,735	0	0	0	0	0
Restricted cash and investments	515,439	0	515,439	0	79,039	0	0
Taxes receivable	2,498,825	0	2,498,825	0	0	0	0
Income tax reserve, funds held by the State	16,920,689	0	16,920,689	0	0	0	0
Due from other governments	0	0	0	7,987,824	567,655	0	215,596
Special tax assessments receivable	2,751	0	2,751	0	0	0	0
Notes receivable, Fire and Rescue loans	283,842	0	283,842	0	0	0	0
Emergency support taxes receivable	57,559	0	57,559	0	0	0	0
Accounts receivable	14,987,088	183,206	15,170,294	1,816,365	103,885	1,102,000	610,295
Inventory	790,083	22,797	812,880	219,517	0	31,423	0
Prepaid, post-retirement benefit	10,171,623	0	10,171,623	0	0	0	0
Other prepaid expenses	11,694	9,378	21,072	35,629	164,444	299,352	0
Mortgages receivable from St. Mary's Hospital	18,190,000	0	18,190,000	0	0	0	0
Deferred and unamortized bond issuance costs	0	0	0	0	0	560,098	318,490
Fire and Rescue loans receivable, net of short-term portion	1,526,789	0	1,526,789	0	0	0	0
Special tax assessments receivable, net of short-term portion	1,679,256	0	1,679,256	0	0	0	0
Capital assets:	301,983,409	20,176,211	322,159,620	309,266,868	3,781,631	105,600,632	17,532,762
Accumulated depreciation	(108,731,931)	(3,255,724)	(111,987,655)	(83,289,429)	(2,714,329)	(34,092,185)	(8,065,109)
Capital assets, net of accumulated depreciation	193,251,478	16,920,487	210,181,965	224,977,439	1,067,302	71,508,447	9,467,673
Total Assets	\$541,074,015	\$19,311,478	\$560,385,493	\$255,951,212	\$2,183,893	\$79,899,102	\$10,612,429

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Board of Education	Library	Metropolitan Commission	Building Authority
LIABILITIES							
Accounts payable	\$3,756,988	\$321,765	\$4,078,773	\$6,522,536	\$320,985	\$956,079	\$0
Compensation-related liabilities	3,436,833	669,485	4,106,318	14,050,350	46,757	0	0
Deferred income tax distribution	16,920,689	0	16,920,689	0	0	0	0
Deferred revenue	4,278,008	282,329	4,560,337	611,278	0	358,130	0
Other liabilities	4,369,825	8,141	4,377,966	183,720	0	746,524	181,751
Due to other governments	783,251	0	783,251	71,757	0	0	0
Non-current liabilities							
Due within one year	11,209,190	282,776	11,491,966	1,255,066	0	1,482,224	1,095,000
Due in more than one year	113,175,900	1,981,662	115,157,562	9,514,535	111,651	17,816,274	6,295,000
Total Liabilities	\$157,933,684	\$3,546,178	\$161,479,862	\$32,249,242	\$479,383	\$21,259,231	\$7,571,751
NET ASSETS							
Invested in capital assets, net of related debt	\$90,843,291	\$14,822,415	\$105,665,706	\$219,695,019	\$1,067,302	\$52,209,949	\$2,077,673
Restricted	36,326,286	747,128	37,073,414	85,766	79,888	3,801,845	246,898
Unrestricted	55,970,754	195,757	56,166,511	13,921,185	557,310	2,528,077	716,107
Total Net Assets	\$183,140,331	\$15,765,300	\$198,905,631	\$233,701,970	\$1,704,500	\$58,539,871	\$3,040,678
Total Liabilities and Net Assets	\$341,074,015	\$19,311,473	\$360,385,488	\$265,951,212	\$2,183,883	\$79,899,102	\$10,612,429

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Program Revenues

Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes	Total Revenues
General Government	\$10,613,195	\$5,691,064	\$878,675	\$0	\$6,569,739
Public Safety	32,998,160	1,670,658	2,880,650	299,982	4,851,300
Public Works	12,032,412	1,048,592	9,410,677	0	10,459,269
Health	1,815,133	0	0	0	0
Social Services	4,407,880	418	1,891,413	0	1,891,831
Primary and Secondary Education	85,119,750	0	0	0	0
Post -Secondary Education	2,628,285	0	0	0	0
Parks, Recreation, and Culture	5,002,944	315,728	154,458	626,414	1,096,600
Libraries	2,443,366	0	0	185,953	185,953
Conservation of Natural Resources	379,302	0	0	0	0
Housing	1,210,838	1,191,768	184,251	0	1,376,019
Economic Development and Opportunity	3,321,142	75,415	845,442	0	920,857
Debt Interest	2,833,088	0	0	0	0
Intergovernmental	53,796	0	0	0	0
Other	11,249,693	690,540	0	196,422	886,962
TOTAL GOVERNMENTAL ACTIVITIES	\$176,108,784	\$10,684,183	\$16,245,566	\$1,308,781	\$28,238,530
Business - Type Activities					
Recreation Activity	\$2,262,470	\$2,136,760	\$46,062	\$0	\$2,182,842
Wicomico	1,260,993	1,234,247	0	0	1,234,247
Medical Adult Daycare	790,576	146,878	300,482	0	447,360
Solid Waste/Recycling	3,920,107	2,713,066	0	0	2,713,066
TOTAL BUSINESS-TYPE ACTIVITIES	\$8,234,146	\$6,230,971	\$346,544	\$0	\$6,577,515
TOTAL PRIMARY GOVERNMENT	\$184,342,930	\$16,915,154	\$16,592,110	\$1,308,781	\$34,816,045
Component Units:					
Board of Education	\$105,685,836	\$3,734,473	\$32,569,845	\$16,585,500	\$52,869,818
Library	3,184,198	214,895	850,133	0	\$1,065,028
MetCom	11,828,929	14,024,303	0	0	\$14,024,303
Building Authority	796,049	1,407,486	0	0	\$1,407,486
	\$211,495,012	\$19,381,157	\$33,419,978	\$16,585,500	\$69,366,635

General Revenues:

Property Taxes
Income Taxes
Other including energy, recordation and transfer taxes
Investment Earnings
Grants and Contributions Not Restricted to Specific Purposes
Transfer (MADS Subsidy)
Transfer (Construction in Progress - Wicomico Clubhouse)
Transfer (SW/REC Subsidy)
Transfer capital assets - Solid Waste Facilities
Transfer capital assets, net of accumulated depreciation (SW/REC)
Contribution to OPEB Trust
Debt Transfer (SW/REC)
Miscellaneous, principally capital projects funding
Total General Revenues

Changes in Net Assets

Net Assets - Beginning
Net Assets - Ending

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net (Expense) Revenue and Changes in Net Assets						
Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Board of Education	Library	MetCom	Building Authority
(\$4,043,456)	\$0	(\$4,043,456)				
(28,146,860)	0	(28,146,860)				
(1,573,143)	0	(1,573,143)				
(1,815,133)	0	(1,815,133)				
(2,515,849)	0	(2,515,849)				
(85,119,750)	0	(85,119,750)				
(2,628,285)	0	(2,628,285)				
(3,906,344)	0	(3,906,344)				
(2,257,413)	0	(2,257,413)				
(379,302)	0	(379,302)				
165,181	0	165,181				
(2,400,285)	0	(2,400,285)				
(2,833,088)	0	(2,833,088)				
(53,796)	0	(53,796)				
(10,362,731)	0	(10,362,731)				
<u>(\$147,870,254)</u>	<u>\$0</u>	<u>(\$147,870,254)</u>				
\$0	(\$79,628)	(\$79,628)				
0	(26,746)	(26,746)				
0	(343,216)	(343,216)				
0	(1,207,041)	(1,207,041)				
<u>\$0</u>	<u>(\$1,656,631)</u>	<u>(\$1,656,631)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>(\$147,870,254)</u>	<u>(\$1,656,631)</u>	<u>(\$149,526,885)</u>				
\$0	\$0	\$0	(\$142,816,018)	\$0	\$0	\$0
0	0	0	\$0	(\$2,119,170)	0	0
0	0	0	\$0	0	2,195,374	0
0	0	0	\$0	0	0	611,437
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$142,816,018)</u>	<u>(\$2,119,170)</u>	<u>\$2,195,374</u>	<u>\$611,437</u>
\$77,889,130	\$0	\$77,889,130	\$0	\$0	\$0	\$0
62,829,665	0	62,829,665	0	0	0	0
17,965,403	0	17,965,403	0	0	0	0
3,001,001	51,706	3,052,707	981,242	13,935	206,370	11
0	0	0	154,748,106	2,250,746	0	0
(287,301)	287,301	0	0	0	0	0
(1,570,909)	1,570,909	0	0	0	0	0
(1,523,693)	1,523,693	0				
(776,663)	776,663	0				
0	12,020,143	12,020,143				
(3,439,138)	0	(\$3,439,138)				
575,508	(575,508)	0	0	0	0	0
5,889,138	3,963	5,893,101	2,484,199	20,383	2,593,744	0
<u>\$160,552,141</u>	<u>\$15,658,870</u>	<u>\$176,211,011</u>	<u>\$158,193,547</u>	<u>\$2,285,084</u>	<u>\$2,800,114</u>	<u>\$11</u>
12,681,887	14,002,239	26,684,126	15,377,529	165,894	4,995,488	611,448
<u>\$170,458,444</u>	<u>\$1,763,061</u>	<u>\$172,221,505</u>	<u>\$218,324,441</u>	<u>\$1,538,606</u>	<u>\$53,644,383</u>	<u>\$2,429,230</u>
<u>\$183,140,331</u>	<u>\$15,765,300</u>	<u>\$198,905,631</u>	<u>\$233,701,970</u>	<u>\$1,704,500</u>	<u>\$58,639,871</u>	<u>\$3,040,678</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$69,752,492	\$0	\$0	\$69,752,492
Due from other funds	0	35,688,123	1,156,999	36,845,122
Taxes receivable	2,498,825	0	53,905	2,552,730
Income tax reserve, funds held by the State	16,920,689	0	0	16,920,689
Special tax assessments receivable	0	0	2,751	2,751
Notes receivable, Fire and Rescue loans	0	0	283,842	283,842
Accounts receivable	12,979,044	2,011,692	0	14,990,736
Inventory	790,083	0	0	790,083
Other	10,694	0	0	10,694
Fire and Rescue loans receivable, net of short-term portion	0	0	1,626,789	1,626,789
Special tax assessments receivable, net of short-term portion	0	0	1,679,256	1,679,256
Total Assets	\$102,951,827	\$37,699,815	\$4,803,542	\$145,455,184
LIABILITIES				
Accounts payable	\$2,516,406	\$1,215,081	\$25,496	\$3,756,983
Compensation-related liabilities	3,436,833	0	0	3,436,833
Deferred income tax distribution	16,920,689	0	0	16,920,689
Deferred revenue	131,187	40,000	3,591,382	3,762,569
Other liabilities	4,369,825	0	0	4,369,825
Due to other funds	37,346,714	0	823,115	38,169,829
Due to other governments	783,251	0	0	783,251
Total Liabilities	\$65,504,905	\$1,255,081	\$4,439,993	\$71,199,979
FUND BALANCES				
Reserved	\$1,500,482	\$35,782,622	(\$820,058)	\$36,463,046
Unreserved, designated	24,858,057	662,112	1,183,607	26,703,776
Unreserved, undesignated	11,088,383	0	0	11,088,383
Total Fund Balances	\$37,446,922	\$36,444,734	\$363,549	\$74,255,205
Total Liabilities and Fund Balances	\$102,951,827	\$37,699,815	\$4,803,542	\$145,455,184

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Projects	Non-Major	Total
REVENUES				
Property Taxes	\$77,889,130	\$0	\$0	\$77,889,130
Income Taxes	62,829,665	0	0	62,829,665
Energy Taxes	2,809,005	0	0	2,809,005
Recordation Taxes	6,941,661	0	0	6,941,661
Transfer Taxes (including Agriculture)	0	5,795,141	0	5,795,141
Impact Fees	0	3,681,138	0	3,681,138
Other Local Taxes	968,089	0	0	968,089
Highway User Revenues	7,758,624	0	0	7,758,624
Licenses and Permits	1,438,858	0	0	1,438,858
Intergovernmental	6,187,935	2,453,598	420,941	9,062,474
Charges for Services	5,712,489	0	0	5,712,489
Fines and Forfeitures	287,181	0	0	287,181
Special Assessments	0	0	196,422	196,422
Other Revenues	3,343,598	0	1,491,070	4,834,668
Sub-total	<u>176,166,235</u>	<u>11,929,877</u>	<u>2,108,433</u>	<u>190,204,545</u>
Pass-Throughs	1,252,823	0	0	1,252,823
TOTAL GENERAL FUND REVENUES	<u>\$177,419,058</u>	<u>\$11,929,877</u>	<u>\$2,108,433</u>	<u>\$191,457,368</u>
EXPENDITURES				
General Government	\$19,655,375	\$5,079,478	\$0	\$24,734,853
Public Safety	31,222,327	0	1,223,729	32,446,056
Public Works	7,048,420	4,551,890	0	11,600,310
Health	1,249,107	0	0	1,249,107
Social Services	4,290,310	0	0	4,290,310
Primary and Secondary Education	77,925,078	7,181,790	0	85,106,868
Post -Secondary Education	2,586,000	0	0	2,586,000
Parks, Recreation, and Culture	3,776,176	3,150,632	0	6,926,808
Libraries	2,250,746	0	0	2,250,746
Conservation of Natural Resources	379,302	398,476	0	777,778
Housing	1,210,838	0	0	1,210,838
Economic Development and Opportunity	2,170,212	0	0	2,170,212
Capital Projects	0	0	0	0
Debt Service - Principal	8,545,399	0	161,343	8,706,742
Debt Service - Interest	4,010,496	0	69,090	4,079,586
Intergovernmental	53,796	0	0	53,796
Other	11,249,693	0	0	11,249,693
Sub-total	<u>177,623,275</u>	<u>20,362,266</u>	<u>1,454,162</u>	<u>199,439,703</u>
Pass-Throughs	1,252,823	0	0	1,252,823
TOTAL GENERAL FUND EXPENDITURES	<u>\$178,876,098</u>	<u>\$20,362,266</u>	<u>\$1,454,162</u>	<u>\$200,692,526</u>
Excess of Revenues Over (Under) Expenditures	<u>(\$1,457,040)</u>	<u>(\$8,432,389)</u>	<u>\$654,271</u>	<u>(\$9,235,158)</u>
OTHER FINANCING SOURCES AND USES				
Exempt financing proceeds	\$1,376,541	\$0	\$0	\$1,376,541
Capital Projects - General Fund Transfer	(500,000)	500,000	0	0
Construction in Progress - Wicomico Clubhouse	0	(1,570,909)	0	(1,570,909)
Transfer Completed Construction in Progress - Solid Waste Facilities	0	(776,663)	0	(776,663)
Transfer (MADS Subsidy and SWREC Subsidy)	(1,810,994)	0	0	(1,810,994)
Contribution to OPEB Trust	(3,439,138)	0	0	(3,439,138)
Private Funding Sources	0	138,838	0	138,838
Total Other Financing Sources / Uses	<u>(\$4,373,591)</u>	<u>(\$1,708,734)</u>	<u>\$0</u>	<u>(\$5,082,325)</u>
Net Change in Fund Balances	<u>(\$5,830,631)</u>	<u>(\$10,141,123)</u>	<u>\$654,271</u>	<u>(\$15,317,483)</u>
FUND BALANCE				
Beginning of the Year	\$43,277,553	\$46,585,857	(\$290,722)	\$89,572,688
End of Year	<u><u>\$37,446,922</u></u>	<u><u>\$36,444,734</u></u>	<u><u>\$363,549</u></u>	<u><u>\$74,255,205</u></u>

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

The County Commissioners for St. Mary's County
 Reconciliations of the Governmental Funds to the Governmental Activities
 For the Year Ended June 30, 2008

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

Fund Balance - Governmental Funds	\$74,255,205
Capital assets, net of accumulated depreciation, are not reported in the Balance Sheet for Governmental Funds	193,261,478
Capital assets, net of accumulated depreciation, transferred to new Solid Waste/Recycling proprietary fund	12,020,143
Issuance of debt relating to asset additions in Solid Waste/Recycling fund	(371,028)
Prepaid OPEB is not reported in the Balance Sheet for governmental funds	10,172,623
Debt, including bonds, loans, capital leases and the long-term portion of compensated absences, is not reported in the Balance Sheet for Governmental Funds. The amount reflected here is net of mortgages receivable from St. Mary's Hospital of \$18,190,000, but does include debt applicable to assets reported in the component unit for the Board of Education	(106,198,090)
Net Assets - Governmental Activities	\$183,140,331

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

Net change in fund balances - total governmental funds	(\$15,317,483)
Depreciation expense which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(7,562,280)
Disposal of capital assets which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(3,960)
Issuance of long-term debt, excluding amounts which are offset by mortgages receivable from St. Mary's Hospital, and effect of refunding. This does include debt applicable to assets reported in the component unit for the Board of Education	(10,472,321)
Repayment of debt	10,679,621
Transfer of exempt financing related to assets transferred to new Solid/Waste Recycling proprietary fund	427,728
Issuance of debt relating to asset additions in Solid Waste/Recycling fund	(371,028)
Refunding of 1997 General Obligation Consolidated Public Improvement and Refunding Bonds	6,020,000
Prepaid OPEB is not reported with the Balance Sheet for governmental funds	10,172,623
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	19,108,987
Change in net assets of governmental activities	\$12,681,887

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2008

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
ASSETS					
<u>Current assets</u>					
Cash and cash equivalents	\$0	\$0	\$479,875	\$0	\$479,875
Due from other funds	0	168,576	1,033,015	713,671	\$1,915,262
Accounts receivable	102,851	11,930	19,049	58,754	\$192,584
Inventory	0	0	22,797	0	\$22,797
Total Current Assets	<u>102,851</u>	<u>180,506</u>	<u>1,554,736</u>	<u>772,425</u>	<u>2,610,518</u>
<u>Non-current assets</u>					
Capital assets (including capital assets transferred)	0	126,748	5,696,044	14,353,419	\$20,176,211
Accumulated depreciation	0	(124,992)	(1,749,621)	(1,381,111)	(\$3,255,724)
Capital assets, net of accumulated depreciation	0	1,756	3,946,423	12,972,308	16,920,487
Total Assets	<u>\$102,851</u>	<u>\$182,262</u>	<u>\$5,501,159</u>	<u>\$13,744,733</u>	<u>\$19,531,005</u>
LIABILITIES					
<u>Current liabilities</u>					
Due to other funds	\$219,527	\$0	\$0	\$0	\$219,527
Accounts payable	4,784	65,136	29,562	230,444	\$329,926
Compensation-related liabilities	215,057	95,781	221,522	137,125	\$669,485
Deferred revenue	2,382	162,520	117,427	0	\$282,329
<u>Noncurrent Liabilities</u>					
Due within one year	0	0	58,070	224,706	\$282,776
Due in more than one year	18,347	0	1,348,813	614,502	\$1,981,662
Total Liabilities	<u>460,097</u>	<u>323,437</u>	<u>1,775,394</u>	<u>1,206,777</u>	<u>3,765,705</u>
NET ASSETS					
Invested in capital assets, net of related debt	0	1,756	2,612,376	12,208,283	14,822,415
Restricted	0	0	747,128	0	747,128
Unrestricted	(357,246)	(142,931)	366,261	329,673	195,757
Total Net Assets	<u>(357,246)</u>	<u>(141,175)</u>	<u>3,725,765</u>	<u>12,537,956</u>	<u>15,765,300</u>
Total Liabilities and Net Assets	<u>\$102,851</u>	<u>\$182,262</u>	<u>\$5,501,159</u>	<u>\$13,744,733</u>	<u>\$19,531,005</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
OPERATING REVENUES					
Charges for Services	\$146,878	\$2,136,780	\$1,234,247	\$435,526	\$3,953,431
Solid Waste/Recycling Fees	0	0	0	2,277,540	\$2,277,540
	<u>\$146,878</u>	<u>\$2,136,780</u>	<u>\$1,234,247</u>	<u>\$2,713,066</u>	<u>\$6,230,971</u>
OPERATING EXPENSES					
Personal Services	455,393	\$1,348,908	\$744,617	\$1,112,323	\$3,661,241
Operating Supplies	54,007	213,544	173,865	42,127	\$483,543
Professional Services	37,080	247,737	56,478	1,224,065	\$1,565,360
Communications	0	23,364	3,789	3,774	\$30,927
Transportation	235,258	10,547	35,399	82,300	\$363,504
Rentals	0	159,327	1,396	26,329	\$187,052
Public Utilities	7,695	238,951	33,617	13,583	\$293,846
Other Operating Costs	1,143	7,808	43,908	0	\$52,859
Tipping Fees	0	0	0	1,190,482	\$1,190,482
Interest Expense	0	0	70,297	26,018	\$96,315
Equipment	0	10,330	0	8,674	\$19,004
Depreciation	0	1,954	95,741	190,432	\$288,127
Total operating expenses	<u>\$790,576</u>	<u>\$2,262,470</u>	<u>\$1,259,107</u>	<u>\$3,920,107</u>	<u>\$8,232,260</u>
Operating Income (Loss)	(\$643,698)	(\$125,690)	(\$24,860)	(\$1,207,041)	(\$2,001,289)
Non-Operating Revenue					
Interest income	0	0	51,706	0	51,706
Fines	0	26	0	6	32
Grants revenue	300,482	46,062	0	0	346,544
General fund subsidy	287,301	0	0	1,523,693	1,810,994
Construction in Progress-Wicomico Clubhouse	0	0	1,570,909	0	1,570,909
Transfer of Completed Construction in Progress- Solid Waste Facilities	0	0	0	776,663	776,663
Gain/loss on disposals	0	0	2,045	0	2,045
Transfer of capital assets net of accumulated depreciation and debt	0	0	0	11,444,635	11,444,635
Change in net assets	<u>(\$55,915)</u>	<u>(\$79,602)</u>	<u>\$1,599,800</u>	<u>\$12,537,956</u>	<u>\$14,002,239</u>
NET ASSETS					
Beginning of the Year	(301,331)	(61,573)	2,125,965	0	1,763,061
End of Year	<u>(\$357,246)</u>	<u>(\$141,175)</u>	<u>\$3,725,765</u>	<u>\$12,537,956</u>	<u>\$15,765,300</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Charges for Services	\$154,685	\$2,146,953	\$1,234,317	\$2,654,312	\$6,190,267
Personal Services	(403,578)	(1,335,294)	(689,075)	(975,198)	(\$3,403,145)
Other Expenses	(349,127)	(887,846)	(411,912)	(2,386,907)	(\$4,035,792)
Net Cash Provided (Used) By Operating Activities	<u>(\$598,020)</u>	<u>(\$76,187)</u>	<u>\$133,330</u>	<u>(\$707,793)</u>	<u>(\$1,248,670)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES					
Net change in interfund loans	10,237	30,099	(958,320)	(713,671)	(1,631,655)
Grant revenue	300,482	46,062	0	0	346,544
Fines	0	26	0	6	32
General Operating Subsidy	287,301	0	0	1,523,693	1,810,994
Net Cash Provided (Used) By Non-Capital and Related Financing Activities	<u>\$598,020</u>	<u>\$76,187</u>	<u>(\$958,320)</u>	<u>\$810,028</u>	<u>\$525,915</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Construction / purchase of capital assets	0	0	(25,095)	0	(25,095)
Proceeds from capital debt, net	0	0	(11,566)	80,276	68,710
Principal payments on long-term debt	0	0	(66,355)	(34,731)	(101,086)
Other reductions in long-term debt	0	0	0	(147,780)	(147,780)
Net Cash Used by Capital and Related Financing Activities	<u>\$0</u>	<u>\$0</u>	<u>(\$103,016)</u>	<u>(\$102,235)</u>	<u>(\$205,251)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	0	0	51,706	0	51,706
Net Change in Cash	<u>\$0</u>	<u>\$0</u>	<u>(\$876,300)</u>	<u>\$0</u>	<u>(\$876,300)</u>
CASH					
Beginning of Year	<u>0</u>	<u>0</u>	<u>1,356,175</u>	<u>0</u>	<u>1,356,175</u>
End of Year	<u>\$0</u>	<u>\$0</u>	<u>\$479,875</u>	<u>\$0</u>	<u>\$479,875</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	(\$643,698)	(\$125,690)	(\$24,860)	(\$1,207,041)	(\$2,001,289)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Depreciation	0	1,954	95,741	190,432	288,127
(Increase) decrease in accounts receivable	6,324	38,004	(2,470)	(58,754)	(18,896)
(Increase) decrease in inventory	0	0	(4,290)	0	(4,290)
Increase (decrease) in accounts payable	(3,464)	23,762	648	230,444	251,390
Increase (decrease) in compensation-related liabilities	41,335	13,614	66,021	137,126	258,096
Increase (decrease) in deferred revenue	1,483	(25,831)	2,540	0	(21,808)
Net Cash Provided (Used) By Operating Activities	<u>(\$598,020)</u>	<u>(\$76,187)</u>	<u>\$133,330</u>	<u>(\$707,793)</u>	<u>(\$1,248,670)</u>
SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES					
Total capital asset additions	\$0	\$0	\$1,596,004	\$14,353,418	\$15,949,422
Less transfer of assets from other funds	0	0	(1,570,909)	(13,987,485)	(15,558,394)
Less amount financed	0	0	0	(365,933)	(365,933)
Net cash used for purchase of capital assets	<u>\$0</u>	<u>\$0</u>	<u>\$25,095</u>	<u>\$0</u>	<u>\$25,095</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - SHERIFF'S OFFICE RETIREMENT PLAN
JUNE 30, 2008

Sheriff's Office Retirement Plan

ASSETS	
Cash and cash equivalents	\$2,958,945
Restricted cash and investments	<u>28,339,129</u>
Total Assets	<u>\$31,298,074</u>
NET ASSETS	
Held in trust for pension benefits	<u>31,298,074</u>
Total Net Assets	<u>\$31,298,074</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - SHERIFF'S OFFICE RETIREMENT PLAN
FOR THE YEAR ENDED JUNE 30, 2008

Sheriff's Office Retirement Plan

ADDITIONS		
Contributions - Employer		\$2,673,742
Contributions - Employee		<u>611,107</u>
		<u>3,284,849</u>
Interest and Dividends		903,808
Realized Gain		794,658
Net Unrealized Gain on Investments		<u>461,547</u>
		<u>2,160,013</u>
Net Additions		<u>\$5,444,862</u>
DEDUCTIONS		
Benefits		(\$1,794,543)
Administrative		<u>(256,633)</u>
Total Deductions		<u>(\$2,051,176)</u>
Change in Net Assets		\$3,393,686
NET ASSETS		
Beginning of Year		<u>27,904,388</u>
End of Year		<u>\$31,298,074</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY, MARYLAND
JUNE 30, 2008

Retiree Benefit Trust of St. Mary's County,
Maryland

ASSETS	
Restricted cash and investments	\$14,003,796
Total Assets	<u>\$14,003,796</u>
NET ASSETS	
Held in trust for other post-employment benefits	<u>14,003,796</u>
Total Net Assets	<u>\$14,003,796</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY, MARYLAND
JUNE 30, 2008

Retiree Benefit Trust of St. Mary's County, Maryland

ADDITIONS		
Contributions - Employer		\$13,439,138
Interest and Dividends		<u>564,658</u>
Net Additions		<u>\$14,003,796</u>
DEDUCTIONS		
Benefits		\$0
Total Deductions		<u>\$0</u>
Change in Net Assets		\$14,003,796
NET ASSETS		
Beginning of Year		<u>0</u>
End of Year		<u>\$14,003,796</u>

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

The County Commissioner for St. Mary's County, Maryland

Notes to Financial Statements Index

June 30, 2008

	<u>Page</u>
1. Reporting entity and summery of significant accounting policies	A-31 – A-42
2. Deficit Fund Equity	A-42
3. Cash, cash equivalentents and investments	A-43 – A-46
4. Changes in fixed assets	A-47 – A-53
5. Property Tax	A-54
6. Special assessment receivable and deferred revenue	A-54 – A-55
7. Long-term obligations	A-56 – A-79
8. Fund balances	A-80 – A-81
9. Retirement plans	A-82 – A-89
10. Segment information for enterprise funds	A-100
11. Interfund receivables	A-101
12. Mortgage receivable	A-101
13. Commitments and contingencies	A-101 – A-102
14. Post-employment benefits	A-102 – A-109
15. Landfill closure and post closure cost	A-109
16. Pass-through proceeds	A-109
17. Risk management	A-110

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

1. Reporting entity and summary of significant accounting policies

Reporting entity

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

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

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

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

Discretely presented component units

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Discretely presented component units (continued)

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

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

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

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

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

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

Board of Education of St. Mary's County
23160 Moakley Street
Leonardtown, Maryland 20650

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Financial Statements

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

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

Government-wide Statements

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Fund Financial Statements

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

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

Governmental Funds

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

1. General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund.
2. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds of the County are non-major funds.
3. Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The Capital Projects Fund is a major fund.

Proprietary Funds

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

Fiduciary Funds

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Basis of Accounting and Measurement Focus

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

Basis of Accounting

- a. Accrual Basis – Both governmental and business-type activities are presented using the accrual basis of accounting in the government-wide financial statements and the proprietary and fiduciary fund financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.
- b. Modified Accrual Basis – The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means knowing or able to reasonably estimate the amount. "Available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year-end. All other revenue items are considered to be measurable and available only when cash is received by the County. Expenditures (including capital outlay) are recorded when the related liability is incurred. However, debt service expenditures (principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when due.

Measurement Focus

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

In the 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. The fund financial statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Accounting policies

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

Fund accounting

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

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

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

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

The amount of grant funds passed through the County to Walden Sierra, Inc., Three Oaks Homeless Shelter, So. MD. Tri-County Community Action Committee, Southern Maryland Center for Family Advocacy, Catholic Charities, Department of Social Services, American Red Cross, Tri-County Youth Services Bureau and St. Mary's County Housing Authority for the fiscal year ended June 30, 2008 totaled \$1,252,823. These pass-through grants are recorded as pass-through revenue in the amount of \$1,252,823 and expenditures in the amount of \$1,252,823 on the Statement of Revenues and Expenditures.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Budget and budgetary accounting

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

- a. Prior to April 1 of each year, The County Commissioners for St. Mary's County shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance by June 1.
- d. All revisions that alter the expenditures of each fund must be approved by The County Commissioners for St. Mary's County or the Chief Financial Officer.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund, special assessment fund and enterprise funds.
- f. Budgets for the special revenue funds and the capital projects fund are adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America. The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America, except that appropriations of fund balance are treated as other financing sources. Budget comparisons presented for the general fund in this report are on a non-GAAP basis. The capital projects funds' budgets are prepared on a project-length basis, and accordingly, annual budgetary comparisons are not presented in the financial statements. The enterprise funds' budgets are flexible annual operating budgets. Budgetary comparisons are not presented in the financial statements for the enterprise funds.
- g. The budgeted amounts are as adopted, including amendments, by The County Commissioners for St. Mary's County.

Encumbrances

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Cash, cash equivalents and investments

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

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

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

New Pronouncements

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other post-employment benefits or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Application of this statement is effective for the County's fiscal year ended June 30, 2008. The additional disclosure concerning the implementation of GASB 45 is available in Note 14.

Inventory and prepaid expenditures

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

Long-term receivables

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Accumulated unpaid annual leave

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

There are no requirements that annual leave be taken; however, the maximum permissible accumulation to be carried into the new calendar year is forty-five days for full-time employees and twenty-two and one-half days for permanent part-time employees. At termination, employees are paid for any accumulated annual leave.

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

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

Use of estimates

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Budget basis of accounting

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

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

	Net Change in Fund Balance	End of Year Fund Balance
Budgetary Basis – General Fund	\$11,159,992	\$34,978,025
Minor revolving funds and general financing that relate to activities resulting from fees, fines, and other revenue sources that are not an element of the budget basis reporting	374,598	670,115
Beginning of year encumbrances, rolled into FY2008	(1,106,622)	0
Appropriation from prior year rolled to FY2008 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2008	1,106,622	1,106,622
Use of fund balance to fund operations	(14,618,243)	0
Transfer to OPEB trust	(3,439,138)	0
End of year encumbrances included in budget basis expenditures, not included for GAAP	692,160	692,160
GAAP Basis	(\$5,830,631)	\$37,446,922

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Basis of presentation

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

Capital assets

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

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

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

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

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

Primary Government

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

Component Units

St. Mary's County Public Schools

Buildings and improvements	20-50 years
Furniture and equipment	5-15 years
Property under financing agreements	5-50 years

Board of Library Trustees for St. Mary's County

Furnishings and equipment	5 years
Vehicles	5 years
Books	7 years

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

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

Capital assets (continued)

Component Units (continued)

St. Mary's County Metropolitan Commission

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

St. Mary's County Building Authority Commission

Buildings	40 years
Furniture and equipment	10 years

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market. The inventories are recorded as expenditures when consumed rather than when purchased. Governmental fund-type inventories are offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources," even though they are a component of net current assets.

Long-term obligations

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

2. Deficit fund equity

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

Proprietary funds – As has been the case in prior fiscal years, the deficit in the Medical Adult Daycare Fund was again significantly reduced in FY 2008 by a budget transfer from the general fund of \$287,301. The Board recognizes that additional and recurring funds will be required to subsidize this activity.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

3. Cash, cash equivalents and investments

Primary Government

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

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

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

Cash Deposits

At year end, the carrying amount of the County's deposits was \$45,059,543 and the collected bank balance was \$47,139,160. Of the collected bank balance, \$300,000 was covered by Federal Deposit Insurance Corporation (FDIC), and \$46,839,160 was covered by collateral held either in the pledging bank's trust department or by the pledging bank's agent.

Investments

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

3. Cash, cash equivalents and investments (continued)

Primary Government (continued)

Investments (continued)

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

<u>Investment Type</u>	<u>Fair Value</u>
U.S. government securities - Treasuries	\$45,079,993
Maryland Local Government Investment Pool	39,156,169
Pension investments – Sheriff's Office Retirement Plan	
Cash and equivalents	
Cash	2,958,945
Fixed income	
Government and agencies	3,666,703
Bond Funds	5,546,807
Corporate bonds and notes	335,846
Equity funds	
Equity mutual funds	2,416,248
Common stock	11,965,045
Venture/Lmtd Part/Cls Hld	<u>4,408,480</u>
Subtotal – Sheriff's Office Retirement Plan	31,298,074
Debt service sinking fund (St. Mary's Hospital)	<u>515,439</u>
Total investments	<u>\$116,049,675</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 uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares.

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

3. Cash, cash equivalents and investments (continued)

Investments (continued)

Component Units

St. Mary's County Public Schools

Investments

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

At June 30, 2008, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value were \$29,953,698, \$397,107, and \$964,157 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

Board of Library Trustees for St. Mary's County

Cash deposits and investments

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

At June 30, 2008, the carrying amount of the Library's deposits was \$1,199, and the bank balances totaled \$849. The total bank balance was covered by federal deposit insurance.

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

The Vanguard Group investment is an investment in an open-end mutual fund and is therefore not subject to custodial credit risk.

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government Investment Pool	<u>\$200,369</u>	<u>\$200,369</u>
Restricted:		
The Vanguard Group	\$ 77,750	\$ 77,500
PNC Bank – Savings account	<u>1,289</u>	<u>1,289</u>
Board - restricted fund	<u>\$ 79,039</u>	<u>\$ 79,039</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

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

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

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

St. Mary's County Metropolitan Commission

Deposits and investments

Deposits

The carrying amount of MetCom's deposits was \$2,258,135 at June 30, 2008, and the bank balances were \$2,437,448. Of the bank balances, \$100,000 was covered by federal depository insurance at June 30, 2008, with the remaining \$2,337,448 adequately covered by collateral. State statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Cash and cash equivalents consisted of the following:

Investments	\$ 4,139,197
Cash	2,258,135
Petty cash	<u>450</u>
	<u>\$ 6,397,782</u>

Investments

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

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

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

	<u>Carrying Amount</u>	<u>Market Value</u>
MLGIP	<u>\$ 4,139,197</u>	<u>\$ 4,139,197</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

4. Changes in capital assets

Primary Government

A summary of changes in capital assets is as follows:

	Balance June 30, 2007	Additions	Transfers	Disposals	Balance June 30, 2008
Governmental Activities					
Capital assets not being depreciated:					
Land	\$23,513,010	\$1,292,824	\$0	\$0	\$24,805,834
Solid Waste Facilities	10,746,208	0	(10,746,208)	0	0
Construction In Progress	4,873,878	3,588,616		0	8,462,494
911 system & equipment	1,423,733	0	0	0	1,423,733
Total capital assets not being depreciated	\$40,556,829	\$4,881,440	(\$10,746,208)	\$0	\$34,692,061
Capital assets being depreciated:					
Buildings & improvements	\$84,627,513	\$1,205,102	(\$134,000)	\$0	\$85,698,615
Computer equipment	1,934,808	17,178	0	0	1,951,984
Other Equipment	251,481	0	0	0	251,481
Vehicles - licensed	10,281,650	876,670	(1,215,673)	(220,256)	9,722,391
Off-road vehicles	2,819,828	55,442	(1,114,942)	(17,369)	1,742,959
Miscellaneous equipment	2,533,164	268,683	0	0	2,801,847
Roads	113,304,471	10,339,056	0	0	123,643,527
Curbing	946,791	0	0	0	946,791
Sidewalks	917,168	0	0	0	917,168
Guardrails	804,899	46,151	0	0	851,050
Airport infrastructure	4,457,532	0	0	0	4,457,532
Airport equipment	514,808	0	0	0	514,808
Baseball fields	707,680	0	0	0	707,680
Bridges	4,934,791	0	0	0	4,934,791
Parks & recreation	10,383,847	1,079,985	0	0	11,463,832
Marinas & docks	7,799,400	156,753	0	0	7,956,153
Irrigation systems	179,714	0	0	0	179,714
Signage	475,433	0	0	0	475,433
Parking lots	234,644	0	0	0	234,644
911 system & equipment	7,666,421	182,527	0	0	7,848,948
Total capital assets being depreciated	\$255,776,041	\$14,227,547	(\$2,464,615)	(\$237,625)	\$267,301,348
Accumulated depreciation for:					
Buildings & improvements	(\$29,513,226)	(\$1,445,656)	\$43,444	\$0	(\$30,915,438)
Computer equipment	(1,431,391)	(143,964)	0	0	(1,575,355)
Other Equipment	(64,828)	(14,332)	0	0	(79,160)
Vehicles - licensed	(7,551,487)	(557,262)	941,210	220,256	(6,947,283)
Off-road vehicles	(1,174,054)	(155,267)	206,026	13,409	(1,109,886)
Miscellaneous equipment	(1,310,778)	(241,841)	0	0	(1,552,619)
Roads	(46,548,359)	(3,489,364)	0	0	(50,037,723)

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

4. Changes in capital assets

Primary Government

A summary of changes in capital assets is as follows:

	Balance June 30, 2007	Additions	Transfers	Disposals	Balance June 30, 2008
Governmental Activities					
Capital assets not being depreciated:					
Land	\$23,513,010	\$1,292,824	\$0	\$0	\$24,805,834
Solid Waste Facilities	10,746,208	0	(10,746,208)	0	0
Construction In Progress	4,873,878	3,588,616		0	8,462,494
911 system & equipment	1,423,733	0	0	0	1,423,733
Total capital assets not being depreciated	\$40,556,829	\$4,881,440	(\$10,746,208)	\$0	\$34,692,061
Capital assets being depreciated:					
Buildings & improvements	\$84,627,513	\$1,205,102	(\$134,000)	\$0	\$85,698,615
Computer equipment	1,934,806	17,178	0	0	1,951,984
Other Equipment	251,481	0	0	0	251,481
Vehicles - licensed	10,281,650	876,670	(1,215,673)	(220,256)	9,722,391
Off-road vehicles	2,819,828	55,442	(1,114,942)	(17,369)	1,742,959
Miscellaneous equipment	2,533,164	268,683	0	0	2,801,847
Roads	113,304,471	10,339,056	0	0	123,643,527
Curbing	946,791	0	0	0	946,791
Sidewalks	917,168	0	0	0	917,168
Guardrails	804,899	46,151	0	0	851,050
Airport infrastructure	4,457,532	0	0	0	4,457,532
Airport equipment	514,808	0	0	0	514,808
Baseball fields	707,680	0	0	0	707,680
Bridges	4,934,791	0	0	0	4,934,791
Parks & recreation	10,383,847	1,079,985	0	0	11,463,832
Marinas & docks	7,799,400	156,753	0	0	7,956,153
Irrigation systems	179,714	0	0	0	179,714
Signage	475,433	0	0	0	475,433
Parking lots	234,644	0	0	0	234,644
911 system & equipment	7,666,421	182,527	0	0	7,848,948
Total capital assets being depreciated	\$255,776,041	\$14,227,547	(\$2,464,615)	(\$237,625)	\$267,301,348
Accumulated depreciation for:					
Buildings & improvements	(\$29,513,226)	(\$1,445,656)	\$43,444	\$0	(\$30,915,438)
Computer equipment	(1,431,391)	(143,964)	0	0	(1,575,355)
Other Equipment	(64,828)	(14,332)	0	0	(79,160)
Vehicles - licensed	(7,551,487)	(557,262)	941,210	220,256	(8,947,283)
Off-road vehicles	(1,174,054)	(155,267)	206,026	13,409	(1,109,886)
Miscellaneous equipment	(1,310,778)	(241,841)	0	0	(1,552,619)
Roads	(46,548,359)	(3,489,364)	0	0	(50,037,723)

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

4. Changes in capital assets (continued)

Primary Government (continued)

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

Governmental Activities

General Government	\$ 909,391
Public Safety	1,198,774
Public Works	4,561,326
Social Services	106,095
Primary and Secondary Education	12,882
Post -Secondary Education	42,285
Parks, Recreation, and Culture	532,157
Libraries	192,620
Economic Development and Opportunity	6,750
Total Depreciation - Governmental Activities	<u>\$7,562,280</u>

Business-Type Activities

Recreation Activity Fund	\$ 1,954
Wicomico	95,741
Solid Waste/Recycling	190,432
Total Depreciation - Business-Type Activities	<u>\$288,127</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

4. Changes in capital assets (continued)

Component Units

St. Mary's County Public Schools

Capital Assets

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

	Balance June 30, 2007	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2008
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 2,099,808	\$ 57,643	\$ 0	\$ 2,157,451
Land under financing agreement	445,484	0	(57,643)	387,841
Facilities under construction	10,332,429	15,849,679	(1,576,157)	24,605,951
	<u>12,877,721</u>	<u>15,907,322</u>	<u>(1,633,800)</u>	<u>27,151,243</u>
Capital assets being depreciated:				
Buildings and improvements	268,060,901	2,305,577	(2,605)	270,363,873
Furniture and equipment	4,743,679	837,720	(164,748)	5,416,651
Facilities and equipment under financing agreements	4,457,593	534,367	(997,257)	3,994,703
	<u>277,262,173</u>	<u>3,677,664</u>	<u>(1,164,610)</u>	<u>279,775,227</u>
Accumulated depreciation for:				
Buildings and improvements, including facilities under capital lease	(73,485,429)	(5,995,501)	0	(79,480,930)
Furniture and equipment, including equipment under financing agreements	(2,724,600)	(572,414)	132,244	(3,164,770)
	<u>(76,210,029)</u>	<u>(6,567,915)</u>	<u>132,244</u>	<u>(82,645,700)</u>
Governmental activities capital assets, net	<u>\$ 213,929,865</u>	<u>\$ 13,017,071</u>	<u>\$(2,666,166)</u>	<u>\$224,280,770</u>
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,264,699	\$ 75,699	\$ 0	\$ 1,340,398
Accumulated depreciation for:				
Furniture and Equipment	(556,664)	(87,065)	0	(643,729)
Business-type activities capital assets, net	<u>\$ 708,035</u>	<u>\$ (11,366)</u>	<u>\$ 0</u>	<u>\$ 696,669</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Assets (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2008, as follows:

Governmental activities:	
Administration	\$ 78,357
Mid-Level Administration	33,066
Other Instructional Costs	150,936
Special Education	14,325
Student Personnel Services	660
Student Transportation Services	150,731
Operation of Plant	6,135,976
Maintenance of Plant	<u>3,864</u>
Total governmental activities depreciation expense	<u>\$ 6,567,915</u>
Business-type activities:	
Food Services	<u>\$ 87,065</u>

Board of Library Trustees for St. Mary's County

Capital assets and depreciation

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

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets:				
Furnishings and Equipment	\$ 910,251	\$ 6,377	\$ 0	\$ 916,628
Vehicles	33,102	0	0	33,102
Books	<u>2,514,966</u>	<u>316,935</u>	<u>0</u>	<u>2,831,901</u>
	<u>\$ 3,458,319</u>	<u>\$ 323,312</u>	<u>\$ 0</u>	<u>\$ 3,781,631</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

4. Changes in capital assets (continued)

Component Units (continued)

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

Capital assets and depreciation (continued)

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>
Accumulated depreciation:				
Furnishings and Equipment	\$ 741,085	\$ 102,369	\$ 0	\$ 843,454
Vehicles	21,971	3,180	0	25,151
Books	<u>1,581,755</u>	<u>263,969</u>	<u>0</u>	<u>1,845,724</u>
	<u>2,344,811</u>	<u>369,518</u>	<u>0</u>	<u>2,714,329</u>
Net capital assets	<u>\$1,113,508</u>	<u>\$ (46,206)</u>	<u>\$ 0</u>	<u>\$1,067,302</u>

Governmental activities depreciation expense of \$369,518 was charged to Library services.

St. Mary's County Building Authority Commission

Capital assets

Capital assets at June 30, 2008 consisted of the following:

	Balance <u>June 30, 2007</u>	<u>Additions</u>	Balance <u>June 30, 2008</u>
Capital assets:			
Nursing Home building	\$ 8,846,238	\$ 0	\$ 8,846,238
State Office building	8,673,157	0	8,673,157
Furniture and equipment	<u>13,387</u>	<u>0</u>	<u>13,387</u>
	<u>\$ 17,532,782</u>	<u>\$ 0</u>	<u>\$ 17,532,782</u>
Accumulated depreciation:			
Nursing Home building	3,849,604	221,156	4,070,760
State Office building	3,764,133	216,829	3,980,962
Furniture and equipment	<u>13,387</u>	<u>0</u>	<u>13,387</u>
	<u>\$ 7,627,124</u>	<u>\$ 437,985</u>	<u>\$ 8,065,109</u>
Net capital assets	<u>\$ 9,905,658</u>	<u>\$(437,985)</u>	<u>\$ 9,467,673</u>

Depreciation expense of \$437,985 was charged to activities for the fiscal year ended June 30, 2008. There were no additions or deletions of capital assets during the fiscal year ended June 30, 2008.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

4. Changes in capital assets (continued)

St. Mary's County Metropolitan Commission

Capital assets and depreciation

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

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets:				
Utility plants	\$67,787,669	\$ 7,983,867	\$ 0	\$ 75,771,536
Water plant systems	15,156,119	2,725,851	0	17,881,970
Equipment	5,066,502	848,340	184,493	5,730,349
Capitalized interest	818,201	0	0	818,201
Buildings	<u>1,461,505</u>	<u>0</u>	<u>0</u>	<u>1,461,505</u>
Subtotal	90,289,996	11,558,058	184,493	101,663,561
Not being depreciated:				
Utility plant construction in process	8,354,506	1,358,156	7,400,884	2,311,778
Water plant construction in process	1,614,237	564,964	1,148,945	1,030,256
Land/land rights	<u>593,537</u>	<u>1,500</u>	<u>0</u>	<u>595,037</u>
	<u>100,852,276</u>	<u>13,482,678</u>	<u>8,734,322</u>	<u>105,600,632</u>
Accumulated depreciation:				
Utility plants	24,011,595	1,485,220	0	25,496,815
Water plant systems	4,239,182	406,387	0	4,645,569
Equipment	2,917,406	380,195	184,493	3,113,108
Capitalized interest	204,550	16,364	0	220,914
Buildings	<u>560,471</u>	<u>55,308</u>	<u>0</u>	<u>615,779</u>
	<u>31,933,204</u>	<u>2,343,474</u>	<u>184,493</u>	<u>34,092,185</u>
Net capital assets	<u>\$68,919,072</u>	<u>\$11,139,204</u>	<u>\$ 8,549,829</u>	<u>\$ 71,508,447</u>

Depreciation expense of \$2,343,474 was charged to activities as follows:

Sewer activities	\$ 1,693,519
Water activities	552,081
Engineering activities	41,055
Administrative	<u>56,819</u>
Total	<u>\$ 2,343,474</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

5. Property tax

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied each July 1, and the taxpayer has the option to pay in full without interest by September 30 or elect a semiannual payment option. If a semiannual payment option is elected, the first payment is payable without interest by September 30 and the second payment, including a service charge, is payable without interest by December 31. Interest is charged for each month or fraction thereof that taxes remain unpaid beginning October 1 on accounts under the annual payment option or January 1 for accounts under the semiannual payment option. Maryland law grants the Treasurer of St. Mary's County the power to immediately advertise and sell any real property after the taxes are delinquent for a period of one year. Property taxes are levied at rates enacted by the Commissioners in the annual budget based on the assessed value of the property as determined by the Maryland State Department of Assessments and Taxation, an agency of the government of the State of Maryland. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice and, then only after public hearings. The real property tax rate during the year ended June 30, 2008, was \$.857 per \$100 of assessed value based on the full valuation method. The personal property tax rate during the year ended June 30, 2008 was \$2.1425 per \$100 of assessed value. The County bills and collects all property taxes.

A 100% allowance for uncollectibles is established for prior year (fiscal year 2006 and prior) taxes receivable. County property tax receivable as of June 30, 2008, net of the allowance for uncollectibles of \$395,977, is \$2,114,033 (this amount does not include state and emergency services taxes receivable). On October 1, a 3% penalty is assessed, and interest begins accruing at a rate of 1% for each month that real and personal property taxes are delinquent (unless taxpayer has elected semiannual payment option as described above).

6. Special tax assessment receivable and deferred revenue

Primary Government

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

As of June 30, 2008, there were no delinquent special assessment receivables due from taxpayers.

Component Units

St. Mary's County Public Schools

General Fund

Deferred revenue consists primarily of the retrospective insurance premium refund and workers compensation insurance dividend totaling \$1,101,970 which will be collected subsequent to June 30, 2008, but is not available soon enough to pay for the current period's expenditures, and therefore is deferred. The remaining deferred revenue consists of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2008, of \$128,824, and summer school tuition of \$33,388 which is collected in advance of the corresponding expenditures which do not occur until the following fiscal year.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

6. Special assessment receivable and deferred revenue (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Enterprise Fund

Deferred revenue consists of commodities in the amount of \$141,539, donated by the Federal government and included in inventory at June 30, 2008. The remaining deferred revenue of \$109,308 represents student lunch ticket sales collected in advance for lunches which will be consumed by students in fiscal year 2009.

Capital Projects Fund

Deferred revenue consists of revenue received in advance from the County for expenditures associated with relocatable classrooms of \$198,219.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations

Primary Government

	June 30, 2007	Additions	Deductions	Transfers	Principal Repayment	June 30, 2008	Amounts due within one year
General Obligation Bonds - County	\$97,715,000	\$6,275,000	\$6,020,000	\$0	(\$8,035,000)	\$89,935,000	\$7,735,000
Water Quality Loans	5,673,656	0	0	0	(510,536)	5,163,120	518,962
State Loans	775,070	1,067,555	0	0	(83,522)	1,789,103	83,822
Surplus Property Transfer of Debt	284,904	0	0	0	(43,240)	241,664	45,275
Exempt Financing	4,064,816	2,819,204	0	(427,728)	(1,407,325)	5,048,967	1,421,217
	108,513,445	10,191,759	6,020,000	(427,728)	(10,079,623)	102,177,854	9,604,276
General Obligation Bonds, sold on behalf of St. Mary's Hospital	19,540,000	0	0	0	(1,350,000)	18,190,000	1,405,000
Landfill Post-Closure Costs	2,600,000	0	600,000	0	0	2,000,000	0
Compensated Absences (Long-Term)	3,511,337	268,561	0	0	0	3,779,898	12,359
	6,111,337	268,561	600,000	0	0	5,779,898	12,359
Total	\$134,164,783	\$10,460,320	\$6,620,000	(\$427,728)	(\$11,429,623)	\$126,147,752	\$11,221,635
Less: Amount Deferred on Refunding	(1,771,663)	12,001	0	0	0	(1,759,662)	(12,445)
Amount Reported in Statement of Net Assets	\$132,393,120	\$10,472,321	\$6,620,000	(\$427,728)	(\$11,429,623)	\$124,388,090	\$11,209,190

Business-Type Activities

Exempt Financing	\$1,400,402	\$371,028	\$0	\$427,728	(\$101,066)	\$2,098,072	\$282,776
Compensated Absences (Long-Term)	102,751	63,515	0	0	0	166,366	0
Amount Reported in Statement of Net Assets	\$1,503,153	\$434,643	\$0	\$427,728	(\$101,066)	\$2,264,438	\$282,776

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Primary Government (continued)

General obligation bonds

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

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

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

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

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

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

The bonds may be prepaid at the following premiums:

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Primary Government (continued)

General obligation bonds (continued)

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

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

The County has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase United States government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government-wide financial statements. As of June 30, 2008, the amount of debt outstanding removed from long-term debt amounted to \$18,495,000.

On February 28, 2008, the County did a current refunding of part of the 1997 General Obligation Consolidated Public Improvement and Refunding Bonds with the same maturity date ending in fiscal year 2012 with an annual interest rate of 2.4%. The estimated savings of principal and interest are \$399,579. The remaining balance on the 1997 General Obligation Consolidated Public Improvement and Refunding Bonds as of June 30, 2008 is \$3,540,000.

2001 Maryland Water Quality Loan

On September 29, 2000, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$3,338,383 for landfill post-closure costs, St. Andrews Landfill area B, cells 1, 2 and 4. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears interest at a rate of 2.4% per annum payable semiannually. Principal payments are due annually through 2016 starting February 1, 2002. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2008, based on the final loan amount of \$3,225,318, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2009	\$ 221,395	\$ 43,542	\$ 12,752	\$ 277,689
2010	226,708	38,228	12,753	277,689
2011	232,149	32,787	12,753	277,689
2012	237,721	27,215	12,753	277,689
2013	243,426	21,510	12,753	277,689
2014-2016	<u>652,831</u>	<u>28,913</u>	<u>38,257</u>	<u>720,001</u>
	<u>\$1,814,230</u>	<u>\$192,195</u>	<u>\$102,021</u>	<u>\$2,108,446</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Primary Government (continued)

2004 Maryland Water Quality Loan

On May 26, 2004, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$4,332,759 for landfill post-closure costs, St. Andrews Landfill area B, cells 3 and 5. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears an interest rate of 1.10% per annum, payable semiannually. Principal payments are due annually through 2019 beginning February 1, 2006. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2008, based on the final loan amount of \$4,222,304, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2009	\$ 297,567	\$ 36,838	\$ 11,448	\$ 345,853
2010	300,841	33,564	11,448	345,853
2011	304,150	30,255	11,448	345,853
2012	307,495	26,910	11,448	345,853
2013	310,878	23,527	11,448	345,853
2014-2018	1,606,443	65,583	57,239	1,729,265
2019	<u>221,516</u>	<u>2,437</u>	<u>11,448</u>	<u>235,401</u>
	<u>\$3,348,890</u>	<u>\$219,114</u>	<u>\$125,927</u>	<u>\$3,693,931</u>

2004 Exempt Financing – Equipment Lease

On December 23, 2003, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$605,000 for the purchase of vehicles, golf carts, and technology equipment. The lease bears interest at a rate of 3.2% per annum, payable monthly. Payments are due monthly through 2009 starting February 2, 2004. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2004 Equipment Lease (primary government portion only) as of June 30, 2008 based on the final lease amount of \$605,000, are as follows:

2004 Equipment Lease

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	<u>\$51,459</u>	<u>\$545</u>	<u>\$52,004</u>
	<u>\$51,459</u>	<u>\$545</u>	<u>\$52,004</u>

2004 911 Equipment Lease

On August 19, 2003, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$600,000 for the purchase of additional 911 equipment. The lease bears interest at a rate of 2.89% per annum, payable monthly. Payments are due monthly through 2009 starting August 19, 2003. The annual requirements to amortize the 2004 911 Lease as of June 30, 2008 based on the final lease amount of \$600,000, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	<u>\$21,421</u>	<u>\$77</u>	<u>\$21,498</u>
	<u>\$21,421</u>	<u>\$77</u>	<u>\$21,498</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Primary Government (continued)

2005 Exempt Financing Equipment Lease

On June 28, 2005, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$1,486,887 for the purchase of vehicles. The lease bears interest at a rate of 3% per annum, payable monthly through 2010. Payments are due monthly starting July 28, 2005. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2005 Equipment Lease as of June 30, 2008, based on the final lease amount of \$1,486,887, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$241,407	\$13,742	\$255,149
2010	<u>250,243</u>	<u>4,907</u>	<u>255,150</u>
	<u>\$491,650</u>	<u>\$18,649</u>	<u>\$510,299</u>

2006 Exempt Financing Equipment Lease

On May 25, 2006, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$1,627,500 for the purchase of vehicles. The lease bears interest at a rate of 4.12% per annum, payable monthly through 2011. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2006 Equipment Lease as of June 30, 2008 based on the final lease amount of \$1,627,500 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$270,366	\$32,082	\$302,448
2010	281,623	20,825	302,448
2011	<u>293,350</u>	<u>9,098</u>	<u>302,448</u>
	<u>\$845,339</u>	<u>\$62,005</u>	<u>\$907,344</u>

2006 Surplus Property, Transfer of Net Debt

On June 6, 2006, The County Commissioners for St. Mary's County entered into a public school property transfer agreement with St. Mary's County Public Schools for the transfer of George Washington Carver Elementary School. With this property transfer, the County agreed to assume the total outstanding State bond debt of \$368,769. As of June 30, 2008, the principal and interest payments through 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 45,275	\$11,339	\$ 56,614
2010	47,407	9,207	56,614
2011	49,639	6,975	56,614
2012	51,977	4,637	56,614
2013	46,159	2,189	48,348
2014-2018	<u>1,207</u>	<u>103</u>	<u>1,310</u>
	<u>\$241,664</u>	<u>\$34,450</u>	<u>\$276,114</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Primary Government (continued)

2007 Exempt Financing Equipment Lease

On September 5, 2006, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$1,720,000 for the purchase of vehicles and technology equipment. The lease bears interest at a rate of 4.05% per annum, payable bi-annually through 2012. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2007 Equipment Lease as of June 30, 2008 based on the final lease amount of \$1,720,000 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 302,968	\$42,150	\$ 345,118
2010	315,362	29,756	345,118
2011	328,264	16,854	345,118
2012	169,134	3,425	172,559
	<u>\$1,115,728</u>	<u>\$92,185</u>	<u>\$1,207,913</u>

2008 Exempt Financing Equipment Lease

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 533,596	\$ 67,424	\$ 601,020
2010	548,750	52,270	601,020
2011	564,333	36,686	601,019
2012	580,360	20,660	601,020
2013	296,331	4,178	300,509
	<u>\$2,523,370</u>	<u>\$181,218</u>	<u>\$2,704,588</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Primary Government (continued)

Long-term obligations at June 30, 2008 consist of the following:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Amount</u>
<u>State loans:</u>			
Rural housing service, formerly Farmers Home Administration (Watershed Project)	1972-2022	3.463%	\$ 13,831
Maryland Department of Natural Resources:			
Point Breeze	1993-2017	None	81,420
Sandgates Road	1994-2015	None	43,624
Jefferson Island #2 and #3 Erosion Projects	1985-2015	None	39,424
Tall Timbers #2 Erosion Project	1986-2012	None	22,641
Tall Timbers #3 Erosion Project	1991-2016	None	52,656
Jefferson Island Club, Inc.	1991-2016	None	97,152
Hollywood Shores	1998-2012	None	31,384
Holly Point Shores	2008-2032	None	236,776
Maryland Water Quality Loan	2003-2016	2.4%	1,814,230
Murray Road Revetment	2004-2028	None	72,640
Maryland Water Quality Loan	2005-2019	None	3,348,890
Piney Point Lighthouse	2009-2024	None	489,555
Villas on Water Edge	2009-2029	None	390,000
North Patuxent Beach	2009-2024	None	218,000
Total state loans			<u>\$6,952,223</u>
<u>General obligation bonds:</u>			
St. Mary's Hospital Bonds of 1993	1994-2008	5.75-6.75%	\$ 560,000
Public Facilities Refunding Bonds of 1996	1997-2009	3.3-5.0%	270,000
St. Mary's County Consolidated Public Improvement Project and Refunding Bonds of 1997	1998-2012	4.5-4.875%	3,540,000
Consolidated Public Improvement Bonds of 1999	2000-2019	5-6%	2,655,000
2001 General Obligation Bonds	2004-2022	4-5.5%	19,475,000
2002 Refunding Bonds	2004-2020	3.25-5%	19,795,000
2002 St. Mary's Hospital Bonds	2006-2023	3.5-5.125%	17,630,000
2003 Public Facilities and Refunding Bonds	2006-2023	2.75-4.75%	23,500,000
Consolidated Public Improvement Bonds of 2005	2006-2025	3.75-4.25%	14,425,000
2008 Refunding Bonds	2008-2013	2.4%	6,275,000
Total general obligation bonds			<u>\$108,125,000</u>
Total state loans and bonds			\$115,077,223
Surplus property transfer of debt			241,664
Accrued landfill closure and postclosure costs			2,000,000
Exempt Financing			5,048,967
Accumulated unpaid annual leave			3,779,898
Total			<u>\$126,147,752</u>
Less: Amount deferred on refunding			<u>(1,759,662)</u>
			<u>\$124,388,090</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Primary Government (continued)

Business-Type Activities

2004 Exempt Financing – Equipment Lease

On December 23, 2003, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$605,000. The lease bears interest at a rate of 3.2% per annum payable monthly through 2009. Payments are due monthly starting February 2, 2004. This lease was prorated between primary government and business type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2004 Equipment Lease (Business-Type portion only) as of June 30, 2008 based on the final lease amount of \$605,000, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	<u>\$18,458</u>	<u>\$196</u>	<u>\$18,654</u>
	<u>\$18,458</u>	<u>\$196</u>	<u>\$18,654</u>

2005 Exempt Financing Equipment Lease

On June 28, 2005, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$1,486,887 for the purchase of vehicles. The lease bears interest at a rate of 3% per annum, payable monthly through 2010. Payments are due monthly starting July 28, 2005. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2005 Equipment Lease (Business-Type portion only) as of June 30, 2008, based on the final lease amount of \$1,486,887, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 65,336	\$3,719	\$ 69,055
2010	67,728	1,328	69,056
	<u>\$133,064</u>	<u>\$5,047</u>	<u>\$138,111</u>

2006 Exempt Financing Equipment Lease

On May 25, 2006, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$1,627,500 for the purchase of vehicles. The lease bears interest at a rate of 4.12% per annum, payable monthly through 2011. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2006 Equipment Lease (Business-Type portion only) as of June 30, 2008 based on the final lease amount of \$1,627,500, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 54,593	\$ 6,478	\$ 61,071
2010	56,866	4,205	61,071
2011	59,234	1,837	61,071
	<u>\$170,693</u>	<u>\$12,520</u>	<u>\$183,213</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Business-Type Activities (continued)

2007 Exempt Financing Equipment Lease

On September 5, 2006, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$1,720,000 for the purchase of vehicles and technology equipment. The lease bears interest at a rate of 4.05% per annum, payable bi-annually through 2012. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2007 Equipment Lease (Business-Type portion only) as of June 30, 2008, based on the final lease amount of \$1,720,000, are as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 33,663	\$ 4,683	\$ 38,346
2010	35,040	3,306	38,346
2011	36,474	1,873	38,347
2012	18,793	381	19,174
	<u>\$123,970</u>	<u>\$10,243</u>	<u>\$134,213</u>

2008 Exempt Financing Equipment Lease

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

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 71,114	\$ 8,986	\$ 80,100
2010	73,133	6,966	80,099
2011	75,210	4,889	80,099
2012	77,346	2,753	80,099
2013	39,493	557	40,050
	<u>\$336,296</u>	<u>\$24,151</u>	<u>\$360,447</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Business-Type Activities (continued)

Wicomico Shores Improvement Bond of 2007

On June 29, 2007, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$1,350,000 for the renovation of the Wicomico Shores Clubhouse. The loan bears interest at a rate of 5.62% per annum, payable monthly through 2028. The annual requirements to amortize the Wicomico Shores Improvement Bond of 2007 as of June 30, 2008, based on the final loan amount of \$1,350,000, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 39,612	\$ 72,926	\$ 112,538
2010	41,897	70,642	112,539
2011	44,313	68,225	112,538
2012	46,871	65,668	112,539
2013	49,572	62,967	112,539
2014-2018	294,184	268,509	562,693
2019-2023	389,375	173,317	562,692
2024-2028	<u>409,767</u>	<u>49,768</u>	<u>459,535</u>
	<u>\$1,315,591</u>	<u>\$832,022</u>	<u>\$2,147,613</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2008 is composed of the following loans payable to the Maryland Department of Natural Resources:

Hollywood Shores, Shore Erosion Control Project, payable in fifteen annual installments of \$7,846, without interest, guaranteed by the full faith and credit of the County.	\$ 31,384
Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$7,547, without interest, guaranteed by the full faith and credit of the County.	22,641
Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$6,582, without interest, guaranteed by the full faith and credit of the County.	52,656
Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of \$10,109, without interest, modified during fiscal year 1993 to eighteen varying annual payments without interest, guaranteed by the full faith and credit of the County.	39,424
Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of \$11,040, without interest, modified during fiscal year 1993 to twenty-two varying annual payments without interest, guaranteed by the full faith and credit of the County.	97,152
Holly Point Shore Erosion Control, originally payable in twenty-five annual installments of \$10,029 without interest, guaranteed by the full faith and credit of the County.	<u>236,776</u>
	<u>\$480,033</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Primary Government (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2008, including interest of \$35,770,016, except for the accrued landfill closure and postclosure costs, accumulated unpaid leave benefits, exempt financing, surplus property debt and Maryland Water Quality Loans, are as follows:

Years Ending June 30,	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$9,223,821	\$4,494,877	\$13,718,698
2010	8,268,988	4,140,535	12,409,523
2011	8,561,523	3,815,967	12,377,490
2012	7,665,106	3,524,458	11,189,564
2013	7,937,138	3,228,940	11,166,078
2014-2018	32,932,244	12,018,201	44,950,445
2019-2023	31,207,215	4,366,682	35,573,897
2024-2028	4,054,155	180,356	4,234,511
2029-2032	63,913	0	63,913
Total	<u>\$109,914,103</u>	<u>\$35,770,016</u>	<u>\$145,684,119</u>

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

	General Obligation Bonds	Hospital Bonds	State Loans	Special Assessment Fund	Total
Principal	\$ 89,935,000	\$ 18,190,000	\$ 1,309,070	\$ 480,033	\$ 109,914,103
Interest	28,184,033	7,585,359	624	0	35,770,016
	<u>\$ 118,119,033</u>	<u>\$ 25,775,359</u>	<u>\$ 1,309,694</u>	<u>\$ 480,033</u>	<u>\$ 145,684,119</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units

St. Mary's County Public Schools

Long-term Liabilities

General long-term debt at June 30, 2008, consists of financing agreement obligations and accumulated compensated absences payable. The interest rates on the financing agreement obligations range from 4.28% to 4.96% with maturity dates up to October 2016. The financing agreement obligations are secured by the capital assets purchased. The following is a summary of changes in the School System's general long-term liabilities for the year ended June 30, 2008.

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions/</u> <u>Maturities</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amounts due</u> <u>Within one year</u>
Governmental activities:					
Financing agreements					
Office facility construction	\$4,095,841	\$ 0	\$ (329,466)	\$ 3,766,375	\$ 345,116
School buses and related equipment	0	548,400	(187,318)	361,082	176,992
Computer equipment	299,760	1,000,000	(309,695)	990,065	285,808
Vehicles	201,981	0	(37,083)	164,898	38,670
	<u>\$4,597,582</u>	<u>\$1,548,400</u>	<u>\$ (863,562)</u>	<u>\$ 5,282,420</u>	<u>\$ 846,586</u>
Other long-term liabilities:					
Compensated absences	\$3,503,743	\$ 593,232	\$ (389,564)	\$ 3,707,411	\$ 441,680
Net OPEB obligation	0	1,735,862	0	1,735,862	0
Governmental activities:					
Long-term liabilities	<u>\$8,101,325</u>	<u>\$3,877,494</u>	<u>\$(1,253,126)</u>	<u>\$10,725,693</u>	<u>\$1,288,266</u>
Business-type activities:					
Other long-term liabilities:					
Compensated absences	<u>\$ 75,506</u>	<u>\$ 41,711</u>	<u>\$ (33,309)</u>	<u>\$ 83,908</u>	<u>\$ 6,800</u>

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

Following is a schedule of current maturities, including interest, under financing agreements as of June 30, 2008:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009	\$1,086,645	\$ 846,586	\$ 240,059
2010	1,086,645	879,632	207,013
2011	787,548	621,942	165,606
2012	787,548	649,858	137,690
2013	524,024	415,510	108,514
2014-2017	<u>2,095,983</u>	<u>1,868,892</u>	<u>227,091</u>
	<u>\$6,368,393</u>	<u>\$5,282,420</u>	<u>\$1,085,973</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County

Long-term debt

Long-term debt consists of accrued compensated absences. The following is a summary of the changes in long-term debt for the year ended June 30, 2008:

<u>Balance</u> <u>July 1, 2007</u>	<u>Increase</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amounts due</u> <u>within one year</u>
\$92,939	\$18,712	\$111,651	\$ 0

Metropolitan Commission

Long-term debt

Long-term bonds payable as of June 30, 2008 are as follows:

<u>Bonds payable</u> <u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Tenth Issue	1995-2015	5.56 - 6.08%	\$ 170,000	\$ 43,790
Twelfth Issue	1996-2013	3.9 - 5.25%	1,060,000	170,416
Fourteenth Issue	2001-2029	4.125 - 5.0%	1,514,300	959,832
Seventeenth Issue	2006-2019	2.75 - 4.40%	5,026,077	1,260,631
Twenty-first Issue	2007-2021	3.65 - 4.275%	1,034,200	309,909
Twenty-third Issue	2008-2027	3.5 - 4.25%	<u>443,559</u>	<u>200,032</u>
			9,248,136	2,944,610
Less current portion			715,061	395,577
Total			<u>\$8,533,075</u>	<u>\$2,549,033</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Long-term debt (continued)

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2008 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009 (current)	\$ 715,061	\$ 395,577
2010	745,059	367,186
2011	769,962	336,859
2012	810,238	303,836
2013	846,003	267,905
2014-2018	3,388,089	865,597
2019-2023	1,246,028	283,957
2024-2028	613,196	117,968
2029	<u>114,500</u>	<u>5,725</u>
	<u>\$9,248,136</u>	<u>\$2,944,610</u>

Redemption – Tenth Issue – DHCD Loan

Optional redemption

Bonds that mature on or before June 1, 2005 are not subject to redemption prior to their maturities. Bonds that mature on or after June 1, 2005 are subject to redemption beginning June 1, 2005, as a whole at any time or in part on any interest payment date, in order of maturities, at the option of MetCom, at the following redemption prices expressed as a percentage of the principal amount of bonds to be redeemed plus accrued interest thereon to the date fixed for redemption:

<u>Period During Which Redeemable (Both Dates Inclusive)</u>	<u>Redemption Price</u>
June 1, 2005 to May 31, 2006	102%
June 1, 2006 to May 31, 2007	101%
June 1, 2007 and thereafter	100%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Redemption – Twelfth Issue

Optional redemption

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

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

Fourteenth Issue

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

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

The bonds may be prepaid at the following premiums:

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

Seventeenth Issue

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

The bonds may be prepaid at the following premiums:

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

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

The outstanding amount of refunding bond issue number seventeen is shown net of a deferred loss on the advance refunding of \$88,923.

Twenty-first Issue

In fiscal year 2006, the Commission issued Refunding Bonds of 2006 in the principal amount of \$1,158,700. The bonds mature on May 1, in 15 annual installments, beginning in 2007 and ending in 2021. Interest rates on the bonds range from 3.65% to 4.275%. Interest is payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

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

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

On April 5, 2006, MetCom issued \$1,158,700 of Refunding Bonds with a true interest cost ranging from 3.65% to 4.275% to refund certain maturities of \$620,000 in outstanding 1996 series A bonds with a coupon rate of 5.579% and \$500,000 in outstanding 1995 series A bonds with an average interest rate of 6.24%. These bonds were issued to take advantage of a favorable interest rate environment. The net proceeds (including interest and premium) of \$1,131,200 were deposited with an escrow agent to provide for all future debt service payments of the refunded bonds.

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

Twenty-third Issue

On November 14, 2007, the Commission issued \$10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2008, MetCom had drawn only \$582,759 of the proceeds. The cost of issuance was \$227,600, which is included in current year additions.

The bonds mature on May 1, in 20 annual installments, beginning in 2008 and ending in 2027. Interest rates on the bonds range from 3.5% to 4.25%. Interest is payable on May 1, 2008 and semiannually thereafter on each November 1 and May 1 to maturity.

The bonds may be prepaid, in whole or in part, at any time after June 1, 2017. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable

Notes, leases and loans payable as of June 30, 2008 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Leonardtown	2010-2020	6.10 - 10%	\$ 132,606	\$ 100,436
MD Bank and Trust	2009	4.15%	28,502	1,202
MD Bank and Trust	2010	4.80%	36,889	2,719
Sixth Issue	2017	6.682%	118,696	43,056
MD Water Quality Loan #8	2012	3.45%	375,809	33,070
MD Water Quality Loan #11	2017	4.26%	2,298,982	516,856
MD Water Quality Loan #15	2020	2.70%	553,149	99,219
MD Water Quality Loan #16	2023	1.20%	426,967	37,552
MD Water Quality Loan #18	2025	1.10%	4,069,388	414,616
MD Water Quality Loan #19	2024	1.10%	236,060	22,675
MD Water Quality Loan #20	2024	1.10%	826,802	79,419
MD Water Quality Loan #22	2027	1.10%	<u>946,512</u>	<u>107,882</u>
			10,050,362	1,458,702
Less current portion			<u>767,163</u>	<u>220,874</u>
Total			<u>\$ 9,283,199</u>	<u>\$ 1,237,828</u>

As of June 30, 2008, MetCom has eight loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eight amounting to \$1,326,045 are to be used to finance the Marley-Taylor WRF Interim Expansion. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purposes of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Proceeds drawn at June 30, 2008 were \$4,712,200. Loan number nineteen for \$976,700 is to be used to replace the wastewater pumping station. Proceeds drawn at June 30, 2008 were \$377,962. Loan number twenty is to be used for water meter installations. As of June 30, 2008 amounts drawn on the loan were \$1,153,479. Loan number twenty-two is to be used for the Andover Road/Estates sewer projects and for arsenic remediation wells. As of June 30, 2008, amounts drawn on the loan were \$974,866.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2008, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009 (current)	\$ 767,163	\$ 220,874
2010	759,227	199,554
2011	760,727	176,533
2012	772,092	158,875
2013	689,663	138,421
2014-2018	3,376,286	415,286
2019-2023	2,101,572	131,266
2024-2027	<u>823,632</u>	<u>17,893</u>
	<u>\$10,050,362</u>	<u>\$1,458,702</u>

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2008 were as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>	<u>Amounts due Within one year</u>
Bonds payable	\$ 9,470,386	\$ 810,359	\$1,032,609	\$ 9,248,136	\$ 715,061
Notes, leases and loans payable	9,588,927	1,252,498	791,063	10,050,362	767,163
Total long-term debt	<u>\$19,059,313</u>	<u>\$2,062,857</u>	<u>\$1,823,672</u>	<u>\$19,298,498</u>	<u>\$1,482,224</u>

Building Authority Commission

Long-term Debt

Changes in Long-term Debt

The changes in long-term debt for the year ended June 30, 2008 were as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>	<u>Amounts due within one year</u>
Bonds payable	<u>\$8,440,000</u>	<u>\$0</u>	<u>\$1,050,000</u>	<u>\$7,390,000</u>	<u>\$1,095,000</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

Nursing Home Refunding Bonds

General

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

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

Optional redemption

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

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

Nursing Home Refunding Bonds (continued)

Notice of redemption

If the Commission elects to redeem all or a portion of the bonds outstanding, it will give a redemption notice to the registered owners of the bonds to be redeemed by letter mailed first class, postage prepaid, at least thirty (30) days prior to the date fixed for redemption to the addresses of such registered owners appearing on the registration books kept by the Bond Registrar; provided however, that the failure to mail the redemption notice or any defect in the notice so mailed or in the mailing thereof will not affect the validity of the redemption proceedings; and provided further, that the Commission will publish notice of redemption at least once (not less than thirty (30) days prior to the date fixed for redemption) in a financial journal or daily newspaper of general circulation in the Borough of Manhattan, New York, New York. The redemption notice will state (i) whether the bonds are redeemed in whole or in part and, if in part, the maturities and numbers of the bonds to be redeemed, (ii) that the interest on the bonds to be redeemed will cease to accrue on the date fixed for redemption, (iii) the date fixed for redemption and the redemption price, and (iv) that the bonds to be redeemed will be presented for redemption and payment on the date fixed for redemption at the principal corporate trust office of the Paying Agent.

From and after the date fixed for redemption, if notice has been duly and properly given and if funds sufficient for the payment of the redemption price and accrued interest are available on such date, the bonds designated for redemption will cease to bear interest. Upon presentation and surrender for redemption in compliance with the redemption notice, the bonds to be redeemed will be paid by the Paying Agent at the redemption price. If they are not paid upon presentation, the bonds designated for redemption will continue to bear interest at the rates stated therein until paid.

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

State Office Building Refunding Bonds

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Mandatory extraordinary redemption

Redemption provisions

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

Optional redemption

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

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

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

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

<u>Date</u>	<u>Sinking Fund Installment</u>
June 1, 2012	\$ 340,000
December 1, 2012	\$ 355,000
June 1, 2013	\$ 360,000

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Selection of certificate to be redeemed

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

Notice of redemption

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

Security and sources of payment for the certificates

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

The annual requirements to amortize the principal of all bonds outstanding as of June 30, 2008 are as follows:

<u>Years</u>	<u>State Office Building</u>	<u>Nursing Home</u>	<u>Total</u>
2009	\$ 565,000	\$ 530,000	\$ 1,095,000
2010	605,000	535,000	1,140,000
2011	635,000	555,000	1,190,000
2012	670,000	570,000	1,240,000
2013	715,000	580,000	1,295,000
2014-2017	0	1,430,000	1,430,000
	<u>\$ 3,190,000</u>	<u>\$ 4,200,000</u>	<u>\$ 7,390,000</u>

The annual requirements to amortize the interest of all bonds outstanding as of June 30, 2008 are as follows:

<u>Years</u>	<u>State Office Building</u>	<u>Nursing Home</u>	<u>Total</u>
2009	\$ 171,292	\$ 129,904	\$ 301,196
2010	139,668	114,591	254,259
2011	105,518	98,241	203,759
2012	69,417	80,297	149,714
2013	30,638	60,891	91,529
2014-2017	0	106,452	106,452
	<u>\$ 516,533</u>	<u>\$ 590,376</u>	<u>\$ 1,106,909</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

B. Fund Balances

A summary of the reserved and unreserved - designated and undesignated fund balances as of June 30, 2008 is as follows:

	Special Revenue Funds					Fiduciary Funds			
	General Fund	Special Assessments	Fire & Rescue Revolving	Emergency Support	Total	Capital Projects Fund	Pension Trust Fund	Retiree Benefit Trust Fund	Total
Reserved									
Encumbrances	\$692,160		\$1,800		\$1,800	\$4,683,340			
Inventories	790,083								
Land Tax Sale									
Retirement of Long-Term Obligations		(\$821,858)			(821,858)				
Domestic Violence Programs	5,880								
Future Project Revenue									
Roads- Impact Fees						1,660,526			
Parks- Impact fees						704,673			
Schools- Impact Fees						10,432,748			
Transfer Tax						16,609,042			
Recordation Tax						2,004,037			
Roads- Mitigation						389,332			
Schools- Mitigation						77,708			
Parks- Mitigation						110,026			
Agriculture Transfer Tax						496,880			
Other, Including Federal and State Grants	12,359					(1,385,690)			
Total Reserved Fund Balances	\$1,500,482	(\$821,858)	\$0	\$1,800	(\$920,058)	\$35,782,622	\$0	\$0	\$0
Unreserved									
Designated	\$24,858,057	\$0	\$655,906	\$527,701	\$1,183,607	\$662,112	\$31,298,074	\$14,033,796	\$45,331,870
Undesignated	11,088,383	0	0	0	0	0	0	0	0
Total Unreserved Fund Balances	35,946,440	0	655,906	527,701	1,183,607	662,112	31,298,074	14,033,796	45,331,870
Total Fund Balances (deficit)	\$37,446,922	(\$821,858)	\$655,906	\$629,501	\$363,549	\$36,444,734	\$31,298,074	\$14,033,796	\$45,331,870

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

8. Fund balances (continued)

The reserve for fund balance represents:

Encumbrances - The amount of outstanding purchase orders at June 30, 2008.

Inventory - The amount of inventory at June 30, 2008, carried as an asset.

Fixed assets - The cost of land purchased at tax sales by The County Commissioners for St. Mary's County carried as an asset at June 30, 2008.

Retirement of long-term obligations - The amount of future revenue to be used for the retirement of long-term obligations.

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

Future project revenue - The amount of revenue previously collected which is anticipated to be used for future capital projects. Amounts have been collected from bonds, transfer tax and other sources.

Other - The amount of funds committed for general fund expenditures.

The general fund designated fund balance is composed of:

Budgetary (Non-GAAP) Basis

Appropriation for FY 2009 operating budget	\$ 972,561
Appropriation for FY 2009 - pre-funding of OPEB trusts	10,000,000
Appropriation for FY 2009 - CIP/Paygo	500,000
Bond rating reserve - 6% of FY 2009 budgeted general fund revenues	11,390,824
Rainy day fund	<u>1,625,000</u>
	24,488,385
Adjustments to modified accrual basis	<u>369,672</u>
	<u>\$24,858,057</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans

Primary Government

Plan description

The employees of the County are covered by the State Retirement and Pension System of Maryland (the System), the administrator of an agent multiple-employer public employee retirement system established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators and employees of participating governmental units. Responsibility for the administration and operation of the System is vested in a 14-member Board of Trustees. The State of Maryland is obligated for the payment of all pension annuities, retirement allowances, refunds, reserves and other benefits of the System. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. The System is a component unit of the State of Maryland's financial reporting entity and is included in the State's financial statements as a pension trust fund. The County's total payroll for the year ended June 30, 2008 was \$37,419,970, of which \$21,973,655 was covered under the System.

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

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

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

Plan benefits

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Primary Government (continued)

Plan benefits (continued)

The Teachers' and Employees' Pension Systems' members are eligible for full retirement benefits upon attaining at least age 62 with specified years of eligibility service, or upon accumulating 30 years of eligibility service regardless of age. The annual pension allowance is equal to .8% of a member's AFS up to the Social Security Integration Level (SSIL), plus 1.5% of a member's AFS in excess of the SSIL, multiplied by the number of years of accumulated service credit. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the 35 calendar years ending with the year the retiree separates from service. A member may retire with reduced benefits after attaining age 55 and completing 15 years of eligibility service.

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

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

Funding status and progress

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

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 2007. The significant actuarial assumptions used in the actuarial valuations include (a) rate of return on the investment of 7.75% compounded annually (adopted June 30, 2003), (b) projected salary increases of 3.5% per year compounded annually, attributable to inflation (adopted June 30, 2007), (c) additional projected salary increases ranging from 0.00% to 8.5% per year, attributable to seniority and merit (adopted June 30, 2007), (d) post-retirement benefit increases ranging from 3% to 4% per year depending on the system (adopted June 30, 2003), (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 2003 through 2006 (adopted June 30, 2007), and (f) an increase in the aggregate active member payroll of 3.5% annually (adopted June 30, 2007).

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Primary Government (continued)

Funding status and progress (continued)

At June 30, 2007, the System's unfunded pension benefit obligation (i.e., pension benefit obligation less net assets available for benefits) in accordance with GASB No. 25 was as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$25,656,556,442
Current employees	<u>23,649,818,135</u>
Total pension benefit obligation	49,306,374,577
Net actuarial assets available for benefits	<u>37,886,935,596</u>
Unfunded actuarial pension benefit obligation	<u>\$11,419,438,981</u>

The schedule below (expressed in thousands) presents the actuarial value of the System's assets and the actuarial accrued liability as of June 30, 2007 and the preceding two years. The schedule is intended to help the users assess the funding status of the System.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarial value of assets	\$37,886,936	\$35,795,025	\$34,519,500
Actuarial accrued liability (AAL)	<u>49,306,375</u>	<u>43,243,492</u>	<u>39,133,450</u>
Unfunded AAL	<u>\$11,419,439</u>	<u>\$7,448,467</u>	<u>\$4,613,950</u>
Funded ratio	76.84%	82.78%	88.21%
Covered payroll	\$9,971,012	\$9,287,576	\$8,603,761
Unfunded AAL as a % of payroll	115%	80%	54%
Annual pension cost	1,025,972	874,079	805,564
Percentage contributed	81%	82%	83%
Net pension obligation	\$0	\$0	\$0

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Primary Government (continued)

Contributions required and made

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

Employer contributions totaling \$358,417,000 for fiscal year 2007 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2007. Employer contributions consisted of normal cost and amortization of the unfunded actuarial accrued liability over a 40-year period from July 1, 1980. Employee contributions, which are applied to normal cost, for fiscal year 2007 totaled approximately \$319,274,000. The County's contributions to the System for the year ended June 30, 2008 were \$1,920,574.

Historical trend information

Historical trend information which provides data about the Systems' progress made in accumulating sufficient assets to pay pension benefits when due is presented immediately following the notes to the financial statements in the System's comprehensive annual financial report for the fiscal year ended June 30, 2007.

Sheriff's Department plan

Effective date

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

Participation

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Credited service

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

- a. Service subsequent to June 30, 1986, while a participant of the plan.
- b. Military service, not in excess of five years.
- c. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Retirement System.
- d. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Pension System and/or Maryland Employees' Retirement System which the employee elects to buy back by paying into the plan an amount equal to employee contributions for such service, accumulated with interest. Such service is reduced by 25% for the purpose of calculating benefits if participants elect not to buy back such service.
- e. Service not with the Sheriff's Department, but while participating in the Maryland Systems stated above. Such service shall count only in eligibility and not in the benefit determination.

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

- a. Service while a participant of the plan; plus
- b. Military service, not in excess of five years and
- c. Any approved leave of absence up to 12 months.

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

Final average earnings

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

Normal retirement

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

Amount - Unless an optional method of payment is elected, the annual normal retirement pension benefit, payable in monthly installments for life, will equal 2.5% of the participant's final average earnings for each year of credited service not in excess of 35 years.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Early retirement

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

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

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

Late retirement

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

Amount - The amount of the postponed retirement benefit is determined in the same manner as the normal benefit, based on final average earnings and credited service at the time of actual retirement.

Disability benefit

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

Amount - The annual benefit is equal to 1.6% of the participant's final average earnings for each year of credited service not in excess of 35 years. For line of duty disability, the annual benefit is equal to 2/3 of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions, if the disability qualifies as a catastrophic disability pursuant to the Plan. For a line of duty disability which is non-catastrophic, the annual benefit is equal to 1/2 of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions pursuant to the Plan.

Pre-retirement death benefit

Lump sum benefit

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

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

Survivor's pension

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Survivor's pension (continued)

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

Deferred vested benefit

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

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

Withdrawal benefit

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

Form of benefit

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

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

- a. Joint and Survivor - a reduced pension during the lifetime of the pensioner, starting at his actual retirement date and continuing to the pensioner's spouse at an amount which may be the same as the reduced amount payable to the participant or one-half of the reduced amount paid to the participant.
- b. Other - A participant may elect a pension payable in accordance with any other option approved by the Board of Trustees (except an "interest only" option) which is the actuarial equivalent of the normal retirement pension to which the participant was entitled at normal retirement date.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Post-retirement pension increases

Each July 1, a cost of living increase will be granted to retired participants or spouses whose benefit has been in pay status at least one year. The amount of the increase is the percentage increase in the Consumer Price Index, with a maximum increase in one year of 4%. The cost of living increase also applies to deferred benefits.

Actuarial methods and assumptions

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

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

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

Actuarial Funding Method - The actuarial valuation has been completed using the entry age normal method.

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

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

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

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

Development of plan costs

Derivation of Normal Cost - The plan's normal cost is the sum of the individual normal costs determined for each participant, assuming the plan had always been in existence and the actuarial assumptions underlying the cost determination are exactly realized. Benefits payable under every circumstance (retirement, death, disability and termination) are included in the calculations. An allowance is also added for expenses.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Development of plan costs (continued)

The actuarial accrued liability is the sum of all normal costs which would have accumulated, if the assumed normal cost had always been contributed in the past and the actuarial assumptions had been exactly realized. The unfunded actuarial accrued liability is the actuarial accrued liability less the fund's assets at the valuation date.

Recommended contribution level

Recommended contributions are based on a 25-year amortization of the unfunded liability.

Key results:	July 1, 2008
Number of Participants:	
Active	189
Retired	32
Terminated vested	3
Disabled	<u>30</u>
Total	<u>254</u>
Total annual compensation of active participants	<u>\$10,254,031</u>
Actuarial accrued liability:	
Actives	\$31,711,164
Nonactives	<u>28,338,146</u>
Total	<u>\$60,049,310</u>
Assets	<u>\$31,714,844</u>
Unfunded actuarial liability	\$28,334,466
Normal cost with adjustments:	
Dollar amount	\$ 2,183,986
Percent of payroll	21.30%

The amount of the Sheriff's Department's current year covered payroll is \$12,141,680, and the Sheriff's Department's total payroll for all employees is \$13,221,662. The following employer contributions were made during the fiscal year ended June 30, 2008:

	<u>Contributions</u>	<u>% of Covered Payroll</u>
Retirement plan	\$2,921,354	24.06%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit

A length of service program for qualified active volunteer members of the St. Mary's County Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit was established effective July 1, 1980. An "active member" is defined as a person who accumulated a minimum of fifty (50) points per calendar year in accordance with a point system. This program is funded and administered by The County Commissioners for St. Mary's County.

Eligibility and benefits

a. Any person who has served as a member of any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit is eligible to receive benefits provided that:

1) The person is certified in accordance with the point system to have served as an active volunteer subsequent to December 31, 1979.

2) Any person who discontinued active volunteer service prior to July 1, 1980, may receive credit for the service after being certified in accordance with the point system.

b. Beginning July 1, 1994, active volunteer fire and rescue squads and advanced life support unit personnel may select from two Length of Service program benefit options. Selection of a benefit option by the individual is irrevocable. The options, with rates reflected effective July 1, 2006, are:

1) Any person who has reached the age of sixty (60) and who has completed a minimum of twenty (20) years of certified active volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit, or combination thereof, shall receive two hundred dollars (\$200) per month, for life. Payments will begin in the month following eligibility.

An additional payment of eight dollars (\$8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

2) Any person who has reached the age of fifty-five (55) and who has completed a minimum of twenty (20) years of certified volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit or combination thereof, shall receive one hundred fifty (\$150) per month for life.

An additional payment of eight dollars (\$8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit (continued)

Eligibility and benefits (continued)

- c. In the event that any active volunteer becomes disabled during the course of his or her service while actively engaged in providing such services and in the event that the disability prevents the volunteer from pursuing his or her normal occupation and in the event that the disability is of a permanent nature as certified by the Maryland Workmen's Compensation Commission or other competent medical authority as designated by The County Commissioners for St. Mary's County, then the volunteer is entitled to receive the minimum benefits prescribed above and any such benefits as he or she may be entitled to regardless of his or her age or length of service. These benefits will begin on the first day of the month following the establishment of the permanency of his or her disability.
- d. In the event that any qualified volunteer shall die while receiving benefits, then his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's benefits. These benefits terminate upon death or remarriage of the spouse.
- e. In the event that a qualified volunteer dies prior to receiving any benefits under this section, his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's earned benefits. These benefits terminate upon death or remarriage of the spouse.
- f. In the event that an active volunteer dies in the line of duty, a burial benefit up to two thousand five hundred dollars (\$2,500) is payable.
- g. In the event that any active volunteer (herein defined as one who has at least two (2) years of qualifying service in the five (5) preceding years) attains the age of seventy (70) years and fails to achieve the required twenty (20) years of service, then the volunteer is entitled to a monthly benefit of the number of years of credited service completed, multiplied by eight dollars (\$8).

Point system

- a. In order to qualify for benefits, points are credited to each volunteer as follows:
 - 1) One (1) point is credited for each hour of attendance in a recognized training course, provided that not more than twenty (20) points may be credited for all training courses attended per year.
 - 2) One (1) point is credited for each company or county drill that is a minimum of two (2) hours in duration attended in its entirety, provided that not more than twenty-five (25) points may be credited for all drills attended per year.
 - 3) One (1) point is credited for each official company or county meeting pertaining to St. Mary's County fire services or rescue services attended, provided that not more than fifteen (15) points may be credited for all meetings attended per year.
 - 4) One (1) point is credited for each call to which a volunteer responds, provided that not more than forty (40) points may be credited for all calls responded to per year.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit (continued)

Point system (continued)

5) Twenty-five (25) points are credited for completion of a one-year term as an appointed or elected officer in any of the fire or rescue service organizations of St. Mary's County, provided that not more than one (1) office shall be counted in any calendar year.

6) One-half (1/2) of a point is credited for each hour of acceptable collateral duties, such as but not limited to apparatus and building maintenance, official standby and fire prevention, provided that not more than twenty-five (25) points may be credited for all collateral duties performed per year.

7) A volunteer member who serves or has served full-time military service in the armed forces of the United States receives credit at the rate of five (5) points for each month served, provided that not more than fifty (50) points can be credited for any calendar year. A maximum of four (4) years of creditable service may be acquired in this manner. The volunteer member must have been an active member for one (1) year prior to enlistment. The volunteer member must be reinstated within six (6) months after discharge.

This length of service program is funded by The County Commissioners by annual appropriations. The total contribution for the fiscal year ended June 30, 2008 was \$527,350.

Component Units

St. Mary's County Public Schools

Pension Plans

Plan description

The employees of the School System are covered by one of the following pension plans affiliated with the State Retirement and Pension System of Maryland, an agent multiple-employer public employee retirement system administered by the State Retirement Agency:

- The Teachers' Retirement System of the State of Maryland,
- The Employees' Retirement System of the State of Maryland,
- The Pension System for Teachers of the State of Maryland, or
- The Pension System for Employees of the State of Maryland

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Plan description (continued)

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the "Pension System for Teachers of the State of Maryland" and the "Pension System for Employees of the State of Maryland." Prior to this date, all teachers and related positions were required to be members of the "Teachers' Retirement System of the State of Maryland," and classified positions were members of the "Employees' Retirement System of the State of Maryland." All School System employees who were members of the "Retirement System" may remain in that System, or they may elect to join the "Pension System." All teachers hired within the State after December 31, 1979, must join the "Pension System for Teachers." All classified employees hired within the State after December 31, 1979, must join the "Pension System for Employees." The "Employees' Retirement System" and the "Pension System for Employees" cover those employees not covered by the teachers' plans. These employees are principally custodial, maintenance, and food service employees.

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension system. Benefits generally vest after 5 years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 1-410-625-5555.

Funding policy

Both the "Retirement System" and the "Pension System" for teachers and classified employees are jointly contributory. Under the "Retirement System" employees contribute 4% - 7% of their total gross salary, and under the "Pension System" employees contribute 2% of their gross salary. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Annual pension cost

St. Mary's County School System contributions totaling \$948,618 or 0.8% of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$10,058,740 or 8.9% of covered payroll for fiscal year 2008, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2007. Significant actuarial assumptions used, include (a) a rate of return on the investment of present and future assets of 7.75 percent per year compounded annually, (b) projected salary increases of 3.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00 percent to 8.5 percent per year, attributable to seniority/merit, (d) post-retirement benefit increases ranging from 3 percent to 4 percent per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from June 30, 2003 through June 30, 2006, and (f) an increase in the aggregate active member payroll is assumed to increase by 3.5 percent annually.

The actuarial value of assets is measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method explicitly recognizes each year's investment gain or loss over a 5-year period with the final actuarial value not less than 80% nor more than 120% of the market value of assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 13-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate layers over a 25-year period. A three-year trend of the School System's annual pension cost is as follows:

Fiscal Year Ended June 30,	Total Annual Pension Cost (APC)	APC Contributed By School System	APC Contributed By State	Percentage of APC Contributed	Net Pension Obligation
2006	7,602,919	667,539	6,935,380	100	0
2007	8,551,165	821,916	7,729,249	100	0
2008	11,007,358	948,618	10,058,740	100	0

The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by GASB Statement No. 24.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County

Retirement and pension plan

Description

All qualified career employees of the Library are required to join the Maryland State Teachers' Pension Plan or the Maryland State Employees' Pension Plan. Some employees hired before January 1, 1980 have retained membership in the Maryland State Teachers' or Employees' Retirement Systems. All plans have provisions for early retirement, death and disability benefits. Participants become eligible for a vested retirement allowance after 5 years of service. The Plans are an agent multiple-employer public employee retirement system. The State Retirement and Pension System of Maryland is the administrator of the Systems. The System was established and benefits are provided by the State Personnel and Pensions Article of the Annotated Code of Maryland. The separately issued financial statements of the System may be obtained by contacting the administrator.

Maryland State Pension Systems

Participants in the Pension Plans contribute 2% of their earnings. Pensions normally start at age 62 or after 30 years of service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three years' pay. Cost of living increases are limited to 3% per annum.

Maryland State Retirement Systems

Participants in the Retirement Systems contribute a fixed percentage of salary. Persons leaving the Library after 5 years of service may withdraw their contributions, or the contributions may be left in the retirement fund until age 60, when the individual would be eligible for a reduced retirement allowance. An employee may retire at age 60 or after 30 years of service and be eligible for full benefits. Reduced benefits are paid to employees retiring before age 60 after 25 years of service. Benefits are based upon the average of the employees' highest three years' pay.

Funding Policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute from 5% to 7% of compensation. Members of the pension systems are required to contribute 4% of compensation for the year ended June 30, 2008.

Contribution rates are established by annual actuarial valuations. The unfunded actuarial liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as the June 30, 2000 actuarial valuation is being amortized over the remaining 13-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. The equivalent single amortization period is 30 years. The State of Maryland, the Maryland Automobile Insurance Fund and Injured Workers' Insurance Fund and 135 participating governmental units make all of the employer and other contributions to the System.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Component Units (continued)

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

Retirement and pension plan (continued)

Funding Policy (continued)

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2008, the Library's total payroll and payroll for covered employees were \$1,789,986 and \$1,676,627, respectively. No contributions were made by the Library for the year ended June 30, 2008.

For fiscal year 2008, the State contributed \$181,235 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement Number 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 10.81% of covered payroll.

Actuarial Assumptions

- a. Return on investment of 7.75% compounded annually (adopted June 30, 2003)
- b. Projected salary increases of 3.5% compounded annually due to inflation (adopted June 30, 2007)
- c. Salary increases due to seniority and merit are projected at 0.00-8.5% per annum (adopted June 30, 2007)
- d. Postretirement benefit increases are projected at 3-4% per annum depending on the system (adopted June 30, 2003)
- e. Rates of mortality, termination, disablement and retirement are based on actual experience from 2003 through 2006 (adopted June 30, 2007)
- f. Member payroll assumed to increase 3.5% annually (adopted June 30, 2007)

Trend information

	June 30		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actual pension cost	\$1,025,972	\$ 874,079	\$ 805,564
Percentage contributed	81%	82%	83%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission

Retirement and pension plan

On March 18, 2004, MetCom adopted a Section 457 plan. Under the terms of the plan, employees may contribute up to 25% of their salary, up to the contribution limits, to the plan. No employer contributions are made to this plan.

Effective July 1, 2004, MetCom joined the Maryland State Retirement and Pension System. Under the terms of entry into the system, MetCom will grant 100% credit for prior service of eligible employees. The actuarial cost of entry into the Maryland State Retirement and Pension System for service prior to June 30, 2004, was \$3,392,774.

Description

All qualified career employees of MetCom are required to join the Maryland State Employees' Pension Plan. The plans have provisions for early retirement, death and disability benefits. Participants become eligible for a vested retirement allowance after 5 years of service. The Plans are an agent multiple-employer public employee retirement system. The State Retirement and Pension System of Maryland is the administrator of the Systems. The System was established and benefits are provided by the State Personnel and Pensions Article of the Annotated Code of Maryland. The separately issued financial statements of the System may be obtained by contacting the administrator.

Maryland State Pension Systems

Participants in the Pension Systems contribute a percentage of their earnings. Pensions normally start at age 62 or after 30 years of service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three years' pay. Cost of living increases are limited to 3% per annum.

On July 13, 2006, MetCom passed a resolution to join the Alternate Contributory Pension Selection Plan (ACPS). The plan increases the employee multiplier from 1.4% to 1.8% for service credits earned after 7/1/98. Employee contributions are 3% for FY07, 4% for FY08 and 5% thereafter. The ACPS surcharge for FY08 is 1.11% of salaries.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission (continued)

Funding policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute from 5% to 7% of compensation. Members of the pension systems were required to contribute 4% and 3% of compensation for the years ending June 30, 2008 and 2007 respectively. The rate will increase 1% each year until it reaches 5% in fiscal year 2009.

Contribution rates are established by annual actuarial valuations. The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 13-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000, is being amortized in separate annual layers over a 25-year period. The equivalent single amortization period is 30 years. The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and 135 participating governmental units make all of the employer and other contributions to the System.

MetCom provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2008, MetCom's total payroll and payroll for covered employees were \$4,393,196 and \$3,400,838, respectively. MetCom's contribution to the System for the year ended June 30, 2008, was \$284,731.

Actuarial assumptions

- a. Return on investment of 7.75% compounded annually (adopted June 30, 2003).
- b. Projected salary increases of 3.5% compounded annually due to inflation (adopted June 30, 2007).
- c. Salary increases due to seniority and merit are projected at 0.00-8.5% per annum (adopted June 30, 2007).
- d. Postretirement benefit increases are projected at 3-4% per annum depending on the system (adopted June 30, 2003).
- e. Rates of mortality, termination, disablement and retirement are based on actual experience from 2003 through 2006 (adopted June 30, 2007).
- f. Member payroll assumed to increase 3.5% annually (adopted June 30, 2007).

Trend information

	<u>2007</u>	June 30 <u>2006</u>	<u>2005</u>
Actual pension cost	\$1,025,972	\$ 874,079	\$ 805,564
Percentage contributed	81%	82%	83%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

10. Segment information for enterprise funds

The County maintains four enterprise funds. Recreation services are accounted for in the recreation revolving fund, while the Wicomico Municipal Golf Course receives user service charges for the use of facilities, which include a golf course and a restaurant. The Medical Adult Daycare Center provides a wide range of supportive health and social services during the day to the mentally or physically handicapped adults of St. Mary's County in order to prevent or postpone institutionalization. The Solid Waste and Recycling Divisions are responsible for solid waste management, convenience center/landfill operations and recycling. Segment information for the year ended June 30, 2008 is as follows:

	<u>Medical Adult Daycare</u>	<u>Wicomico Municipal Golf Course</u>	<u>Recreation Revolving Fund</u>	<u>Solid Waste/ Recycling Fund</u>	<u>Total Enterprise Funds</u>
Operating revenue	\$ 146,878	\$ 1,234,247	\$2,136,780	\$ 2,713,066	\$ 6,230,971
Depreciation	\$ 0	\$ 95,741	\$ 1,954	\$ 190,432	\$ 288,127
Operating income (loss)	\$(643,698)	\$ (24,860)	\$ (125,690)	\$(1,207,041)	\$(2,001,289)
Change in net assets	\$ (55,915)	\$ 1,599,800	\$ (79,602)	\$12,537,956	\$14,002,239
Plant, property and equipment additions/transfers	\$ 0	\$ 1,598,050	\$ 0	\$14,353,419	\$15,951,469
Net working capital	\$(338,899)	\$ 1,186,225	\$ (142,931)	\$ 404,856	\$ 1,109,251
Total assets	\$ 102,851	\$ 5,501,159	\$ 182,262	\$13,744,733	\$19,531,005
Total equity	\$(357,246)	\$ 3,725,765	\$ (141,175)	\$12,537,956	\$15,765,300

11. Interfund receivables

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2008:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Primary Government</u>		
<u>General Fund</u>		
Special Revenue Fund		\$ 333,884
Capital Projects Fund		36,464,786
Enterprise Fund	\$ 1,695,735	
<u>Special Revenue Funds</u>		
General Fund	333,884	
<u>Capital Projects Funds</u>		
General Fund	36,464,786	
<u>Enterprise Funds</u>		
General Fund	_____	<u>1,695,735</u>
Total due from/to other funds	<u>\$38,494,405</u>	<u>\$38,494,405</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

11. Interfund receivables (continued)

Component Units

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Component Unit-St. Mary's County Building Authority Commission	\$215,596	
Component Unit-Board of Library Trustees for St. Mary's County	567,655	
Primary Government-General Fund	_____	<u>\$783,251</u>
Total due to/from Primary Government to Component Unit	<u>\$783,251</u>	<u>\$783,251</u>

12. Mortgage receivable

The mortgage receivable amount reported represents amounts owed to the County by St. Mary's Hospital for the payment of the St. Mary's County Refunding Hospital Bonds of 1993 (\$560,000) and the St. Mary's County Hospital Bonds of 2003 (\$17,630,000).

13. Commitments and contingencies

Primary Government

There are several pending lawsuits in which the County is involved. The County attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

The County participates in a number of federally assisted grant programs, principal of which are the Departments of Education, Health and Human Services and Health and Mental Hygiene grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for the year ended June 30, 2008 have not yet been completed. Accordingly, the County's compliance with applicable grant requirements will be verified in connection with performing the County's Single Audit. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

Component Units

St. Mary's County Public Schools

Legal Proceedings

In the normal course of operations, the School System is subject to lawsuits and claims. In the opinion of management, the disposition of such lawsuits and claims will not have a material effect on the School System's financial position or results of operations.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

13. Commitments and contingencies (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

School Construction

As of June 30, 2008, the School System had entered into various school construction commitments which are not reflected in the Statement of Net Assets or Balance Sheet – Governmental Funds, since they will be funded by the State of Maryland or County bond issues, totaling approximately \$6,668,855.

Grant Program

The School System participates in a number of state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations for the current year. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

Board of Library Trustees for St. Mary's County

Grant Audit

The Library receives federal funds, which are passed through the State of Maryland to the Library for specific purposes. The grants are subject to review and audit by the Maryland State Department of Education. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the granting agency. In the opinion of the Library's management, such disallowances, if any, will not be significant.

Support

The Library receives a substantial amount of its support from intergovernmental sources. A significant reduction in the level of this support, were this to occur, might have an effect on the Library's programs and activities.

14. Post-employment benefits

Primary Government

The County adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, the County recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the County's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

14. Post-employment benefits (continued)

Primary Government (continued)

Plan description

The County provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of five years of eligible County service entering an immediate retirement, family members of retirees and family members of deceased employees. The County pays a percentage of premiums based on the date of hire and number of years of service. For employees retiring prior to July 1, 2010, the percentage ranges from 26.6% with ten years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after July 1, 2010, range from 21.25% with 15 years of service to 85% with 30 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by the Board of County Commissioners.

Membership

At June 30, membership consisted of:

	<u>2008</u>
Retirees and Beneficiaries Currently Receiving Benefits	201
Active Employees	<u>681</u>
Total	<u>882</u>

The County's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) as of June 30, 2008, was calculated as follows:

Annual Required Contribution	\$ 4,617,000
Annual OPEB Cost	4,617,000
Contributions Made	13,439,139
Payments to Retirees	1,349,484
Net OPEB Obligation, Beginning of Year	<u>0</u>
Net OPEB Obligation (Prepaid), End of Year	(\$10,171,623)

The funded status of the plan as of June 30, 2008, was as follows:

Actuarial Accrued Liability (AAL)	\$60,135,000
Value of Plan Assets	<u>14,003,796</u>
Unfunded Actuarial Accrued Liability	\$46,131,204
Funded Ratio (Value of Plan Assets/AAL)	23.29%
Covered Payroll (Active Plan Members)	\$21,973,655
UAAL as a percentage of covered payroll	209.94%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

14. Post-employment benefits (continued)

Primary Government (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the liabilities were computed using the project unit credit method, with proration to benefit eligibility method. The actuarial assumptions included a 7.75% annual rate of return and an initial annual healthcare cost trend rate of 9.5%, decreasing 1% per year to an ultimate rate of 5.5%. The UAAL is being amortized as a level percentage of projected payroll over 30 years, starting this fiscal year.

Component Units

Board of Library Trustees for St. Mary's Library

The Library provides post-employment health benefits to eligible retirees. The Library paid for these benefits on a pay-as-you-go basis prior to July 1, 2007. For the year ended June 30, 2008, the cost of these post-employment benefits was \$277,444.

The Library adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, the Library recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the Library's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan description

The Library provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of five years of eligible Library service entering an immediate retirement, family members of retirees and family members of deceased employees. The Library pays a percentage of premiums based on the date of hire and number of years of service. For employees retiring prior to May 1, 2010, the percentage ranges from 26.6% with ten years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after May 1, 2008, range from 21.25% with 15 years of service to 85% with 30 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by The Library Board of Trustees.

Membership

At June 30, membership consisted of:

	<u>2008</u>
Retirees and Beneficiaries Currently Receiving Benefits	8
Active Employees	<u>17</u>
Total	<u>25</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

14. Post-employment benefits (continued)

Component Units (continued)

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

Annual OPEB Costs and Net OPEB Obligation

The Library's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) as of June 30, 2008, was calculated as follows:

Annual Required Contribution	\$ 113,000
Annual OPEB Cost	113,000
Contributions Made	224,908
Payments to Retirees	52,536
Net OPEB Obligation, Beginning of Year	<u>0</u>
Net OPEB Obligation (Prepaid), End of Year	(\$172,372)

The funded status of the plan as of June 30, 2008, was as follows:

Actuarial Accrued Liability (AAL)	\$1,519,000
Value of Plan Assets	<u>224,908</u>
Unfunded Actuarial Accrued Liability	\$1,294,092
Funded Ratio (Value of Plan Assets/AAL)	14.81%
Covered Payroll (Active Plan Members)	\$1,676,627
UAAL as a percentage of covered payroll	77.18%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7.75% annual rate of return and an initial annual healthcare cost trend rate of 9.5%, decreasing 1% per year to an ultimate rate of 5.5%. The UAAL is being amortized as a level percentage of projected payroll over 30 years, starting this fiscal year.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

14. Post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission

MetCom adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, MetCom recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on MetCom's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

There is no statutory or contractual requirement to provide these benefits and they may be changed or modified by the MetCom Board of Commissioners. Post-employment benefits were being paid on a pay-as-you-go basis until July 1, 2007. During the fiscal year ended June 30, 2007, there were six people participating at an annual cost of \$14,471.

Plan description

MetCom provides health, prescription, dental and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of ten years of eligible MetCom service entering an immediate retirement, family members of retirees and family members of deceased employees. MetCom pays a percentage of premiums based on the date of hire and number of years of service. For employees hired prior to May 10, 2007, the percentage ranges from 53.13% with ten years of service to 85% with 16 or more years of service. The percentages for employees hired on or after May 10, 2007, range from 21.25% with 15 years of service to 85% with 30 years of service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by MetCom's Board of Commissioners.

Membership

At June 30, membership consisted of:

	<u>2008</u>	<u>2007</u>
Retirees and Beneficiaries Currently Receiving Benefits	8	6
Active Employees	<u>61</u>	<u>59</u>
Total	<u>69</u>	<u>65</u>

Annual OPEB Costs and Net OPEB Obligation

MetCom's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) as of June 30, 2008, was calculated as follows:

Annual Required Contribution	\$ 518,000
Annual OPEB Cost	518,000
Contributions Made	757,828
Payments to Retirees	44,156
Net OPEB Obligation, Beginning of Year	<u>0</u>
Net OPEB Obligation (Prepaid), End of Year	(\$283,984)

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

14. Post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission (continued)

The funded status of the plan as of June 30, 2008, was as follows:

Actuarial Accrued Liability (AAL)	\$4,873,000
Value of Plan Assets	<u>757,828</u>
Unfunded Actuarial Accrued Liability	\$4,115,172
Funded Ratio (Value of Plan Assets/AAL)	15.55%
Covered Payroll (Active Plan Members)	\$3,400,838
UAAL as a percentage of covered payroll	121%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7.75% annual rate of return and an initial annual healthcare cost trend rate of 9.5%, decreasing 1% per year to an ultimate rate of 5.5%. The UAAL is being amortized as a level percentage of projected payroll over 30 years, starting this fiscal year.

St. Mary's County Public Schools

Plan description

The School System provides post-employment health care and life insurance benefits (OPEB) to employees, former employees, or beneficiaries who meet retirement eligibility requirements of the pension plans. Effective July 1, 2007, by terms of a negotiated contract with employee associations, the School System partially supports the group insurance plan for retired employees who have been employed by the School System for ten (10) or more years. These negotiated agreements provide that the School System will contribute from 45% to 65% of a retirees' group health insurance premium for years of experience ranging from 10 years to 30 or more years, respectively. In addition, the School System pays 100% of life insurance premiums based upon 50% of final salary coverage.

In March 2008, the School System established the St. Mary's County Public Schools Retiree Benefit Trust (Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Trust is administered by the Maryland Association of Boards of Education Pooled OPEB Investment Trust. The School System reserves the right to establish and amend the provisions of the trust with respect to participants, any benefit provided thereunder, or its participation therein, in whole or in part at any time, by resolution of its governing body and upon advance written notice to the Trustees.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

14. Post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Funding policy

The School System is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 7.7% of annual covered payroll. The ARC consisted of the normal cost of \$3,611,000 and the amortization of unfunded accrued liability of \$5,038,000. The School System contributed \$6,913,138 for the year ended June 30, 2008, including \$2,671,962 towards current healthcare and life insurance premiums and an additional \$4,241,176 to prefund future benefits.

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed as of July 1, 2006 to determine the funded status of the plan as of that date as well as the School System's ARC for the fiscal year ended June 30, 2008. The annual OPEB cost (expense) for the year ended June 30, 2008 was \$8,649,000 which was equal to the ARC, as the transition liability was set at zero as of July 1, 2007. The School System's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for 2008 was as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$8,649,000	79.93%	\$1,735,862

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, was as follows:

Actuarial Accrued Liability (AAL)	\$90,851,000
Actuarial Value of Plan Assets	0
Unfunded Actuarial Accrued Liability (UAAL)	\$90,851,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	111,968,457
UAAL as a percentage of covered payroll	81.14%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the School System are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

14. Post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2006 actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used, include (a) a rate of return on the investment of 7.0 percent per year compounded annually, (b) projected salary increases of 3.5 percent compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 4.31 percent to 10.76 percent per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 10.5 percent initially, reduced by 1.0 percent per year to arrive at an ultimate healthcare cost trend of 5.5 percent, (e) rates of mortality based upon RP-2000 Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 0.003 to 0.133, (g) disablement rates based on age, ranging from 0.0002 to 0.0032, (h) retirement rates based on age and length of service, ranging from 0.03 to 1.00, and (i) medical claims including prescription drugs are based on actual experience during the period from February 1, 2003 through January 31, 2006, and were projected with annual increases of 12 percent for medical claims and 16 percent for prescription drugs. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008 was eighteen years.

15. Landfill closure and postclosure cost

State and federal laws and regulations require The County Commissioners for St. Mary's County to place a final cover on landfill sites when the site stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Commissioners for St. Mary's County report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,000,000 reported as landfill closure and postclosure care liability at June 30, 2008, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

Estimated closure and postclosure costs were taken from a 1990 Cost Analysis, for cell numbers three and five, and from current contract commitments for closure for cell numbers one, two and four. A 3% inflation factor was assumed. Closure costs are expected to be funded by a bond issue or other form of debt in the year of closing. Postclosure costs are budgeted and paid annually.

16. Pass-through proceeds

The amount of grant funds passed through the County to Walden Sierra, Inc., Three Oaks Homeless Shelter, So. MD. Tri-County Community Action Committee, Southern Maryland Center for Family Advocacy, Catholic Charities, Department of Social Services, American Red Cross, Tri-County Youth Services Bureau and St. Mary's County Housing Authority for the fiscal year ended June 30, 2008 totaled \$1,252,823. These pass-through grants are recorded as pass-through revenue in the amount of \$1,252,823 and expenditures in the amount of \$1,252,823 on the Statement of Revenues and Expenditures.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2008

17. Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and related disasters. The County is a member of the Local Government Insurance Trust (LGIT) sponsored by the Maryland Municipal League (MML) and the Maryland Association of Counties. The LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability and property coverage.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessment. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members.

Annual premiums are assessed for the various policy coverages. During fiscal year 2008, the County paid premiums of \$920,879 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000 for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS FORST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES
AND OTHER FINANCING SOURCES AND USES
BUDGET (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30 2008

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
REVENUES				
Property Taxes	\$70,884,169	\$70,884,169	\$77,889,130	\$7,004,961
Income Taxes	65,207,074	65,207,074	62,829,885	(2,377,409)
Energy Taxes	1,300,000	1,300,000	2,809,005	1,509,005
Recordation Taxes	8,700,000	8,700,000	6,941,661	(1,758,339)
Other Local Taxes	865,000	865,000	968,089	103,089
Highway User Revenues	7,784,332	7,784,332	7,758,624	(25,708)
Licenses and Permits	1,440,305	1,450,305	1,438,858	(11,447)
State/Federal Grants	6,625,983	7,028,843	6,187,935	(840,908)
Charges for Services	5,851,091	6,677,420	5,712,489	(964,931)
Fines and Forfeitures	254,721	254,721	242,871	(11,850)
Investment and Other Revenues	2,272,217	2,415,338	3,186,018	770,680
Sub-total	<u>171,184,892</u>	<u>172,567,202</u>	<u>175,964,345</u>	<u>3,397,143</u>
Pass-Throughs	0	0	1,252,823	1,252,823
TOTAL GENERAL FUND REVENUES	<u>\$171,184,892</u>	<u>\$172,567,202</u>	<u>\$177,217,168</u>	<u>\$4,649,966</u>
EXPENDITURES				
General Government	\$20,513,140	\$20,687,838	\$19,632,188	\$1,055,650
Public Safety	31,407,175	32,734,482	31,001,012	1,733,470
Public Works	7,545,975	7,582,591	6,950,820	631,771
Health	1,254,973	1,255,673	1,249,107	6,566
Social Services	4,407,585	4,527,211	4,452,860	74,331
Primary and Secondary Education	77,915,572	77,934,572	77,925,078	9,494
Post-Secondary Education	2,572,000	2,586,000	2,586,000	0
Parks, Recreation, and Culture	3,928,057	3,953,364	3,729,497	223,867
Libraries	2,250,746	2,250,746	2,250,746	0
Conservation of Natural Resources	385,899	385,899	379,302	6,597
Housing	1,613,296	1,613,296	1,210,838	402,458
Economic Development and Opportunity	2,098,458	1,961,091	2,172,051	(210,960)
Debt Service	13,485,616	13,485,616	12,555,895	929,721
Inter-governmental	78,796	53,796	53,796	0
Other	14,257,031	14,141,979	11,249,693	2,892,286
Sub-total	<u>183,714,319</u>	<u>185,154,154</u>	<u>177,398,903</u>	<u>7,755,251</u>
Pass-Throughs	0	0	1,252,823	(1,252,823)
TOTAL GENERAL FUND EXPENDITURES	<u>\$183,714,319</u>	<u>\$185,154,154</u>	<u>\$178,651,726</u>	<u>\$6,502,428</u>
OTHER FINANCING SOURCES AND USES				
Use of Fund Balance- OPEB Pre-funding	10,000,000	10,000,000	10,000,000	0
Use of Fund Balance- Reserves	925,000	925,000	925,000	0
Use of Fund Balance- Other	3,554,802	3,611,017	3,693,243	82,226
Transfer to Capital Projects	(1,950,375)	(1,949,065)	(2,023,693)	(74,628)
TOTAL OTHER FINANCING SOURCES AND USES	<u>12,529,427</u>	<u>12,586,952</u>	<u>12,594,550</u>	<u>7,598</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	<u>\$0</u>	<u>\$0</u>	<u>\$11,159,992</u>	<u>\$11,159,992</u>

See Independent Auditor's Report

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SHERIFF'S OFFICE RETIREMENT PLAN
 FOR THE YEAR ENDED JUNE 30, 2008

Schedules of employer contributions and funding progress for the Sheriff's Office Retirement Plan are presented below:

Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
06/30/00	683,423	100%	0
06/30/01	786,339	100%	0
06/30/02	932,745	100%	0
6/30/03	1,204,825	100%	0
6/30/04	1,652,971	100%	0
6/30/05	2,036,981	100%	0
6/30/06	2,219,197	100%	0
6/30/07	2,393,713	100%	0
6/30/08	2,921,354	100%	0

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/97	\$11,027,088	\$11,986,552*	\$959,464	92.0%	\$ 4,433,660	21.6%
01/01/99	16,531,918	16,704,552	172,634	99.0%	5,358,227	3.2%
01/01/01	18,744,434	20,948,384	2,203,950	89.5%	6,040,098	36.5%
01/01/03	18,680,033	29,154,913	10,474,880	64.1%	7,165,684	146.2%
Before Assumption Change						
07/01/04	21,635,590	34,171,854	12,536,264	63.3%	7,881,721	159.1%
After Assumption Change						
07/01/04	21,635,590	35,481,603	13,846,013	61.0%	7,881,721	175.7%
07/01/06	25,046,412	45,025,479	19,979,067	55.6%	8,596,367	232.4%
07/01/08	31,714,844	60,049,310	28,334,466	52.8%	10,254,031	276.3%

* This liability was calculated using the entry age normal method. The projected unit credit method was used for later years.

See Independent Auditor's Report

[THIS PAGE INTENTIONALLY LEFT BLANK]

Form of Opinion of Bond Counsel Regarding Series 2009A Bonds

[Closing Date]

County Commissioners of St. Mary's County
Governmental Center
Leonardtown, Maryland

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the County Commissioners of St. Mary's County (the "County"), a body politic and corporate and a political subdivision of the State of Maryland, of its \$13,055,000 County Commissioners of St. Mary's County Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A (the "Series 2009A Bonds") dated December 3, 2009.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the County and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2009A Bonds.

The rights of the holders of the Series 2009A Bonds and the enforceability of the Series 2009A Bonds are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and to the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or a court of equity).

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a validly created and existing body politic and corporate and political subdivision of the State of Maryland (the "State"), possessing authority under the Acts (as hereafter defined) to issue the Series 2009A Bonds.

2. The Series 2009A Bonds are issued for valid public purposes as provided in Chapter 145 of the Laws of Maryland of 2003, as amended, Chapter 525 of the Laws of Maryland of 2005, as amended, and Section 2C of Article 31 of the Annotated Code of Maryland, as amended (collectively, the "Acts"), and Resolution No. 2009-35 of the County adopted on October 6, 2009 (the "Resolution"), and the issuance thereof is within every debt and other legal limit applicable to the County.

3. The Resolution has been validly adopted.

4. All actions for the authorization, approval, sale, execution and delivery of the Series 2009A Bonds have been taken in full compliance with the Constitution and laws of the State, the laws of the County, the Acts and the Resolution.

5. The Series 2009A Bonds are valid and binding general obligations of the County to the payment of which the County has pledged its full faith and credit and unlimited taxing power, and are payable as to principal, premium, if any, and interest from ad valorem property taxes upon all the legally assessable property within the corporate limits of St. Mary's County, and the County is required by law to levy and collect such taxes in rate and amount sufficient to provide for such payments when due.

6. Under existing law, the interest on the Series 2009A Bonds (i) is excludable from gross income for Federal income tax purposes, and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

In rendering the opinion expressed above in this paragraph 6, we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the County (the "Tax Agreement"), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the income tax regulations issued thereunder (the "Regulations") that must be satisfied subsequent to the issuance of the Series 2009A Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Series 2009A Bonds) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2009A Bonds from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Series 2009A Bonds.

7. Under existing law of the State of Maryland, the interest on the Series 2009A Bonds and profit realized from the sale or exchange of the Series 2009A Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Series 2009A Bonds or the interest thereon.

Other than as set forth in the preceding paragraphs 6 and 7, we express no opinion regarding the federal or state income tax consequences arising with respect to the Series 2009A Bonds.

Very truly yours,

[to be signed "Venable LLP"]

Form of Opinion of Bond Counsel Regarding Series 2009B Bonds

[Closing Date]

County Commissioners of St. Mary's County
Governmental Center
Leonardtown, Maryland

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the County Commissioners of St. Mary's County (the "County"), a body politic and corporate and a political subdivision of the State of Maryland, of its \$16,945,000 County Commissioners of St. Mary's County Consolidated Public Improvement Taxable Build America Bonds – Direct Payment to Issuer, Series 2009B (the "Series 2009B Bonds") dated December 3, 2009.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the County and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2009B Bonds.

The rights of the holders of the Series 2009B Bonds and the enforceability of the Series 2009B Bonds are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and to the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or a court of equity).

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a validly created and existing body politic and corporate and political subdivision of the State of Maryland (the "State"), possessing authority under the Acts (as hereafter defined) to issue the Series 2009B Bonds.

2. The Series 2009B Bonds are issued for valid public purposes as provided in Chapter 145 of the Laws of Maryland of 2003, as amended, Chapter 525 of the Laws of Maryland of 2005, as amended, and Section 2C of Article 31 of the Annotated Code of Maryland, as amended (collectively, the "Acts"), and Resolution No. 2009-35 of the County adopted on October 6, 2009 (the "Resolution"), and the issuance thereof is within every debt and other legal limit applicable to the County.

3. The Resolution has been validly adopted.

4. All actions for the authorization, approval, sale, execution and delivery of the Series 2009B Bonds have been taken in full compliance with the Constitution and laws of the State, the laws of the County, the Acts and the Resolution.

5. The Series 2009B Bonds are valid and binding general obligations of the County to the payment of which the County has pledged its full faith and credit and unlimited taxing power, and are payable as to principal, premium, if any, and interest from ad valorem property taxes upon all the legally assessable property within the corporate limits of St. Mary's County, and the County is required by law to levy and collect such taxes in rate and amount sufficient to provide for such payments when due.

6. Interest on the Series 2009B Bonds is not excludible from gross income for federal income tax purposes. The federal income tax advice contained herein is not intended or written to be used, and cannot be used, by the holder of a Series 2009B Bond for purposes of avoiding federal income tax penalties that may be imposed on the holder of such a Series 2009B Bond.

Such federal tax advice is provided to support the promotion or marketing of the Series 2009B Bonds. Each purchaser of a Series 2009B Bond should seek advice based on such purchaser's particular circumstances from an independent tax advisor.

7. Under existing law of the State of Maryland, the interest on the Series 2009B Bonds and profit realized from the sale or exchange of the Series 2009B Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Series 2009B Bonds or the interest thereon.

Other than as set forth in the preceding paragraphs 6 and 7, we express no opinion regarding the federal or state income tax consequences arising with respect to the Series 2009B Bonds.

Very truly yours,

[to be signed "Venable LLP"]

Form of Opinion of Bond Counsel Regarding Series 2009C Bonds

[Closing Date]

County Commissioners of St. Mary's County
Governmental Center
Leonardtown, Maryland

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the County Commissioners of St. Mary's County (the "County"), a body politic and corporate and a political subdivision of the State of Maryland, of its \$15,645,000 County Commissioners of St. Mary's County Consolidated Public Improvement Refunding Bonds, Series 2009C (the "Series 2009C Bonds") dated December 3, 2009.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any change in law that may hereafter occur.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the County and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2009C Bonds.

The rights of the holders of the Series 2009C Bonds and the enforceability of the Series 2009C Bonds are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and to the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or a court of equity).

Based on the foregoing, it is our opinion that, under existing law:

1. The County is a validly created and existing body politic and corporate and political subdivision of the State of Maryland (the "State"), possessing authority under the Acts (as hereafter defined) to issue the Series 2009C Bonds.

2. The Series 2009C Bonds are issued for valid public purposes as provided in Section 24 of Article 31 of the Annotated Code of Maryland, as amended (the "Act"), and Resolution No. 2009-35 of the County adopted on October 6, 2009 (the "Resolution"), and the issuance thereof is within every debt and other legal limit applicable to the County.

3. The Resolution has been validly adopted.

4. All actions for the authorization, approval, sale, execution and delivery of the Series 2009C Bonds have been taken in full compliance with the Constitution and laws of the State, the laws of the County, the Act and the Resolution.

5. The Series 2009C Bonds are valid and binding general obligations of the County to the payment of which the County has pledged its full faith and credit and unlimited taxing power, and are payable as to principal, premium, if any, and interest from ad valorem property taxes upon all the legally assessable property within the corporate limits of St. Mary's County, and the County is required by law to levy and collect such taxes in rate and amount sufficient to provide for such payments when due.

6. Under existing law, the interest on the Series 2009C Bonds (i) is excludable from gross income for Federal income tax purposes, and (ii) is not an item of tax preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations.

In rendering the opinion expressed above in this paragraph 6, we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the County (the "Tax Agreement"), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the income tax regulations issued thereunder (the "Regulations") that must be satisfied subsequent to the issuance of the Series 2009C Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Series 2009C Bonds) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2009C Bonds from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Series 2009C Bonds.

7. Under existing law of the State of Maryland, the interest on the Series 2009C Bonds and profit realized from the sale or exchange of the Series 2009C Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied directly on the Series 2009C Bonds or the interest thereon.

Other than as set forth in the preceding paragraphs 6 and 7, we express no opinion regarding the federal or state income tax consequences arising with respect to the Series 2009C Bonds.

Very truly yours,

[to be signed "Venable LLP"]

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of December 3, 2009 (the “Disclosure Agreement”), is executed and delivered by County Commissioners of St. Mary’s County (the “County”) in connection with the issuance of \$13,055,000 County Commissioners of St. Mary’s County Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A, \$16,945,000 Consolidated Public Improvement Taxable Build America Bonds – Direct Payment to Issuer, Series 2009B and \$15,645,000 Consolidated Public Improvement Refunding Bonds, Series 2009C (collectively, the “Bonds”). The County hereby covenant and agree as follows:

SECTION 1. *Purpose of the Disclosure Agreement.* This Disclosure Agreement is being executed and delivered by the County for the benefit of the holders from time to time of the Bonds and the beneficial owners from time to time of the Bonds and in order to assist the Underwriter (defined below) in complying with the Rule (defined below).

SECTION 2. *Definitions.* In addition to the definitions set forth above, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the County pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

“Disclosure Representative” shall mean the Chief Financial Officer of the County or her designee, or such other person as the County shall designate from time to time.

“Dissemination Agent” shall mean the County or any Dissemination Agent designated in writing by the County.

“EMMA” shall mean the Electronic Municipal Market Access System described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule.

“Listed Events” shall mean any of the events listed in Section 6(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board, and its successors.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Underwriter” shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with the offering or sale of the Bonds.

SECTION 3. *Scope of Agreement.*

(a) The disclosure obligations under this Disclosure Agreement relate solely to the Bonds. Such disclosure obligations are not applicable to any other securities issued or to be issued by the County.

(b) The County is the only “obligated persons” with respect to the Bonds within the meaning of the Rule.

SECTION 4. *Provision of Annual Reports.* The County shall, not later than March 31 after the end of the Fiscal Year, commencing with the Fiscal Year ending June 30, 2009, provide to the MSRB in an electronic format and accompanied by identifying information as prescribed by the MSRB an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Certificate. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Certificate; provided that the audited financial statements of the County may be submitted separately from the balance of the Annual Report.

SECTION 5. *Content of Annual Reports.* The County’s Annual Report shall contain or incorporate by reference the following:

- Comprehensive audited financial statements for the immediately preceding fiscal year, prepared in accordance with generally accepted accounting principles; and
- the information provided in the Official Statement prepared and delivered by the County with respect to the Bonds, under the headings “County Expenditures,” “County Revenues,” “State and Federal Assistance,”

“Summary of Revenues and Expenditures,” “Fiscal Year 2010 Budget,” and “Certain Debt Information,” utilizing the same accounting standards as were used in preparing such information for the Official Statement and updated as of a date no earlier than the last day of the immediately-preceding fiscal year.

SECTION 6. *Reporting of Significant Events.*

(a) In a timely manner, the County will provide to each Repository and to the Municipal Securities Rulemaking Board, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- Modifications to rights of Bondholders;
- Bond calls;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the Bonds; or
- Ratings changes.

The County hereby acknowledges that certain of the above-enumerated events do not, and are not ever expected to, apply to the Bonds. Nevertheless, the County intends to provide the Underwriter with complete assistance in complying with the Rule. Therefore, the County covenants to provide notice of all of the above-enumerated events should they occur.

(b) In a timely manner, the County will give the MSRB notice of any failure to comply with the covenants set forth herein.

SECTION 7. *Termination of Reporting Obligation.* The County’s obligations under this Disclosure Agreement shall terminate when there are no longer any Bonds outstanding.

SECTION 8. *Dissemination Agent.* The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out their obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Agreement, the County may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) said amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the County, or type of business conducted by the County;

(b) said provision, as amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the initial offering of the Bonds after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) said amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by nationally recognized bond counsel or by an approving vote of the holders of a majority of the outstanding aggregate principal amount of the Bonds.

SECTION 10. *Additional Information.* Nothing in this Disclosure Agreement shall be deemed to prevent the County from

disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the County chooses to include any information in any Annual Report or notice of occurrences of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the County shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. *Default.* Failure to comply with this Disclosure Agreement shall not be deemed to be a default or an event of default with respect to the Bonds.

SECTION 12. *Filing with Electronic Municipal Market Access System (EMMA).* Unless otherwise required by the MSRB, all filings with the MSRB shall be made with EMMA and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 13. *Beneficiaries.* This Disclosure Agreement shall inure solely to the benefit of the County, the Dissemination Agent (if any), the Underwriter, and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

COUNTY COMMISSIONERS OF ST. MARY'S COUNTY

By: _____
Elaine M. Kramer
Chief Financial Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

NOTICE OF SALE

ST. MARY'S COUNTY, MARYLAND

**\$13,055,000 COUNTY COMMISSIONERS OF ST. MARY'S COUNTY
CONSOLIDATED PUBLIC IMPROVEMENT TAX-EXEMPT BONDS, SERIES 2009A**

Electronic bids and sealed, written proposals will be received at the office of the Chief Financial Officer of St. Mary's County, Maryland located at 41770 Baldrige Street, Leonardtown, Maryland 20650, until 11:00 a.m., local Baltimore, Maryland time, on November 17, 2009, for County Commissioners of St. Mary's County Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A (the "Bonds"). The Bonds are being issued by the County Commissioners of St. Mary's County (the "County"), a body politic and corporate and a political subdivision of the State of Maryland.

The County reserves the right to postpone, from time to time, the date established for the receipt of bids. Any such postponement will be announced by TM3 News Service ("TM3") by notice given not later than 1:00 PM, prevailing Eastern time, on the last business day prior to any announced date for receipt of bids. If any date fixed for the receipt of bids and the sale of the Bonds is postponed, any Alternative Sale Date will be announced via TM3 at least 48 hours prior to such Alternative Sale Date. In addition, the County reserves the right, on the date established for the receipt of bids, to reject all bids and establish a subsequent Alternative Sale Date. If all bids are rejected and an Alternative Sale Date for receipt of bids established, notice of the Alternative Sale Date will be announced via TM3 not less than 48 hours prior to such Alternative Sale Date. On any such Alternative Sale Date, any bidder may submit a sealed or electronic bid for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale except for the date of sale and except for the changes announced via TM3 at the time the sale date and time are announced.

Details of the Bonds

All Bonds shall be fully registered in form in the denomination of \$5,000 each or any integral multiple thereof, shall be dated date of delivery and shall bear interest payable semiannually on January 15 and July 15, commencing July 15, 2010, until maturity.

The Bonds will mature annually on July 15 in the following years and in the following aggregate amounts:

<u>Year</u>	<u>Amounts</u>	<u>Year</u>	<u>Amounts</u>
2010	\$1,220,000	2015	\$1,300,000
2011	1,235,000	2016	1,330,000
2012	1,245,000	2017	1,360,000
2013	1,260,000	2018	1,395,000
2014	1,280,000	2019	1,430,000

One bond representing each maturity of each series of the Bonds will be issued to and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of the Bonds and each such bond shall be immobilized in the custody of DTC. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers will not receive physical delivery of certificates representing their interest in the Bonds purchased. The winning bidder, as a condition to delivery of the Bonds, will be required to deposit the bond certificates representing each maturity with DTC.

The Bonds will be issued pursuant to Chapter 145 of the Laws of Maryland of 2003, Chapter 525 of the Laws of Maryland of 2005, as amended, and Section 2C of Article 31 of the Annotated Code of Maryland, as amended, for the purpose of financing certain public improvements of the County. The Bonds are authorized to be issued, sold, guaranteed and delivered by resolutions of County, adopted by the County on October 6, 2009 (the "Resolution").

The Bonds will constitute an irrevocable pledge of the full faith and credit and unlimited taxing power of County Commissioners of St. Mary's County, Maryland.

Optional Redemption

The Bonds are not subject to redemption prior to their respective maturities.

Submission of Bids

The County will not accept and will reject any bid for less than all of the Bonds. The right is reserved to reject any and all bids and to waive irregularities in any bid.

Electronic Bids

Electronic bids will be received via **PARITY®**, in the manner described below, until 11:00 a.m., local Baltimore, Maryland time, on November 17, 2009.

Bids may be submitted electronically via **PARITY®** pursuant to this Notice until 11:00 a.m., local Baltimore, Maryland time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in **PARITY®** conflict with this Notice, the terms of this Notice shall control. For further information about **PARITY®**, potential bidders may contact **PARITY®** at Dalcomp (212) 849-5021.

Disclaimer

Each prospective electronic bidder shall be solely responsible to submit its bid via **PARITY®** as described above. Each prospective electronic bidder shall be solely responsible to make necessary arrangements to access **PARITY®** for the purpose of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the County nor **PARITY®** shall have any duty or obligation to provide or assure access to **PARITY®** to any prospective bidder, and neither the County nor **PARITY®** shall be responsible for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by **PARITY®**. The County is using **PARITY®** as a communication mechanism, and not as the County's agent, to conduct the electronic bidding for the Bonds. The County is not bound by any advice and determination of **PARITY®** to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Parameters" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their submission of bids via **PARITY®** are the sole responsibility of the bidders; and the County is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying, or withdrawing a bid for the Bonds, such bidder should telephone **PARITY®** at Dalcomp (212) 849-5021 and notify the County's Financial Advisor, Davenport & Company LLC by facsimile at (410) 296-8517.

Electronic Bidding Procedures

Electronic bids must be submitted for the purchase of the Bonds (all or none) via **PARITY®**. Bids will be communicated electronically to the County at 11:00 a.m., local Baltimore, Maryland time, on Tuesday, November 17, 2009. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via **PARITY®**, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds, or (3) withdraw its proposed bid. Once the bids are communicated electronically via **PARITY®** to the County, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on **PARITY®** shall constitute the official time.

Written Sealed Proposals

Bids will also be accepted in written form on the form of Proposal for Bonds attached to this Notice. Written bids must be submitted on the prescribed form provided for that purpose by the County and must be enclosed in a sealed envelope marked "Proposal for Bonds" and addressed to the Chief Financial Officer, St. Mary's County, 23511 Leonard Hall Drive, Leonardtown, Maryland 20650.

Good Faith Deposit

After receipt of bids is closed and prior to the award, the apparent successful bidder indicated on **PARITY®** must submit a good faith deposit of \$130,000 to the County by wire transfer as instructed by the County or its financial advisor. The award to the apparent successful bidder is contingent upon receipt of the good faith deposit, and the Bonds will not be awarded to such bidder until the County has confirmation of receipt of the good faith deposit. No interest will be allowed on any good faith

deposit. In the event the successful bidder shall fail to comply with the terms of its bid, the good faith deposit may be retained as and for full liquidated damages.

Bid Parameters

Each bidder shall submit one bid on the required form of Proposal for Bonds on an all-or-none basis for the Bonds. Each proposal must specify the amount bid for the Bonds, which shall be not less than 100% of par and not more than 108% of par. Each proposal must specify in multiples of one-eighth (1/8) or one-twentieth (1/20) of one percent (1%) the rate or rates of interest per annum which the Bonds are to bear but shall not specify (a) more than one interest rate for any Bonds having the same maturity, (b) a zero rate of interest, (c) any interest rate for any Bonds which exceeds the interest rate stated in such proposal for any other Bonds by more than 3%, (d) a maximum permitted coupon greater than 5.50%.

Award

The award, if made, will be made as promptly as possible after the bids are opened to the bidder offering the lowest interest rate. All proposals shall remain firm until the time of award. The lowest interest rate shall be determined in accordance with the true interest cost ("TIC") method by doubling the semi-annual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds and to the price bid. In the event two or more bidders offer to purchase the Bonds at the same lowest interest rate to the County, then the Bonds may be apportioned between such bidders; provided, that if apportionment is not acceptable to such bidders, the County shall have the right to award the Bonds to one of such bidders. There will be no auction.

Official Statement; Continuing Disclosure

Not later than seven (7) business days after the award of the Bonds to the successful bidder on the day of sale, the County will authorize an Official Statement, which is expected to be substantially in the form of the Preliminary Official Statement referred to below. If so requested by the successful bidder at or before the close of business on the date of the sale, the County will include in the Official Statement such pricing and other information with respect to the terms of the reoffering of the Bonds by the successful bidder ("Reoffering Information"), if any, as may be specified and furnished in writing by the successful bidder. If no Reoffering Information is specified and furnished by the successful bidder, the Official Statement will include the interest rates on the Bonds resulting from the bid of the successful bidder and the other statements with respect to reoffering contained in the Preliminary Official Statement. The successful bidder shall be responsible to the County and its officials for the Reoffering Information, and for all decisions made by the successful bidder with respect to the use or omission of the Reoffering Information in any reoffering of the Bonds, including the presentation or exclusion of any Reoffering Information in any documents, including the Official Statement. The successful bidder will also be furnished, without cost, with up to 400 copies of the Official Statement (and any amendment or supplement thereto).

The County have made certain covenants for the benefit of the holders from time to time of the Bonds to provide certain continuing disclosure, in order to assist bidders for the bonds in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission. Such covenants are described in the Preliminary Official Statement dated November 5, 2009.

Delivery of the Bonds

The Bonds will be delivered as soon as practicable, upon due notice and at the expense of the successful bidder, through the facilities of DTC in New York, New York, upon payment of the amount of the successful bid, less the deposit theretofore made. Such payment shall be made in Federal funds. The Bonds will be accompanied by the customary closing documents, including a no-litigation certificate, effective as of the date of delivery, stating that there is no litigation pending, affecting the validity of any of the Bonds included in these issues. It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that, simultaneously with or before delivery and payment for the Bonds, said bidder shall be furnished a certificate or certificates of appropriate public officials to the effect that, to the best of their knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the Reoffering Information, as to which no view will be expressed) as if the date of sale and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and that between the date of sale and the date of delivery of the Bonds there has been no material adverse change in the financial position or revenues of the County, except as reflected or contemplated in the Official Statement (and any amendment or supplement thereto).

Simultaneously with or before delivery of the Bonds, the successful bidder shall furnish to the County a certificate acceptable to Bond Counsel to the effect that (i) the successful bidder has made a bona fide public offering of the Bonds at the initial reoffering prices and (ii) a substantial amount of the Bonds was sold to the public (excluding bond houses, brokers and other intermediaries) at such initial reoffering prices.

THE SUCCESSFUL BIDDER SHALL MAKE A BONA FIDE PUBLIC OFFERING OF THE BONDS AT THE INITIAL REOFFERING PRICES.

Miscellaneous

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print any such number on any bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale.

The issuance of the Bonds will be subject to legal approval by Venable LLP, Baltimore, Maryland, Bond Counsel, and copies of their opinion will be delivered upon request, without charge, to the successful bidder for the Bonds. Such opinion shall be substantially in the form included in Appendix B to the Preliminary Official Statement.

The Preliminary Official Statement of the County, with respect to the Bonds, and the required form of Proposal For Bonds will be supplied to prospective bidders upon request made to the Chief Financial Officer of St. Mary's County, Governmental Center, Leonardtown, Maryland 20650, or from Davenport & Company LLC, financial advisor to the County, at 8600 LaSalle Road, Suite 324, Towson, Maryland 21286 (410-296-9426). Such Preliminary Official Statement is deemed final by the County as of its date for purposes of SEC Rule 15c2-12 but is subject to revision, amendment and completion in the Official Statement referred to above.

By order of
**COUNTY COMMISSIONERS OF
ST. MARY'S COUNTY**

PROPOSAL FOR BONDS

November 17, 2009

Chief Financial Officer
 St. Mary's County, Maryland
 41770 Baldrige Street
 Leonardtown, Maryland 20650

Dear Madam:

Subject to the provisions and in accordance with the terms of the annexed Notice of Sale which is incorporated by reference herein and made a part of this Proposal for Bonds, we offer to purchase the obligations of County Commissioners of St. Mary's County described in such Notice of Sale, being the County Commissioners of St. Mary's County Consolidated Public Improvement Tax-Exempt Bonds, Series 2009A, such bonds to be dated date of delivery, maturing on July 15 in the years and aggregate principal amounts, respectively, as set forth in such Notice of Sale, and to bear interest as follows:

Annual Amount Maturing	Interest Rate
2010	___%
2011	___%
2012	___%
2013	___%
2014	___%
2015	___%
2016	___%
2017	___%
2018	___%
2019	___%

We will pay an amount equal to the par value of the Bonds..... \$13,055,000
 plus a premium in the amount of..... + \$
 making a total of..... \$

We understand that (a) if we are selected as the winning bidder, we are to provide a good faith deposit in the amount of \$130,000 as a condition to award, as provided in the Notice of Sale, (b) we are to provide a certification regarding the public sale of the bonds as described in the notice of sale on or prior to the closing date and (c) if notified that we are the successful bidder, we will be required to advise the County of the initial reoffering prices (as described in the notice of sale) for each maturity of the bonds at the time of such notification. In this regard, you may contact and rely on the information provided by _____, whose telephone number is _____.

 and Associates (See List Attached)

(Not a part of this proposal. The following information is requested to expedite and facilitate prompt determination of the best bid. The inclusion, omission, accuracy or inaccuracy of these figures will not affect the validity of the proposal. The total amount of interest payable on the bonds referred to above under this proposal is \$ _____. The rate of interest determined in the manner set forth in the Notice of Sale is _____% per annum.)

 Bidder
 By: _____
 Title: _____

NOTICE OF SALE

ST. MARY'S COUNTY, MARYLAND

**\$16,945,000 COUNTY COMMISSIONERS OF ST. MARY'S COUNTY
CONSOLIDATED PUBLIC IMPROVEMENT [TAX-EXEMPT BONDS] [TAXABLE BUILD AMERICA BONDS –
DIRECT PAYMENT TO ISSUER], SERIES 2009B**

Electronic bids and sealed, written proposals will be received at the office of the Chief Financial Officer of St. Mary's County, Maryland located at 41770 Baldrige Street, Leonardtown, Maryland 20650, until 11:00 a.m., local Baltimore, Maryland time, on November 17, 2009, for County Commissioners of St. Mary's County Consolidated Public Improvement [Tax-Exempt Bonds] [Taxable Build America Bonds – Direct Payment to Issuer], Series 2009B (the "Bonds"). The Bonds are being issued by the County Commissioners of St. Mary's County (the "County"), a body politic and corporate and a political subdivision of the State of Maryland.

The County reserves the right to postpone, from time to time, the date established for the receipt of bids. Any such postponement will be announced by TM3 News Service ("TM3") by notice given not later than 1:00 PM, prevailing Eastern time, on the last business day prior to any announced date for receipt of bids. If any date fixed for the receipt of bids and the sale of the Bonds is postponed, any Alternative Sale Date will be announced via TM3 at least 48 hours prior to such Alternative Sale Date. In addition, the County reserves the right, on the date established for the receipt of bids, to reject all bids and establish a subsequent Alternative Sale Date. If all bids are rejected and an Alternative Sale Date for receipt of bids established, notice of the Alternative Sale Date will be announced via TM3 not less than 48 hours prior to such Alternative Sale Date. On any such Alternative Sale Date, any bidder may submit a sealed or electronic bid for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale except for the date of sale and except for the changes announced via TM3 at the time the sale date and time are announced.

Details of the Bonds

All Bonds shall be fully registered in form in the denomination of \$5,000 each or any integral multiple thereof, shall be dated date of delivery and shall bear interest payable semiannually on January 15 and July 15, commencing July 15, 2010, until maturity.

The Bonds will mature annually, subject to prior redemption, on July 15 in the following years and in the following aggregate amount

<u>Year</u>	<u>Amounts</u>	<u>Year</u>	<u>Amounts</u>
2020	\$1,470,000	2025	\$1,710,000
2021	1,510,000	2026	1,765,000
2022	1,555,000	2027	1,825,000
2023	1,605,000	2028	1,890,000
2024	1,655,000	2029	1,960,000

One bond representing each maturity of each series of the Bonds will be issued to and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of the Bonds and each such bond shall be immobilized in the custody of DTC. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers will not receive physical delivery of certificates representing their interest in the Bonds purchased. The winning bidder, as a condition to delivery of the Bonds, will be required to deposit the bond certificates representing each maturity with DTC.

The Bonds will be issued pursuant to Chapter 145 of the Laws of Maryland of 2003, as amended, Chapter 525 of the Laws of Maryland of 2005, as amended, and Section 2C of Article 31 of the Annotated Code of Maryland, as amended, for the purpose of financing certain public improvements of the County. The Bonds are authorized to be issued, sold, guaranteed and delivered by resolutions of County, adopted by the County on October 6, 2009 (the "Resolution").

The Bonds will constitute an irrevocable pledge of the full faith and credit and unlimited taxing power of County Commissioners of St. Mary's County, Maryland.

Tax-Exempt Bonds/Taxable Build America Bonds.

The Bonds will be issued as either all Tax-Exempt Bonds or all Taxable Build America Bonds – Direct Payment to Issuer. The Bonds will not be split between Tax-Exempt Bonds and Taxable Build America Bonds. Bidders may submit a bid for all, but not less than all, of the Bonds as Tax-Exempt Bonds or as Taxable Build America Bonds as set forth herein under “Bid Parameters.”

Optional Redemption

The Bonds that mature on or before July 15, 2019 are not subject to redemption prior to their maturities. Bonds that mature on or after July 15, 2020 are subject to redemption beginning July 15, 2019 as a whole at any time or in part on any interest payment date, in any order of maturities, at the option of the County, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption.

Submission of Bids

The County will not accept and will reject any bid for less than all of the Bonds. The right is reserved to reject any and all bids and to waive irregularities in any bid.

Electronic Bids

Electronic bids will be received via **PARITY®**, in the manner described below, until 11:00 a.m., local Baltimore, Maryland time, on November 17, 2009.

Bids may be submitted electronically via **PARITY®** pursuant to this Notice until 11:00 a.m., local Baltimore, Maryland time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in **PARITY®** conflict with this Notice, the terms of this Notice shall control. For further information about **PARITY®**, potential bidders may contact **PARITY®** at Dalcomp (212) 849-5021.

Disclaimer

Each prospective electronic bidder shall be solely responsible to submit its bid via **PARITY®** as described above. Each prospective electronic bidder shall be solely responsible to make necessary arrangements to access **PARITY®** for the purpose of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the County nor **PARITY®** shall have any duty or obligation to provide or assure access to **PARITY®** to any prospective bidder, and neither the County nor **PARITY®** shall be responsible for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by **PARITY®**. The County is using **PARITY®** as a communication mechanism, and not as the County’s agent, to conduct the electronic bidding for the Bonds. The County is not bound by any advice and determination of **PARITY®** to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the “Bid Parameters” hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their submission of bids via **PARITY®** are the sole responsibility of the bidders; and the County is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying, or withdrawing a bid for the Bonds, such bidder should telephone **PARITY®** at Dalcomp (212) 849-5021 and notify the County’s Financial Advisor, Davenport & Company LLC by facsimile at (410) 296-8517.

Electronic Bidding Procedures

Electronic bids must be submitted for the purchase of the Bonds (all or none) via **PARITY®**. Bids will be communicated electronically to the County at 11:00 a.m., local Baltimore, Maryland time, on Tuesday, November 17, 2009. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via **PARITY®**, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds, or (3) withdraw its proposed bid. Once the bids are communicated electronically via **PARITY®** to the County, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on **PARITY®** shall constitute the official time.

Written Sealed Proposals

Bids will also be accepted in written form on the form of Proposal for Bonds attached to this Notice. Written bids must be submitted on the prescribed form provided for that purpose by the County and must be enclosed in a sealed envelope marked

“Proposal for Bonds” and addressed to the Chief Financial Officer, St. Mary’s County, 23511 Leonard Hall Drive, Leonardtown, Maryland 20650.

Good Faith Deposit

After receipt of bids is closed and prior to the award, the apparent successful bidder indicated on **PARITY®** must submit a good faith deposit of \$170,000 to the County by wire transfer as instructed by the County or its financial advisor. The award to the apparent successful bidder is contingent upon receipt of the good faith deposit, and the Bonds will not be awarded to such bidder until the County has confirmation of receipt of the good faith deposit. No interest will be allowed on any good faith deposit. In the event the successful bidder shall fail to comply with the terms of its bid, the good faith deposit may be retained as and for full liquidated damages.

Bid Parameters

Each bidder shall submit one bid for the Bonds on an all-or-none basis.

Each proposal must specify in multiples of one-eighth (1/8) or one-twentieth (1/20) of one percent (1%) the rate or rates of interest per annum which the Bonds are to bear but shall not specify (a) more than one interest rate for any Bonds having the same maturity, or (b) a zero rate of interest.

Each bidder shall submit one bid for the purchase of the Bonds either as all Tax-Exempt Bonds or as all Taxable Build America Bonds – Direct Payment to Issuer (“BABs”).

Each bid for the Bonds as Tax-Exempt Bonds must specify the amount bid, which shall be not less than 100% of par or more than 108% of par. Bidders may specify more than one rate of interest to be borne by the Bonds as Tax-Exempt Bonds, but the difference between the highest and lowest rates named may not be greater than three percent (3%) and the maximum permitted coupon is 5.50%.

Each bid for the Bonds as Taxable Build America Bonds – Direct Payment to Issuer must specify the expected reoffering price for each maturity of such Bonds, and such reoffering price cannot exceed 102.25% of the par amount of the respective maturity. Bidders may not offer to pay less than 100% of par for the Bonds as Taxable Build America Bonds – Direct Payment to Issuer.

Award

The award of the Bonds, if made, will be made as promptly as possible after the bids are open to the bidder offering the lowest interest rate to the County for such Bonds. The lowest interest rate shall be determined in accordance with the true interest cost (TIC) method by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the date of the Bonds and to the amount bid. The lowest true interest cost for Taxable Bonds will be determined in the same manner as Tax-Exempt Bonds with the exception that the “direct credit payment to issuer” expected to be received by the County if Taxable Bonds are issued will be treated with respect to the Bonds designated by the County as BABs as a 35% reduction in each interest payment due on such Taxable Bonds. Where the proposals of two or more bidders result in the same lowest true interest cost for the Bonds, such Bonds may be apportioned between such bidders, but if this shall not be acceptable, the County shall have the right to award such Bonds to one bidder. All bids remain firm until an award is made. Upon notice of such award, the winning bidder for a series of the Bonds shall advise the County of the initial reoffering prices to the public of each maturity of such Bonds (the “Initial Reoffering Prices”).

Official Statement; Continuing Disclosure

Not later than seven (7) business days after the award of the Bonds to the successful bidder on the day of sale, the County will authorize an Official Statement, which is expected to be substantially in the form of the Preliminary Official Statement referred to below. If so requested by the successful bidder at or before the close of business on the date of the sale, the County will include in the Official Statement such pricing and other information with respect to the terms of the reoffering of the Bonds by the successful bidder (“Reoffering Information”), if any, as may be specified and furnished in writing by the successful bidder. If no Reoffering Information is specified and furnished by the successful bidder, the Official Statement will include the interest rates on the Bonds resulting from the bid of the successful bidder and the other statements with respect to reoffering contained in the Preliminary Official Statement. The successful bidder shall be responsible to the County and its officials for the Reoffering Information, and for all decisions made by the successful bidder with respect to the use or omission

of the Reoffering Information in any reoffering of the Bonds, including the presentation or exclusion of any Reoffering Information in any documents, including the Official Statement. The successful bidder will also be furnished, without cost, with up to 400 copies of the Official Statement (and any amendment or supplement thereto).

The County have made certain covenants for the benefit of the holders from time to time of the Bonds to provide certain continuing disclosure, in order to assist bidders for the bonds in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission. Such covenants are described in the Preliminary Official Statement dated November 5, 2009.

Delivery of the Bonds

The Bonds will be delivered as soon as practicable, upon due notice and at the expense of the successful bidder, through the facilities of DTC in New York, New York, upon payment of the amount of the successful bid, less the deposit theretofore made. Such payment shall be made in Federal funds. The Bonds will be accompanied by the customary closing documents, including a no-litigation certificate, effective as of the date of delivery, stating that there is no litigation pending, affecting the validity of any of the Bonds included in these issues. It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that, simultaneously with or before delivery and payment for the Bonds, said bidder shall be furnished a certificate or certificates of appropriate public officials to the effect that, to the best of their knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the Reoffering Information, as to which no view will be expressed) as if the date of sale and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and that between the date of sale and the date of delivery of the Bonds there has been no material adverse change in the financial position or revenues of the County, except as reflected or contemplated in the Official Statement (and any amendment or supplement thereto).

Simultaneously with or before delivery of the Bonds, the successful bidder shall furnish to the County a certificate acceptable to Bond Counsel to the effect that (i) the successful bidder has made a bona fide public offering of the Bonds at the initial reoffering prices and (ii) a substantial amount of the Bonds was sold to the public (excluding bond houses, brokers and other intermediaries) at such initial reoffering prices.

THE SUCCESSFUL BIDDER SHALL MAKE A BONA FIDE PUBLIC OFFERING OF THE BONDS AT THE INITIAL REOFFERING PRICES.

Miscellaneous

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print any such number on any bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale.

The issuance of the Bonds will be subject to legal approval by Venable LLP, Baltimore, Maryland, Bond Counsel, and copies of their opinion will be delivered upon request, without charge, to the successful bidder for the Bonds. Such opinion shall be substantially in the form included in Appendix B to the Preliminary Official Statement.

The Preliminary Official Statement of the County, with respect to the Bonds, and the required form of Proposal For Bonds will be supplied to prospective bidders upon request made to the Chief Financial Officer of St. Mary’s County, Governmental Center, Leonardtown, Maryland 20650, or from Davenport & Company LLC, financial advisor to the County, at 8600 LaSalle Road, Suite 324, Towson, Maryland 21286 (410-296-9426). Such Preliminary Official Statement is deemed final by the County as of its date for purposes of SEC Rule 15c2-12 but is subject to revision, amendment and completion in the Official Statement referred to above.

By order of
**COUNTY COMMISSIONERS OF
ST. MARY’S COUNTY**

PROPOSAL FOR BONDS

November 17, 2009

Chief Financial Officer
 St. Mary's County, Maryland
 41770 Baldrige Street
 Leonardtown, Maryland 20650

Dear Madam:

Subject to the provisions and in accordance with the terms of the annexed Notice of Sale which is incorporated by reference herein and made a part of this Proposal for Bonds, we offer to purchase the obligations of County Commissioners of St. Mary's County described in such Notice of Sale, being the County Commissioners of St. Mary's County Consolidated Public Improvement [Tax-Exempt Bonds] [Taxable Build America Bonds – Direct Payment to Issuer], Series 2009B, such bonds to be dated date of delivery, maturing on July 15 in the years and aggregate principal amounts, respectively, as set forth in such Notice of Sale, and to bear interest as follows:

Annual Amount	Interest
Maturing	Rate
2020	____%
2021	____%
2022	____%
2023	____%
2024	____%
2025	____%
2026	____%
2027	____%
2028	____%
2029	____%

We will pay an amount equal to the par value of the Bonds..... \$16,945,000
 [plus a premium] [minus a discount] in the amount of..... + \$
 making a total of..... \$

We will purchase the Series 2009B Bonds as:

Tax-Exempt Bonds _____
 or
 Taxable Build America Bonds _____
 (Direct Payment to Issuer)

[check only one]

We understand that (a) if we are selected as the winning bidder, we are to provide a good faith deposit in the amount of \$170,000 as a condition to award, as provided in the Notice of Sale, (b) we are to provide a certification regarding the public sale of the bonds as described in the notice of sale on or prior to the closing date and (c) if notified that we are the successful bidder, we will be required to advise the County of the initial reoffering prices (as described in the notice of sale) for each maturity of the bonds at the time of such notification. In this regard, you may contact and rely on the information provided by _____, whose telephone number is _____.

_____ and Associates (See List Attached)

(Not a part of this proposal. The following information is requested to expedite and facilitate prompt determination of the best bid. The inclusion, omission, accuracy or inaccuracy of these figures will not affect the validity of the proposal. The total amount of interest payable on the bonds referred to above under this proposal is \$ _____. The rate of interest determined in the manner set forth in the Notice of Sale is _____% per annum.)

Bidder

By: _____

Title: _____

NOTICE OF SALE

ST. MARY'S COUNTY, MARYLAND

**\$16,120,000* COUNTY COMMISSIONERS OF ST. MARY'S COUNTY
CONSOLIDATED PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2009C**

Electronic bids and sealed, written proposals will be received at the office of the Chief Financial Officer of St. Mary's County, Maryland located at 41770 Baldrige Street, Leonardtown, Maryland 20650, until 11:00 a.m., local Baltimore, Maryland time, on November 17, 2009, for County Commissioners of St. Mary's County Consolidated Public Improvement Refunding Bonds, Series 2009C (the "Bonds"). The Bonds are being issued by the County Commissioners of St. Mary's County (the "County"), a body politic and corporate and a political subdivision of the State of Maryland.

The County reserves the right to postpone, from time to time, the date established for the receipt of bids. Any such postponement will be announced by TM3 News Service ("TM3") by notice given not later than 1:00 PM, prevailing Eastern time, on the last business day prior to any announced date for receipt of bids. If any date fixed for the receipt of bids and the sale of the Bonds is postponed, any Alternative Sale Date will be announced via TM3 at least 48 hours prior to such Alternative Sale Date. In addition, the County reserves the right, on the date established for the receipt of bids, to reject all bids and establish a subsequent Alternative Sale Date. If all bids are rejected and an Alternative Sale Date for receipt of bids established, notice of the Alternative Sale Date will be announced via TM3 not less than 48 hours prior to such Alternative Sale Date. On any such Alternative Sale Date, any bidder may submit a sealed or electronic bid for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale except for the date of sale and except for the changes announced via TM3 at the time the sale date and time are announced.

Details of the Bonds

All Bonds shall be fully registered in form in the denomination of \$5,000 each or any integral multiple thereof, shall be dated date of delivery and shall bear interest payable semiannually on January 15 and July 15, commencing July 15, 2010, until maturity.

The Bonds will mature annually, subject to prior redemption, on July 15 in the following years and in the following aggregate amounts:

<u>Year</u>	<u>Amounts*</u>	<u>Year</u>	<u>Amounts*</u>
2010	\$20,000	2016	\$1,545,000
2011	190,000	2017	1,590,000
2012	1,395,000	2018	1,645,000
2013	1,425,000	2019	1,710,000
2014	1,460,000	2020	1,780,000
2015	1,500,000	2021	1,860,000

*Subject to adjustment as provided herein.

One bond representing each maturity of each series of the Bonds will be issued to and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of the Bonds and each such bond shall be immobilized in the custody of DTC. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers will not receive physical delivery of certificates representing their interest in the Bonds purchased. The winning bidder, as a condition to delivery of the Bonds, will be required to deposit the bond certificates representing each maturity with DTC.

The Bonds will be issued pursuant to Section 24 of Article 31 of the Annotated Code of Maryland, as amended, for the purpose of financing certain public improvements of the County. The Bonds are authorized to be issued, sold, guaranteed and delivered by resolutions of County, adopted by the County on October 6, 2009 (the "Resolution").

The Bonds will constitute an irrevocable pledge of the full faith and credit and unlimited taxing power of County Commissioners of St. Mary's County, Maryland.

Adjustments of Principal Amounts

The aggregate principal amount and the principal amount of each maturity of the Bonds are subject to adjustment by the County, both before and after the receipt of bids for their purchase. Changes to be made prior to the sale will be published on TM3 not later than 9:30 a.m. prevailing Eastern time on the date of sale and will be used to compare bids and select a winning bidder. Changes to be made after the sale and the maturity amounts for the Bonds will be communicated to the successful bidder by 3:00 p.m. prevailing Eastern time on the date of the sale, will be made only as necessary to effect the refundings, and will not reduce or increase the aggregate principal amount of the Bonds by more than 8% from the amount bid upon. Such changes may result in the elimination of one or more maturities of the Bonds. In addition, the final maturity schedule for the Bonds will be communicated to the successful bidder by 4:00 p.m. prevailing Eastern time on the date of the sale. The dollar amount bid by the successful bidder shall be adjusted to reflect any adjustments in the principal amount of the Bonds to be issued. The adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and the original issue premium or discount, but will not change the per bond underwriter's discount as calculated from the bid and initial offering prices (as herein defined) required to be delivered to the County as stated herein. The coupon rates specified by the successful bidder for all maturities will not change. The successful bidder may not withdraw its bid as a result of any changes made within these limits.

Optional Redemption

The Bonds that mature on or before July 15, 2019 are not subject to redemption prior to their maturities. Bonds that mature on or after July 15, 2020 are subject to redemption beginning July 15, 2019 as a whole at any time or in part on any interest payment date, in any order of maturities, at the option of the County, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption.

Submission of Bids

The County will not accept and will reject any bid for less than all of the Bonds. The right is reserved to reject any and all bids and to waive irregularities in any bid.

Electronic Bids

Electronic bids will be received via **PARITY®**, in the manner described below, until 11:00 a.m., local Baltimore, Maryland time, on November 17, 2009.

Bids may be submitted electronically via **PARITY®** pursuant to this Notice until 11:00 a.m., local Baltimore, Maryland time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in **PARITY®** conflict with this Notice, the terms of this Notice shall control. For further information about **PARITY®**, potential bidders may contact **PARITY®** at Dalcomp (212) 849-5021.

Disclaimer

Each prospective electronic bidder shall be solely responsible to submit its bid via **PARITY®** as described above. Each prospective electronic bidder shall be solely responsible to make necessary arrangements to access **PARITY®** for the purpose of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the County nor **PARITY®** shall have any duty or obligation to provide or assure access to **PARITY®** to any prospective bidder, and neither the County nor **PARITY®** shall be responsible for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by **PARITY®**. The County is using **PARITY®** as a communication mechanism, and not as the County's agent, to conduct the electronic bidding for the Bonds. The County is not bound by any advice and determination of **PARITY®** to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Parameters" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their submission of bids via **PARITY®** are the sole responsibility of the bidders; and the County is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying, or withdrawing a bid for the Bonds, such bidder should telephone **PARITY®** at Dalcomp (212) 849-5021 and notify the County's Financial Advisor, Davenport & Company LLC by facsimile at (410) 296-8517.

Electronic Bidding Procedures

Electronic bids must be submitted for the purchase of the Bonds (all or none) via **PARITY®**. Bids will be communicated electronically to the County at 11:00 a.m., local Baltimore, Maryland time, on Tuesday, November 17, 2009. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via **PARITY®**, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds, or (3) withdraw its proposed bid. Once the bids are communicated electronically via **PARITY®** to the County, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on **PARITY®** shall constitute the official time.

Written Sealed Proposals

Bids will also be accepted in written form on the form of Proposal for Bonds attached to this Notice. Written bids must be submitted on the prescribed form provided for that purpose by the County and must be enclosed in a sealed envelope marked "Proposal for Bonds" and addressed to the Chief Financial Officer, St. Mary's County, 23511 Leonard Hall Drive, Leonardtown, Maryland 20650.

Good Faith Deposit

After receipt of bids is closed and prior to the award, the apparent successful bidder indicated on **PARITY®** must submit a good faith deposit of \$170,000 to the County by wire transfer as instructed by the County or its financial advisor. The award to the apparent successful bidder is contingent upon receipt of the good faith deposit, and the Bonds will not be awarded to such bidder until the County has confirmation of receipt of the good faith deposit. No interest will be allowed on any good faith deposit. In the event the successful bidder shall fail to comply with the terms of its bid, the good faith deposit may be retained as and for full liquidated damages.

Bid Parameters

Each bidder shall submit one bid on the required form of Proposal for Bonds on an all-or-none basis for the Bonds. Each proposal must specify the amount bid for the Bonds, which shall be not less than 100% of par and not more than 108% of par. Each proposal must specify in multiples of one-eighth (1/8) or one-twentieth (1/20) of one percent (1%) the rate or rates of interest per annum which the Bonds are to bear but shall not specify (a) more than one interest rate for any Bonds having the same maturity, (b) a zero rate of interest, (c) any interest rate for any Bonds which exceeds the interest rate stated in such proposal for any other Bonds by more than 3%, (d) a maximum permitted coupon greater than 5.50%.

Award

The award, if made, will be made as promptly as possible after the bids are opened to the bidder offering the lowest interest rate. All proposals shall remain firm until the time of award. The lowest interest rate shall be determined in accordance with the true interest cost ("TIC") method by doubling the semi-annual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds and to the price bid. In the event two or more bidders offer to purchase the Bonds at the same lowest interest rate to the County, then the Bonds may be apportioned between such bidders; provided, that if apportionment is not acceptable to such bidders, the County shall have the right to award the Bonds to one of such bidders. There will be no auction.

Official Statement; Continuing Disclosure

Not later than seven (7) business days after the award of the Bonds to the successful bidder on the day of sale, the County will authorize an Official Statement, which is expected to be substantially in the form of the Preliminary Official Statement referred to below. If so requested by the successful bidder at or before the close of business on the date of the sale, the County will include in the Official Statement such pricing and other information with respect to the terms of the reoffering of the Bonds by the successful bidder ("Reoffering Information"), if any, as may be specified and furnished in writing by the successful bidder. If no Reoffering Information is specified and furnished by the successful bidder, the Official Statement will include the interest rates on the Bonds resulting from the bid of the successful bidder and the other statements with respect to reoffering contained in the Preliminary Official Statement. The successful bidder shall be responsible to the County and its officials for the Reoffering Information, and for all decisions made by the successful bidder with respect to the use or omission of the Reoffering Information in any reoffering of the Bonds, including the presentation or exclusion of any Reoffering Information in any documents, including the Official Statement. The successful bidder will also be furnished, without cost, with up to 400 copies of the Official Statement (and any amendment or supplement thereto).

The County have made certain covenants for the benefit of the holders from time to time of the Bonds to provide certain continuing disclosure, in order to assist bidders for the bonds in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission. Such covenants are described in the Preliminary Official Statement dated November 5, 2009.

Delivery of the Bonds

The Bonds will be delivered as soon as practicable, upon due notice and at the expense of the successful bidder, through the facilities of DTC in New York, New York, upon payment of the amount of the successful bid, less the deposit theretofore made. Such payment shall be made in Federal funds. The Bonds will be accompanied by the customary closing documents, including a no-litigation certificate, effective as of the date of delivery, stating that there is no litigation pending, affecting the validity of any of the Bonds included in these issues. It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that, simultaneously with or before delivery and payment for the Bonds, said bidder shall be furnished a certificate or certificates of appropriate public officials to the effect that, to the best of their knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the Reoffering Information, as to which no view will be expressed) as if the date of sale and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and that between the date of sale and the date of delivery of the Bonds there has been no material adverse change in the financial position or revenues of the County, except as reflected or contemplated in the Official Statement (and any amendment or supplement thereto).

Simultaneously with or before delivery of the Bonds, the successful bidder shall furnish to the County a certificate acceptable to Bond Counsel to the effect that (i) the successful bidder has made a bona fide public offering of the Bonds at the initial reoffering prices and (ii) a substantial amount of the Bonds was sold to the public (excluding bond houses, brokers and other intermediaries) at such initial reoffering prices.

THE SUCCESSFUL BIDDER SHALL MAKE A BONA FIDE PUBLIC OFFERING OF THE BONDS AT THE INITIAL REOFFERING PRICES.

Miscellaneous

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print any such number on any bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale.

The issuance of the Bonds will be subject to legal approval by Venable LLP, Baltimore, Maryland, Bond Counsel, and copies of their opinion will be delivered upon request, without charge, to the successful bidder for the Bonds. Such opinion shall be substantially in the form included in Appendix B to the Preliminary Official Statement.

The Preliminary Official Statement of the County, with respect to the Bonds, and the required form of Proposal For Bonds will be supplied to prospective bidders upon request made to the Chief Financial Officer of St. Mary’s County, Governmental Center, Leonardtown, Maryland 20650, or from Davenport & Company LLC, financial advisor to the County, at 8600 LaSalle Road, Suite 324, Towson, Maryland 21286 (410-296-9426). Such Preliminary Official Statement is deemed final by the County as of its date for purposes of SEC Rule 15c2-12 but is subject to revision, amendment and completion in the Official Statement referred to above.

By order of
**COUNTY COMMISSIONERS OF
ST. MARY’S COUNTY**

PROPOSAL FOR BONDS

November 17, 2009

Chief Financial Officer
 St. Mary's County, Maryland
 41770 Baldrige Street
 Leonardtown, Maryland 20650

Dear Madam:

Subject to the provisions and in accordance with the terms of the annexed Notice of Sale which is incorporated by reference herein and made a part of this Proposal for Bonds, we offer to purchase the obligations of County Commissioners of St. Mary's County described in such Notice of Sale, being the County Commissioners of St. Mary's County Consolidated Public Improvement Refunding Bonds, Series 2009C, such bonds to be dated date of delivery, maturing on July 15 in the years and aggregate principal amounts, respectively, as set forth in such Notice of Sale, and to bear interest as follows:

Annual Amount	Interest
Maturing	Rate
2011	___%
2012	___%
2013	___%
2014	___%
2015	___%
2016	___%
2017	___%
2018	___%
2019	___%
2020	___%
2021	___%

We will pay an amount equal to the par value of the Bonds..... \$
 plus a premium in the amount of..... + \$
 making a total of..... \$

We understand that (a) if we are selected as the winning bidder, we are to provide a good faith deposit in the amount of \$170,000 as a condition to award, as provided in the Notice of Sale, (b) we are to provide a certification regarding the public sale of the bonds as described in the notice of sale on or prior to the closing date and (c) if notified that we are the successful bidder, we will be required to advise the County of the initial reoffering prices (as described in the notice of sale) for each maturity of the bonds at the time of such notification. In this regard, you may contact and rely on the information provided by _____, whose telephone number is _____.

and Associates (See List Attached)

(Not a part of this proposal. The following information is requested to expedite and facilitate prompt determination of the best bid. The inclusion, omission, accuracy or inaccuracy of these figures will not affect the validity of the proposal. The total amount of interest payable on the bonds referred to above under this proposal is \$ _____. The rate of interest determined in the manner set forth in the Notice of Sale is _____% per annum.)

 Bidder
 By: _____
 Title: _____

REFUNDED BONDS OUTSTANDING AS OF NOVEMBER 1, 2009

Consolidated Public Improvement Bonds of 2001

<u>Maturing July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP</u>	<u>Maturing July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP</u>
2012.....	\$1,215,000	4.25%	792554RM1	2017.....	\$1,525,000	4.70%	792554RS8
2013.....	1,270,000	4.35	792554RN9	2018.....	1,600,000	4.75	792554RT6
2014.....	1,330,000	4.45	792554RP4	2019.....	1,680,000	4.75	792554RU3
2015.....	1,390,000	4.55	792554RQ2	2020.....	1,765,000	4.75	792554RV1
2016.....	1,455,000	4.65	792554RR0	2021.....	1,855,000	4.75	792554RW9

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



Printed by: ImageMaster, Inc.