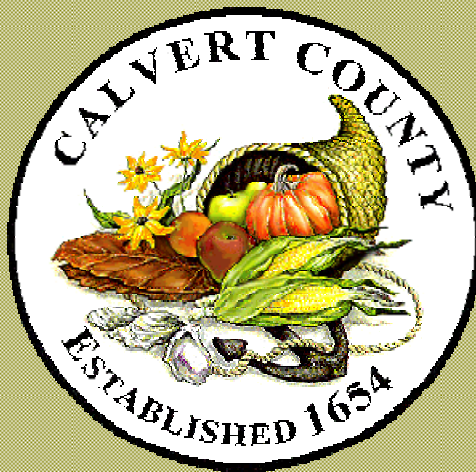


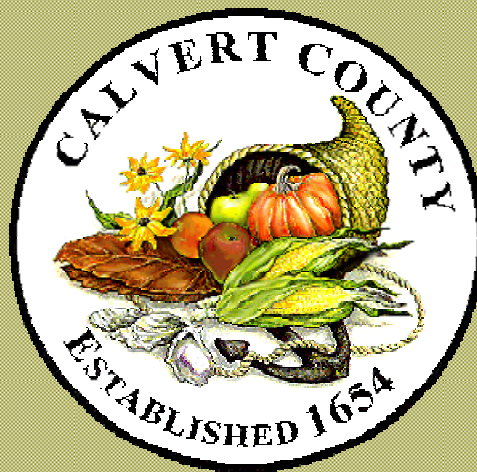
Calvert County Maryland



Comprehensive Annual Financial Report

For the fiscal year ended
June 30, 2005

Calvert County Maryland



Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2005

Prepared by: Department of Finance & Budget
Calvert County, Maryland

COUNTY COMMISSIONERS OF CALVERT COUNTY, MARYLAND

June 30, 2005

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COUNTY COMMISSIONERS OF CALVERT COUNTY, MARYLAND
June 30, 2005
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INTRODUCTORY SECTION





CALVERT COUNTY GOVERNMENT

Board of County Commissioners

David F. Hale, President

Gerald "Jerry" W. Clark, Vice President

Linda L. Kelley, Commissioner

Wilson H. Parran, Commissioner

Susan Shaw, Commissioner

November 25, 2005

Honorable Members of the Board of County Commissioners of Calvert County
County Administrator and Citizens of Calvert County

The Comprehensive Annual Financial Report of Calvert County, Maryland for the Fiscal Year ended June 30, 2005, is hereby submitted. Calvert County Code of Public Local Law requires that Calvert County annually issue a report of its financial position and activity, and that this report be audited by certified public accountants. The County is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 (as amended in 1996) and the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*. Responsibility for both the accuracy of the data and the completeness and reliability of all of the information presented in these reports rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of Calvert County Government and its component units.

Management of the government is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United State of America (GAAP). The internal control structure is designed to provide reasonable assurance that the financial statements will be free from material misstatement. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

Murphy & Murphy, CPA, LLC, Independent Certified Public Accountants have audited Calvert County Government's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of Calvert County Government

for the fiscal year ended June 30, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the financial statements are fairly presented in conformity with GAAP. The auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Calvert County Government's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

Calvert County, Maryland was formed as one of the original counties in Maryland in 1654 and has a Commissioner form of government. A board of five Commissioners governs the County and serves the executive and legislative functions. The Commissioners operate under a Code of Public Local Laws of Calvert County, revised in 1985, and are subject to legislation adopted by the State Legislature. "Beginning with the general election to be held in Calvert County in November 1978, five county commissioners shall be elected by countywide vote. One shall be a resident of the first election district, one a resident of the second district, and one a resident of the third election district of the county. Of the remaining candidates, the two receiving the highest number of votes shall be selected. Commissioners who are elected and qualify shall take office the third Tuesday of December following election. Each commissioner shall hold office for 4 years or until a successor is elected and qualified (Code 1981, § 4-102; 1985, ch 715, § 2.)"

There are several other elected officials in Calvert County that include: Register of Wills, Sheriff, States Attorney, Treasurer, Mayor of the Town of Chesapeake Beach, Mayor of the Town of North Beach, Clerk of the Circuit Court, and five members of the Board of Education.

The Commissioners appoint a County Administrator who is responsible for the day-to-day administration of the County government. The Commissioners establish policy, enact ordinances, review and approve annual budgets, conduct public hearings and make decisions on land use matters. The Commissioners also appoint all department heads, members of boards and commissions and represent the county in dealings with other municipalities, the state and federal government. The office of the Commissioners is located at 175 Main Street, Prince Frederick, Maryland, 20678. The main phone number is 410-535-1600 and the website is www.co.cal.md.us.

Calvert County occupies 213 square miles, has 143 miles of shoreline, and serves a population of 85,200. It is the smallest county in Southern Maryland and is one of the fastest growing counties in the State. Despite this growth, Calvert County retains its rural character and agrarian roots, offering good schools, a clean environment and good quality of

life. Calvert is a peninsula, bounded by the Chesapeake Bay on the east and the Patuxent River on the west. Steep cliffs and woods predominate on the bay side, while along the Patuxent, rolling fields slip gently down to the river. The County's many creeks provide refuge for wildlife, as well as scenic areas for boating and fishing.

Prince Frederick, the County seat, is located 35 miles southeast of Washington, D.C. and 55 miles south of Baltimore. There are two incorporated towns in Calvert County: North Beach and Chesapeake Beach, located on the bay at the northeast corner of the county. In addition, the Comprehensive Plan identifies seven "town centers." These include (from north to south) Dunkirk, Owings, Huntingtown, Prince Frederick, St. Leonard, Lusby, and Solomons.

The County provides a full range of municipal services, including: public safety, construction and maintenance of highways and streets, sanitation, health and social services, culture/recreation, education, public improvements, planning and zoning, and general administrative services. The County is also financially accountable for legally separate entities which are reported separately within the County's Financial Statements. The entities that meet these criteria are the Calvert County Board of Education and the Economic Development Authority of Calvert County. Additional information on the component units can be found in Note 1.

Calvert County's annual operating and capital budget represents a comprehensive financial plan for the County effective each year on the first day of July. Each County department, agency, or board receiving County funds submits a budget request to the Commissioners at a public hearing. Additional public hearings are conducted to obtain taxpayer comments. On or before July 1 of each year, the budget is legally enacted through passage of a resolution. No expenditure of County funds may be made in excess of appropriation at the Fund level. A Summary Schedule of Revenues, Expenditures, and Other Financing Sources and Uses-Budget and Actual on a budgetary basis can be found on page 65 of this report. The capital projects fund budget is prepared on a project length basis and, accordingly, annual budgetary comparisons are not presented in the basic financial statements and supplemental information.

FACTORS AFFECTING FINANCIAL CONDITION

Local economy: Conservative fiscal management and steady economic growth have allowed the County to maintain a sound financial position. Property taxes and income taxes provides 77 percent of the revenue for Calvert County Government and have shown steady growth over the last ten years.

Property tax, the largest revenue source, at 47 percent of the total final budgeted revenue for fiscal year 2005, has shown steady growth over the years. Property assessments have increased over the last ten fiscal years, 1996 to 2005, by 63 percent. The property tax revenue increased during that same time by 43 percent. Both the increases in the assessments and property tax revenue continue to be affected by the decrease in public utility tax of 31 percent taken place in years 2000 and 2002 due to tax reform related to electric deregulation. The property tax revenue increase in fiscal year 2005 was 11.3 percent, a trend that should continue as real property assessments increase across the State of Maryland.

Property tax revenues are directly affected by the sale value of homes and the number of new housing starts. The sale value of owner occupied homes in the County has been rising steadily over several years. According to the Metropolitan Regional Information Systems, Inc., the average sale price of an improved owner occupied house in the County increased from an average of \$262,882 in 2003 to \$306,687 in 2004, an increase of over 16%. Although construction activity has slowed from the pace of the mid-1990's where the County averaged 933 permits per year, 673 residential permits were issued in fiscal year 2005. Moderate building activity, when combined with rising sale values contributes to the growing property tax base.

The income tax base, like the property tax base, has shown steady growth over the last ten years. Income tax revenue, at 30 percent of the total final budgeted revenue for fiscal year 2005, is directly affected by personal income levels, employment levels, and population growth. Over the period of 1990 through 2000, growth in county population of over 45 percent contributed to a labor force growth rate of 40 percent. The County's employment has increased by approximately 50 percent well ahead of the state's 10 percent growth rate. The County's average per capita personal income has increased over this same time period by approximately 15 percent. In 2004, the median household effective buying income for Calvert County was \$79,600, an increase of 62 percent since 1999. While, the State's median household effective buying income was \$57,424 increased during that same time period at 40 percent.

Long-term financial planning: Calvert County annually adopts a Capital Budget and Capital Improvement Program that is designed to plan for expenditures and commitments for the current fiscal year as well as the subsequent five fiscal years. This is one of the County's primary financial management planning tools to ensure that its major capital projects meet the needs of its citizens in a timely manner. In addition to ensuring that the County plans for the best use of its financial resources.

The fiscal year 2005 budget reflected education, transportation and public safety as the continued top priorities of the County's administration. The operating budget included a 5.9 percent increase in funding for the Board of Education operating costs, funding for 4 new Deputy Sheriffs, and in addition to funding provided for 6 additional supervisory level positions. Within the Capital Improvements Program for FY2005, 27 percent is dedicated to new school construction, additions, renovations, and the maintenance of existing facilities. The focus was on the expansion of Sunderland Elementary, which was added to address the crowding in Plum Point, Huntingtown and Mt. Harmony Elementary Schools in addition to addressing the full day kindergarten requirements. Road improvements comprise 12 percent of the overall capital plan with the primary road project being the Prince Frederick Loop Road. Over 17 percent is dedicated to new and enhanced technology with the primary project being a new system for public safety which encompasses the control center and detention center inmate tracking system. Over 16 percent is for facility improvements with the majority directed to the new Prince Frederick library.

The County continues its policy of maintaining a reserve of 8 percent of the total General Fund expenditures budget for the subsequent year to protect its high credit ratings. In addition the County maintains a Rainy Day Reserve as a means to handle potential revenue

shortfalls, to fund one-time non-recurring expenditures, or in the event of an emergency or unplanned expenditures. The County has received continued credit rating upgrades in recent years. The latest ratings, received in fiscal year 2005, were Aa2 from Moody's Investors Service, Inc., AA from Standard & Poor's (upgraded in 2003 from AA-), and AA+ from Fitch Ratings (upgraded in 2005 from AA).

In 1990, the County adopted a debt affordability model to ensure that the debt levels are kept at an affordable, manageable, moderate level. The guidelines created by the Commissioners (updated in 2001), establish maximum acceptable debt ratios. These ratios and their maximum acceptable levels are: 1) debt to assessed value, 4.5%, 2) debt service as a percent of general fund revenue, 9.5%, and 3) debt per capita \$1,500. Using fiscal year 2005 data, the County's current ratios are as follows: debt to assessed value is 1.1%, debt service to general fund revenue is 5.7%, and debt per capita is \$920.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Calvert County Government for its comprehensive annual financial report for the fiscal year ended June 30, 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The County received its fourth GFOA Award for Distinguished Budget Presentation for its annual appropriated budget dated July 1, 2004 to June 30, 2005. In order to qualify for this Distinguished Budget Award, the County must publish a budget document that meets program criteria as a policy document, operations guide, financial plan, and communications medium. We believe our current budget continues to conform to program requirements and have submitted it to the GFOA to determine its eligibility for another award.

The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Finance and Budget Department. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

I would also like to thank the County Commissioners and the County Administrator for their leadership and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,

Terry L. Shannon
Terry L. Shannon, CPA
Director, Finance and Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to
County Commissioners
of Calvert County,
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zelle

President

Jeffrey R. Emer

Executive Director

COUNTY COMMISSIONERS OF CALVERT COUNTY

CERTAIN ELECTED OFFICIALS

David F. Hale
President, Board of County Commissioners

Gerald W. Clark
Vice President, Board of County Commissioners

Linda L. Kelley
Commissioner

Wilson H. Parran
Commissioner

Susan Shaw
Commissioner

Novalea Tracy-Soper
Treasurer

CERTAIN APPOINTED OFFICIALS

James J. Allman
County Administrator

Terry L. Shannon
Director of Finance and Budget

Greg Bowen
Director of Planning and Zoning

Linda Vassallo
Director of Economic Development

Robert S. Taylor, Jr., P.E.
Director of Public Works

