

Internal Audit Report

**AGRICULTURAL LAND PRESERVATION PROGRAM
REVIEW OF REVENUES,
EXPENDITURES AND FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

October 2012

Earl F. Hance, Secretary
Maryland Department of Agriculture

Pursuant to Section 212 of the Howard County Charter and in response to your Department's request, we have completed a review of the revenues, expenditures and fund balance of the

HOWARD COUNTY, MARYLAND AGRICULTURAL LAND PRESERVATION PROGRAM

for the fiscal year ended June 30, 2011. Our report included a review of legislation relating to Agricultural Tax Revenues to determine the County's compliance thereto. It is our opinion that the Howard County Agricultural Land Preservation Program is operated in accordance with all applicable state and local guidelines and that the internal controls in place are adequate to ensure the proper recognition and collection of Maryland Agricultural Transfer Tax.

We wish to express our gratitude to the staffs of the Agricultural Land Preservation Program, the Departments of Finance and Planning & Zoning and the Maryland State Department of Assessments & Taxation for the cooperation and assistance extended to us during the course of this engagement.

Craig Glendenning, CPA
County Auditor

Lisa L. Geerman, CPA
Auditor-in-Charge

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FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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INTRODUCTION AND SCOPE

In response to the State of Maryland Department of Agriculture requirement, our audit was conducted to determine the following:

- The fund balance of the Agricultural Land Preservation Fund
- The amount of Agricultural Tax Revenues collected by Howard County
- The amount of Agricultural Tax Revenues forwarded from Howard County to the State of Maryland
- The amount of funds expended from Agricultural Tax Revenues and the purpose of those expenditures
- Compliance with the State's "three year rule" relating to the expenditure of Agricultural Tax Revenues

Howard County also designates 25% of its local Transfer Tax for Agricultural Preservation purposes and includes these amounts, along with the State Agricultural Transfer Tax Collections, in the County's Agricultural Land Preservation Fund. We therefore reviewed the collections and expenditures of the fund as a whole, and performed specific audit steps relating to the percentages and rules pertaining to State Agricultural Tax Revenues.

AGRICULTURAL LAND PRESERVATION PROGRAM
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

REVENUES (Note 1)

Local Transfer Taxes (Note 2)		\$5,329,914
State Agricultural Transfer Tax (Note 4)	\$ 119,273	
Agricultural Transfer Tax Remitted to State Comptroller (Note 4)	(87,467)	
Prior Period Adjustment (Note 4)	<u>7,500</u>	39,306
Miscellaneous Revenue		255
Interest Revenue (Note 3)		<u>1,432,176</u>
		<u>\$6,801,651</u>

EXPENDITURES

Administration		2,131,595
Principal on Development Rights Debt (Note 4)	151,000	
Interest on Development Rights Debt (Note 4)	<u>4,716,482</u>	<u>4,867,482</u>
		<u>6,999,077</u>

Excess (Deficiency) of Revenues over Expenditures	(197,426)
Fund Balance, June 30, 2010	<u>72,645,772</u>
Fund Balance, June 30, 2011 (Note 5)	<u>\$72,448,346</u>

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

AGRICULTURAL LAND PRESERVATION PROGRAM
 REVIEW OF REVENUES, EXPENDITURES AND FUND BALANCE

NOTES TO THE FINANCIAL STATEMENTS

1. The revenues accumulated in the Howard County Agricultural Fund represent receipts from both the State Agricultural Transfer Tax and a portion of the County's Local Transfer Tax. Also included in the revenues are interest related to the above taxes and application fees collected. The expenditures in this fund are charged against the accumulated revenues received and represent the expenditures of the Agricultural Land Preservation Program.
2. Howard County has designated 25% of its annual local Transfer Tax to the Agricultural Land Preservation Program.
3. Interest revenue of \$1,432,176 includes both interest earned on investments of \$2,071,982 and an unrealized loss on investments of \$639,806 due to a GASB 31 adjustment.
4. In accordance with Article 13, Section 301-Agricultural Land Transfer tax, Tax Property Article of the Annotated Code of Maryland: the County Collected \$119,273 of State Agricultural Transfer Tax and surcharge during the year ended June 30, 2011. In FY 2010 we noted that the amount retained by the County differed from the amount stated on the Comprehensive Annual Financial Report by \$7,500. This was due to the improper recording of tax retained by the County as a receipt of the General Fund, not the Agricultural Land Preservation Fund. This was corrected in FY 2011. The activity specifically related to these State Agricultural Transfer Tax collections is summarized as follows:

Balance - June 30, 2010		\$0
ADD:		
<u>Revenue</u>		
State Agricultural Transfer Tax:		
July 1, 2010 - June 30, 2011	\$95,418	
Surcharge Collected	<u>23,855</u>	
TOTAL REVENUES		119,273
LESS:		
<u>Expenditures</u>		
Transfer Tax Remitted to State	87,467	
Principal Payment of Development Rights Debt	151,000	
Interest on Development Rights Debt	<u>4,716,482</u>	
TOTAL EXPENDITURES		<u>4,954,949</u>
Balance - June 30, 2011 (cannot be less than zero)		\$ <u>0</u>

5. The Agricultural Land Preservation Program currently in effect in Howard County has been established to allow landowners to sell the development rights on their land to the County. The County gives the landowner an installment purchase agreement, which is in the form of a bond, whereby the County agrees to make semi-annual interest payments on the principal balance for thirty years. Most of the principal is paid in a balloon payment at the end of the thirty years. However, there are some relatively small principal payments made over the course of the thirty-year period because the Howard County Charter requires that principal payments must be made at least once every two years. The total principal debt amount at June 30, 2011 is \$71,121,600. This is classified as a long-term debt of Howard County. When the agreement is approved, the County purchases a zero-coupon bond which will earn interest and grow until it is equal to the balloon payment when it matures in thirty years. The purchase price of the zero-coupon bonds and the amount of interest earned to date are both included in the Agricultural Land Preservation Program fund balance. The fund balance also includes some accrued interest payable on the installment purchase agreements since February 15, 2009, which becomes payable on August 15, 2011. The amounts in the \$72,448,346 fund balance at June 30, 2011, which are committed to the holders of the installment purchase agreements are:

Zero-Coupon Bonds-Costs	\$ 11,321,261
Unrealized gains on Zero-Coupon Bonds	18,373,266
Accrued Interest (Payable on 8/15/11, \$2,472,913)	<u>1,854,686</u>
Total	<u>\$ 31,549,213</u>