

## Independent Auditor's Report

The County Executive  
And Members of the County Council  
Anne Arundel County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Anne Arundel County, Maryland (the County), as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Anne Arundel County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit (1) the component unit financial statements of the Anne Arundel Community College; (2) the component unit financial statements of the Anne Arundel Economic Development Corporation, the Tipton Airport Authority and the Anne Arundel Workforce Development Corporation, which represent 55 percent, 50 percent, and 34 percent, respectively, of the assets, net assets and revenues of the other nonmajor component units and (3) the financial statements of the Pension Trust Fund. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned component units and pension trust fund, is based solely on the reports 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Anne Arundel County, Maryland, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 10, 2004 on our consideration of the County'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 control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Schedule of Funding Progress for Single Employer Defined Benefit Pension Plans as referenced in the table of contents are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors 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 Anne Arundel County, Maryland's basic financial statements. The accompanying supplementary information, such as the introductory section, combining and individual nonmajor component units and fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor component units and fund financial statements have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Clifton Henderson LLP*

Baltimore, Maryland  
December 10, 2004



**ANNE ARUNDEL COUNTY  
OFFICE OF THE COUNTY AUDITOR**

**Independent Auditor's Report**

The County Executive  
And Members of the County Council  
Anne Arundel County, Maryland

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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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Anne Arundel County, Maryland, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Anne Arundel County, Maryland's basic financial statements. The accompanying supplementary information, such as the introductory section, combining and individual nonmajor component units and fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor component units and fund financial statements have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Annapolis, Maryland  
December 10, 2004



## Anne Arundel County, Maryland

### Management Discussion and Analysis

Year Ended June 30, 2004

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As Management of Anne Arundel County, Maryland (the County), we have prepared the following discussion and analysis to inform readers of the County's annual financial report about the financial information that the enclosed statements present. We encourage readers to consider the discussion and analysis along with the other information in this report, including the transmittal letter and notes to the basic financial statements. In this section we have provided an overview of the basic financial statements, selected condensed financial data and highlights, and analysis of the County's financial position and changes in financial position. Comparable amounts from the fiscal year ended June 30, 2003 have been provided herein.

#### **Overview of Basic Financial Statements**

The basic financial statements consist of the government-wide financial statements, fund financial statements, budgetary statements, and notes to the basic financial statements. Each component intends to provide a different perspective of the County's financial results. These components are discussed below.

***Government-wide Financial Statements*** – These statements are designed to provide a broad, entity-wide perspective of the County's financial position and changes in financial position. These statements are prepared using a full-accrual accounting method that measures changes when the underlying economic activity occurs regardless of the timing of the related cash flows. This method is consistent with that used in the private sector.

The government-wide statements have consolidated the Primary government's operations into two columns – governmental activities and business-type activities. In addition, the component units' entity-wide statements are presented. The governmental activities are those functions of the Primary government that are principally supported by taxes and other general revenue sources. Such activities include education, public safety, general government, health and human services, public works, community services and recreation, judicial, code enforcement, land use, and economic development. The business-type activities include the Primary government's functions that are primarily supported by user-fees and charges, such as utility services, waste collection, and child care services.

***Statement of Net Assets*** – The statement of net assets presents the composition of the County's assets, liabilities, and net asset position at the end of the fiscal year. This statement includes long-term capital assets and long-term liabilities. In addition, capital assets are shown at their depreciated value. Net assets are divided into three components: capital assets, net of related debt; restricted net assets; and unrestricted net assets. These components highlight the composition of the County's net asset position. Changes in these net asset categories over time may indicate an improvement in, or deterioration of, the County's financial condition.

***Statement of Activities*** - The statement of activities summarizes the transactions that resulted in changes to net assets during the fiscal year. The statement presents these results of operation in a net expense format. The total expenses are presented first and grouped on a functional basis. Program revenues, which represent charges for services, grants, and contributions from outside parties, are subtracted from the functional expenses to derive the County's net expenses. Finally, the general revenue sources, such as taxes, investment earnings, and other general revenue, are applied to net expenses to derive the change in net assets for the year.

Both statements include the Primary government's component units, including the Board of Education, Community College, Library, Economic Development Corporation, Tipton Airport, and Workforce Development. These entities are included because the County provides a substantial amount of their funding or the County Executive appoints a majority of the Board members, implying a substantial degree of control over their management. In addition, the County approves the budgets of these entities.

***Fund Financial Statements*** – The Primary government segregates its financial operations into several funds in order to account separately for funding sources and activities that the government undertakes. This provides better control over resources that are designated for specific activities or objectives. These funds are grouped into three different types: governmental funds, proprietary funds, and fiduciary funds.

***Governmental Funds*** – The governmental funds of the Primary government include the General Fund; the

## Anne Arundel County, Maryland

### Management Discussion and Analysis

**Year Ended June 30, 2004**

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General County Capital Projects Fund, which is used to accumulate and spend resources to construct capital assets; the special revenue funds, which segregate restricted revenue sources to ensure these funds are spent on their intended purpose; and debt service funds which accumulate resources to pay certain long term debt issued by the County or separate districts.

The perspective of these statements is narrower than the government-wide statements discussed previously. These statements present the financial position and changes in financial position resulting from currently available resources and currently due liabilities. Therefore, revenues are not recorded until available and expenses are primarily recorded when the underlying economic activity occurs. In addition, because these statements focus on current resources, long-term assets and liabilities are not included.

The statements focus on the Primary government's major funds. Major governmental funds include the General Fund, the Impact Fee Fund and the General County Capital Projects Fund. Separate columns are presented for those funds considered major either by size or by importance. The other funds are aggregated into one column called "other nonmajor funds".

*Proprietary Funds* – The proprietary funds include those activities within the Primary government that are self-supporting. These funds include enterprise funds, which provide services to citizens in exchange for user fees, and internal service funds, which provide services to the Primary government and its component units, in exchange for fees. Transactions for these funds are recorded using the full-accrual basis of accounting, whereby transactions are recorded when the underlying economic event takes place regardless of the timing of cash flows. Moreover, long-term assets and liabilities are recorded on the statements.

The enterprise funds include the Water and Wastewater Utilities Fund, the Solid Waste Fund, and the Child Care Fund. Internal service funds include the Self Insurance, Health Insurance, Print Shop, and Central Garage Funds. These statements also focus on major funds and, therefore, include separate columns for the Water and Wastewater and Solid Waste Funds.

*Fiduciary Funds* – The fiduciary funds accumulate assets that are managed, but not owned by the Primary government. The County's four defined benefit pension plans that comprise the Retirement System Pension Trust Fund are included in this category. In addition, this category includes agency funds which are used to accumulate temporary deposits and other funds that are collected from outside parties in order to be returned to the payor or passed on to a 3<sup>rd</sup> party. The Pension Trust Fund follows the full-accrual method of accounting. The agency funds are presented as balances only and record no revenue or expenses.

*Budgetary Statements* – A budgetary statement of revenue and expenditures for the General Fund has been presented in the basic financial statements. This statement provides the results of the County's General Fund operations compared to the legally adopted budget. The statement uses the budgetary method when accounting for transactions. Revenues are generally recognized when available and expenditures are recognized as soon as a commitment, in the form of a purchase order or contract, has been issued to a vendor.

*Notes to the Basic Financial Statements* - The notes follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

*Other Required Supplementary Information* - There is one required supplementary schedule that provides trend data about the Pension Trust Fund.

### **Financial Highlights**

*Changes to net assets* – Net assets related to governmental activities increased \$40.3 million from fiscal year 2003 to 2004. This is due to an increase in total assets of \$59 million, which outpaced the increase in total liabilities of \$18.7million. The current assets category showed the highest increase, of approximately \$45.3 million,

## Anne Arundel County, Maryland

### Management Discussion and Analysis

#### Year Ended June 30, 2004

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caused primarily by higher cash balances. In addition, capital assets increased by \$31.1 million, due to increases in construction work in progress. The increase in total liabilities was caused by net changes to short-term debt and long-term bonds of \$8.4 million, \$4.21 million increase in self insurance reserves, and fiscal year 2004 premiums on the sale of County general improvement bonds of \$3.3 million.

Net assets related to business-type activities increased only \$6.2 million or 1% in fiscal year 2004. The fluctuation was caused by assets increasing \$22.3 million, offset by liabilities increasing by \$16.1 million. Asset increases were primarily caused by the net change of \$27.4 million in capital assets. Additional bond anticipation notes of \$7 million, increases in deferred bond premiums and connection fees of \$2.3 million, and increases to the capital projects accruals of \$4.8 million are the primary causes of this increase.

*Significant changes in revenues and expenses* – Despite the still struggling economy, general revenues in governmental activities increased \$77.5 million, or 10% from fiscal year 2003. Anne Arundel County experienced growth in property tax revenues of \$22.3 million, local income taxes of \$24.3 million, and recordation and transfer taxes of \$25 million. Investment earnings continued to drop off by 14%; however, are less than 1% of general revenues so the trend had little effect on overall financial position. The growth in revenues resulted from increasing housing values, home sales, and mortgage refinancing.

The program revenues in governmental activities decreased by \$12.7 million, or 7%. Growth in license and permit fees of \$3.6 million, other fees and commission of \$1.9 million, and other revenue of \$2 million were offset by decreases in operating and capital grants and contributions of \$8.1 million and \$12.7 million, respectively.

The business-type activities show a decrease in total program revenue of \$7.2 million. There was a modest increase in charges for services of \$1.6 million or 2%; however, capital grants and contributions decreased by \$8.8 million from fiscal year 2003. The decrease to grants and contributions was caused by a drop in developer constructed assets of \$2.9 million from the previous year, a \$2.6 million decline in front foot and capital connection revenue, capital project grant revenue decrease of \$1.4 million, and a decrease in \$1.8 million decrease in environmental protection fees.

*Factors Affecting Comparability* – As discussed in the footnotes to the basic financial statements, there were adjustments to beginning net assets. The prior year comparative amounts in the tables that follow have been adjusted to reflect those restatements.

*Changes to debt* – The County's total bonded debt balance showed a net decrease of \$2.3 million in fiscal year 2004. The County issued \$49.5 million of bonds for governmental activities and \$13 million of bonds for business-type activities. Of this debt \$42 million of the proceeds was used to liquidate BANS issued in May 2003 and \$20.5 million was new proceeds for ongoing capital projects. In addition, \$2.57 million of bonds were issued for the Nursery Road Tax Increment District. In refunding the debt for Arundel Mills and West County Tax increments districts and additional \$4,005,000 of debt was incurred. The total of the additional bonds, less the principal payments in fiscal year 2004 caused the noted decrease.

The County issued \$52.5 million of BANS in May 2004 to fund capital expenditures in fiscal year 2005. Of this amount, \$32.5 million related to governmental activities, including education, public safety, infrastructure improvements, recreation, and general government improvements. The business-type activities received the remaining \$20 million of proceeds, which will be used for utility and waste collection improvements.

### **Financial Data and Management's Analysis**

#### *Government-wide Statements*

Below is a condensed statement of net assets with comparative amounts from the previous fiscal year. We have also provided an analysis of the contents and fluctuations noted in the schedule.

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2004

Anne Arundel County, Maryland Condensed Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2004	2003 (restated)	2004	2003	2004	2003 (restated)
<b>Assets:</b>						
Current	\$ 231,413,195	\$ 186,126,963	\$ 56,145,714	\$ 55,179,154	\$ 287,558,909	\$ 241,306,117
Restricted - Current	149,995,667	167,396,139	161,394,071	161,381,623	311,389,738	328,777,762
Restricted - Noncurrent	-	-	72,410,066	78,530,404	72,410,066	78,530,404
Capital	856,256,298	825,175,300	968,506,133	941,088,111	1,824,762,431	1,766,263,411
Total	<u>1,237,665,160</u>	<u>1,178,698,402</u>	<u>1,258,455,984</u>	<u>1,236,179,292</u>	<u>2,496,121,144</u>	<u>2,414,877,694</u>
<b>Liabilities:</b>						
Current	139,442,081	138,483,720	50,001,247	40,932,366	189,443,328	179,416,086
Restricted - current	25,012,948	22,048,161	20,805,947	13,578,982	45,818,895	35,627,143
Noncurrent	559,262,948	544,515,885	288,945,962	289,180,565	848,208,910	833,696,450
Total	<u>723,717,977</u>	<u>705,047,766</u>	<u>359,753,156</u>	<u>343,691,913</u>	<u>1,083,471,133</u>	<u>1,048,739,679</u>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	505,949,827	479,796,593	710,573,981	680,732,077	1,216,523,808	1,160,528,670
Restricted	107,050,148	102,281,573	184,793,565	194,972,623	291,843,713	297,254,196
Unrestricted	(99,052,792)	(108,427,530)	3,335,282	16,782,679	(95,717,510)	(91,644,851)
Total	<u>\$ 513,947,183</u>	<u>\$ 473,650,636</u>	<u>\$ 898,702,828</u>	<u>\$ 892,487,379</u>	<u>\$ 1,412,650,011</u>	<u>\$ 1,366,138,015</u>

*Discussion of components* – This statement condenses the statement of net assets into broad categories. Current assets are those unrestricted assets that are readily convertible to cash and available to pay the liabilities of the County. Current restricted assets are those readily convertible to cash but legally restricted for a specific use. Noncurrent restricted assets are also limited as to use but are due to the County over several years. Restrictions can originate from Federal, State, or local law, grant agreements, or other contracts. Capital assets are those with an extended useful life that are not readily convertible to cash. These assets depreciate in value over their respective useful lives.

Current liabilities are those liabilities that will be paid with currently available resources within a year, while the current restricted liabilities will be paid with restricted assets. Noncurrent liabilities are not expected to be liquidated within one year. Noncurrent liabilities are those not expected to be paid within a year, including long term debt balances, accrued liabilities for annual and sick leave, estimates for long term insurance claims, long term escrow deposits, and revenue recorded but not yet earned.

Net assets represent equity remaining once amounts due are subtracted from assets available. Net assets are shown in three categories: Capital assets, net of any related debt issued to construct or buy the assets, restricted net assets remaining after restricted liabilities are covered by restricted assets, and unrestricted net asset balances.

*Management's Analysis* – Current assets are \$45.3 million higher in fiscal year 2004 in the governmental activities primarily due to increases in cash and temporary investments of \$34.4 million. The increase in cash and investments is due to the overall increase in revenues noted earlier. The General Fund fund balance has grown \$50.4 million since fiscal year 2003. The business-type activities show only \$966,560 in additional current assets.

Restricted assets in governmental activities have dropped \$17.4 million due to significant decreases in the General County Capital Projects Fund's cash and receivables balances of \$14.2 million and \$7.8 million, respectively. During fiscal year 2004, the new bond monies added to general county capital projects was \$20.5 million, which is lower than in recent fiscal years. In addition, the pay go funds coming from the General Fund to capital projects dropped from \$17,350,000 in fiscal year 2003 to \$12,807,000 in 2004. These two factors, along with continued capital spending, caused the drop in cash balances. In addition, at the end of fiscal year 2003 there was a significant receivable balance due from the State for certain Recreation and Parks projects. Much of that balance was collected in fiscal 2004.

The current restricted assets in business-type activities shows an insignificant change. Restricted

## Anne Arundel County, Maryland

### Management Discussion and Analysis

Year Ended June 30, 2004

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noncurrent assets have decreased by \$6.1 million from fiscal year 2003. These assets result from long-term receivables for front foot benefit charges, capital connection charges, and a note receivable due from a developer. These balances continue to decrease as the number of properties allowed to defer the charges is declining and the developer is paying down the principal balance of the note. Newer developments are generally required to pay front foot and capital connection fees up front.

The governmental capital assets net balance has increased by \$31.1 million from the previous year, a 4% increase. There was no significant increase in any one category of capital assets. Capital assets in the business-type activities increased by \$27.4 million, or 3%.

Current liabilities for governmental activities have only increased by \$958,361. The increase in bond anticipation notes of \$3.2 million from the previous year was offset by a decrease in the accrued liabilities. The current liabilities in business-type activities increased by \$9.1 million, or 22%, from fiscal year 2003. The bond anticipation notes outstanding at the end of fiscal 2004 was \$7 million higher than at the end of fiscal year 2003, which is the primary cause of the variance.

Restricted current liabilities for governmental activities have increased \$3 million, or 13% from fiscal year 2003 to 2004. This fluctuation was caused by the increase in the amount due to the Board of Education and the Community College component units for capital project activity. The amount due the Board of Education increased by \$2.6 million and the liability to the College increased \$488,356. Restricted current liabilities for business-type activities have increased by \$7.2 million, or 53%. The increase is due to higher payables and retainages in Utility capital projects of \$4.8 million and \$2.3 million in additional deferred connection fee agreements.

Noncurrent liabilities consist of bonded debt, self insurance reserves, loans, capital leases, and other liabilities. These liabilities increased \$14.7 million or 3% in governmental activities and dropped only slightly in business-type activities. For governmental activities the long-term insurance reserves have increased by \$3.7 million due to increase in health care costs and self insurance claims reserves. The long-term bonds and agreements have increased by \$7.2 million and the deferred revenue has increased by \$5 million primarily due to \$3.3 million of premiums received on bonds sold during fiscal 2004.

The components of net assets in the governmental activities have all increased during fiscal year 2004. Capital assets net of related debt has increased \$26.2 million or 5%, Restricted net assets have increased \$4.8 million or 5%, and the unrestricted net assets have increased \$9.4 million, an increase of 9%. The first two categories growth is moderate; however, the increase to the unrestricted category is the result of the strong revenue streams from property, income, and recordation and transferred taxes, along with controlled spending.

It is important to note that although counties in the State of Maryland issue debt for the construction of schools, the schools are owned by the local Board of Education. Ownership reverts to the County if the building is no longer needed. The County also funds projects for the Community College and others that do not result in a County asset. Therefore, while the County's statements include this outstanding debt, there are no capital assets recorded on the primary government's statements. The negative unrestricted governmental activities fund balance of \$99.1 million reflects this treatment. The Board of Education and Community College capital net asset bases of approximately \$542 million and \$55.7 million, respectively, is evidence of the significant level of capital assets that were constructed primarily from County incurred debt.

A negative balance in unrestricted net assets does not constitute concern. However, the trend of the negative amount should be analyzed. The fiscal year 2001 unrestricted net asset amount of (\$54.1) million was 10.2% of total net assets, in fiscal year 2002 the amount (as restated) was (\$80.7) million or 14.5%, and in 2003 the amount of (\$108.4) million was 21%. Fiscal year 2004 has seen a change in this trend reducing the amount to (\$99.1) million or 9%. Continued growth in this number, as a percent, may highlight an increase in the related liabilities outpacing the increase in the available assets. Management continues to monitor the changes in this category to insure adequacy of current resources.

# Anne Arundel County, Maryland

## Management Discussion and Analysis

Year Ended June 30, 2004

The next schedule is a condensed version of the Statement of Activities; however, the revenues are listed first with the functional expenses presented last. The schedule includes comparative amount from the previous fiscal year. An analysis of this information follows the schedule.

Anne Arundel County, Maryland						
Statement of Activities						
	Governmental Activities		Business-type Activities		Total	
	2004	2003 (restated)	2004	2003	2004	2003
<b>Program revenues:</b>						
Charges for services	\$ 63,908,474	\$ 55,867,208	\$ 97,133,010	\$ 95,497,326	\$ 161,041,484	\$ 151,364,534
Operating grants & contributions	68,018,578	76,083,182	-	-	68,018,578	76,083,182
Capital grants & contributions	38,716,764	51,392,280	28,947,374	37,769,179	67,664,138	89,161,459
	<u>170,643,816</u>	<u>183,342,670</u>	<u>126,080,384</u>	<u>133,266,505</u>	<u>296,724,200</u>	<u>316,609,175</u>
<b>General revenue:</b>						
General property taxes	393,883,820	371,534,227			393,883,820	371,534,227
Local income taxes	289,676,102	265,326,986			289,676,102	265,326,986
State shared taxes	6,918,566	5,890,916			6,918,566	5,890,916
Recordation & transfer taxes	99,053,108	74,120,137			99,053,108	74,120,137
Local sales taxes	30,830,077	29,617,564			30,830,077	29,617,564
Investment income	1,632,805	1,891,430	3,729,904	5,576,906	5,362,709	7,468,336
Other revenue	6,671,086	2,762,129	7,286,423	4,475,193	13,957,509	7,237,322
	<u>828,665,564</u>	<u>751,143,389</u>	<u>11,016,327</u>	<u>10,052,099</u>	<u>839,681,891</u>	<u>761,195,488</u>
<b>Total revenues</b>	<u>999,309,380</u>	<u>934,486,059</u>	<u>137,096,711</u>	<u>143,318,604</u>	<u>1,136,406,091</u>	<u>1,077,804,663</u>
<b>Expenses:</b>						
Education	460,910,902	444,902,592			460,910,902	444,902,592
Public safety	174,599,087	188,389,041			174,599,087	188,389,041
General government	89,831,540	103,922,806			89,831,540	103,922,806
Health & human services	68,204,598	68,448,082			68,204,598	68,448,082
Public works	53,980,672	85,666,142			53,980,672	85,666,142
Recreation & community services	40,949,426	47,930,205			40,949,426	47,930,205
Judicial	18,962,146	19,837,894			18,962,146	19,837,894
Code enforcement	9,996,379	10,511,978			9,996,379	10,511,978
Land use & development	10,261,520	9,457,559			10,261,520	9,457,559
Economic development	3,342,050	3,520,112			3,342,050	3,520,112
Interest expense on debt	27,974,513	25,506,435			27,974,513	25,506,435
Water & wastewater			85,920,260	85,254,365	85,920,260	85,254,365
Waste collection			42,946,457	36,066,380	42,946,457	36,066,380
Child care			2,014,545	1,819,086	2,014,545	1,819,086
<b>Total expenses</b>	<u>959,012,833</u>	<u>1,008,092,846</u>	<u>130,881,262</u>	<u>123,139,831</u>	<u>1,089,894,095</u>	<u>1,131,232,677</u>
Increase in net assets before transfers and other items	40,296,547	(73,606,787)	6,215,449	20,178,773	46,511,996	(53,428,014)
Transfers and other items	-	-	-	-	-	-
Change in net assets	40,296,547	(73,606,787)	6,215,449	20,178,773	46,511,996	(53,428,014)
Net assets, beg of year, as restated	473,650,636	547,257,423	892,487,379	872,308,606	1,366,138,015	1,419,566,029
<b>Net assets, end of year</b>	<u>\$ 513,947,183</u>	<u>\$ 473,650,636</u>	<u>\$ 898,702,828</u>	<u>\$ 892,487,379</u>	<u>\$ 1,412,650,011</u>	<u>\$ 1,366,138,015</u>

The Statement of Activities presents some significant changes in revenues. These fluctuations were explained in the financial highlights section. Governmental activities' overall revenue has increased by \$64.8 million, which is a 7% increase from the previous year. Despite the decreases to operating and capital grants and contributions, positive trends in major tax revenue sources has provide the County with a significant amount of additional revenues.

The expenses of the governmental activities have decreased by \$49.1 million or 5% from fiscal year 2003. The decrease is due to two primary factors. The County adopted a very conservative budget for fiscal year 2004 based on potential mid year reductions in State funding. These cuts did not materialize; however, departments kept spending conservatively. The second factor is fiscal year 2003 had abnormally high costs because capital project completions resulted in significant additional expenditures.

# Anne Arundel County, Maryland

## Management Discussion and Analysis

**Year Ended June 30, 2004**

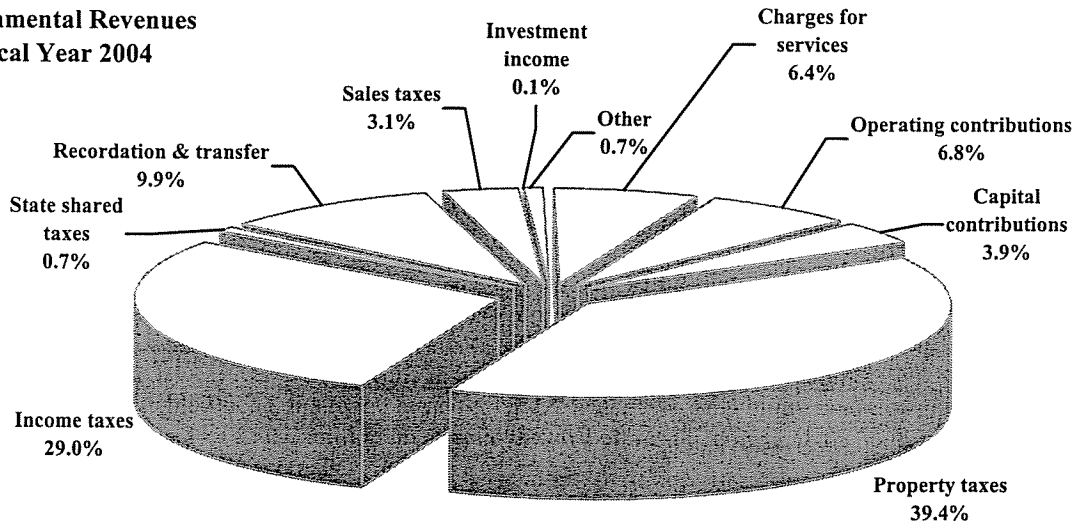
Education, Land use and development, and Interest expense are the only three categories that had higher expenses in fiscal year 2004 compared to 2003. Education expenses increased by \$16 million, a 4% increase. State law regulates funding to the Board of Education and College and local government funding must maintain certain maintenance of effort requirements so County must maintain level spending. All other functional categories show decreases in overall expenses due to controlled spending and fiscal year 2003 capital expenses as discussed above.

In business-type activities there was a modest increase in charges for services of \$1.6 million or 2% in fiscal year 2004, while capital grants and contributions dropped by \$8.8 million. Fewer developer contributions of water and wastewater facilities were the primary causes of that decrease. Interest earnings dropped by \$1.8 million compared to the previous year due to the decline in interest rates. This trend was noted throughout all County activities. The only notable fluctuation in the business-type expenses is a \$6.9 million increase in Waste collection activities. This was caused by a \$2.7 million increase in the cost of trash hauling and a \$3.6 million increase in the Landfill closure and postclosure accruals.

### *Distribution of Revenues and Expenses*

The charts below show the percentage distribution of revenues from governmental activities and the percentage expended on each governmental function. A discussion of the 2004 distribution and significant changes from fiscal year 2003 follows.

**Governmental Revenues  
Fiscal Year 2004**



General revenue sources continue to provide the vast majority of the County's revenue. Tax revenues from property assessments, income, state shared sources, recordation and transfer, and sales of certain goods provided 82.1% of our revenue base. This total percent is consistent has increased from 79.2% in the previous fiscal year. The increase in the percent was caused by the recordation and transfer taxes, which have increased from 7.9% of revenue in fiscal year 2003 to 9.9% in 2004. Governmental activities' operating and capital contributions have declined from 13.6% of total revenue in fiscal year 2003 to 10.7% in 2004. The reasons for these declines were discussed in financial highlights above.

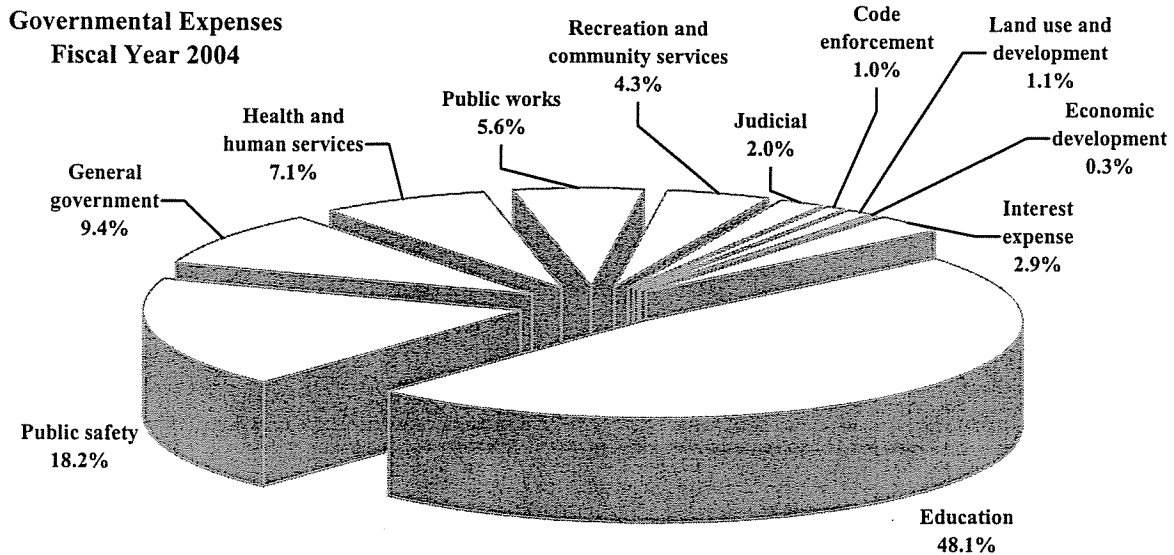
An analysis of the percentage distribution of expenses by function revealed that although Education has increased in its proportion of total expenses from 44.1% in fiscal year 2003 to 48.1% in 2004, many other functional categories have declined in respective percentages. The most significant declines are General Government, down from 10.3% in fiscal year 2003 to 9.4%, Public Works, down from 8.5% to 5.6%, and Recreation & Community

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2004

Services, down from 8.8% to 4.3%. The reasons for the overall declines in these functional expense categories were discussed earlier in this analysis.



**Fund Statements**

Although tables have not been included herein, certain elements of the fund statements presented in the basic financial statements are discussed below.

***Governmental Fund Types***

Total assets in the General Fund increased from \$140.4 million to \$183.4 million, an increase of \$43 million from fiscal year. The increases occurred primarily in cash, up by \$33.1 million, and increases in property taxes receivable and State income taxes receivable at the end of fiscal year 2004. These increases are the result of stronger than anticipated revenues from taxes in fiscal year 2004.

The total fund balance has increased from \$49.2 million to \$99.6 million, an increase of \$50.4 million. Management had budgeted to use some of the fiscal year 2003 fund balance in supporting the fiscal year 2004 budget. However, favorable trends in revenues actually created additional fund balance. The unreserved and undesignated General Fund balance increased from \$5 million in fiscal year 2003 to \$36.1 million in 2004.

The County has a revenue reserve fund of \$27 million at the end of fiscal year 2003. The growth in this fund from the prior year of \$2.2 million was due to an additional contribution of \$2 million in fiscal year 2004 and interest earnings of \$249,340. This reserve may only be used when revenues fall short of expectations. Use of the reserve requires legislative action. Further, legislation passed in September 2002 increased the amount of funding that can be allocated to this reserve each year. The fiscal year 2005 budget provides for an additional \$4 million of General Fund monies be reserved. This fund has been in existence since fiscal year 1994 and has not been utilized by Management.

The General Fund's balance sheet also includes a \$4.2 million liability to the Self Insurance Fund (an internal service fund). In fiscal year 2004, the County has allocated the deficit in this internal service fund to participating funds in order to better reflect the increasing claims estimated by the actuary. The General Fund balance sheet also includes a \$6 million reserve for debt service. The County received a premium from its March 2003 and 2004 general obligation bond sales. These premiums have been recognized as revenue in the fund

## Anne Arundel County, Maryland

### Management Discussion and Analysis

#### Year Ended June 30, 2004

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statements and will be used to pay interest on the bonds issued as required by restrictions in the bond sale's tax certificate.

The revenues in the General Fund have increased by \$77.6 million compared to the prior fiscal year. Additional property tax revenue of \$17.7 million, state income taxes of \$33.3 million and recordation and transfer taxes of \$25 million account for the increase. Most other revenue sources showed only modest increases from fiscal 2003. Expenditures however increased only \$36.9 million. Except for Education and Public Safety, most of the other departments showed declines in spending from fiscal year 2003. The favorable revenue trends coupled with controlled spending resulted in the increase in fund balance discussed above.

The Impact Fees Fund's statements remained fairly consistent with the prior year. This fund holds developer impact fees until utilized for the construction of capital assets. Assets and fund balance grew from \$51.1 million in fiscal year 2003 to \$56.4 million at the end of fiscal year 2004. The growth is attributable to revenues from impact fees increasing slightly from \$9.1 million in the previous year to \$10.7 million in fiscal year 2004. Investment earnings have declined from \$806,786 to \$650,606. The transfers to capital project construction activity increased from \$5.5 million to \$5.9 million.

The General County Capital Projects Fund's balance sheet shows \$19.2 million fewer assets in fiscal year 2004, from \$90.8 million to \$71.6 million. This decline is seen in both cash balances, down \$14.2 million from the previous year and receivables, down \$7.8 million. Total liabilities are fairly consistent with the previous year. The cause of the drop in assets was a decline in the total revenue sources in the fund during fiscal year 2004 compared to 2003. Although grant revenue increased by \$6.3 million due to the collection of significant State grant receivables, new bond monies declined from \$45 million to \$20.5 million and paygo funding from the General Fund declines from \$17,350,000 to \$12,807,000, a \$4.5 million decrease.

#### *Proprietary Fund Types*

The Water and Wastewater Fund's assets increased by \$21 million during fiscal year 2004, caused by a \$27 million increase in capital assets, net of depreciation. The capital assets increase each year as capital projects are completed and developer donated water and sewer facilities are added. Liabilities have declined by \$11.2 million. An analysis shows no significant changes in components. Current liabilities include additional short-term debt from bond anticipation notes, \$7,250,000 higher in fiscal year 2004; however, this is offset by the decline in long-term debt of \$6.3 million. As a result of the changes in assets and liabilities the Water and Wastewater Fund's net assets increased only \$10.7 million, or 1%.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets shows only modest increases in operating revenue of \$1.8 million and operating expenses consistent with the previous fiscal year. Nonoperating elements also show little net change. However, the capital contributions, fees and grants have decreased substantially from \$37.8 million to \$28.9 million. Fiscal year 2003 revenues were higher than normal because the County increased certain capital connection fees and allowed developers to pay their fees in advance to avoid the higher fees. As a result fiscal year 2004 revenues from these sources have declined.

The Solid Waste Fund's assets have increased by a modest \$1.2 million, or 2%. Liabilities have increased by \$4.6 million, primarily due to a higher landfill closure and post closure reserves. These reserves are up from \$24 million in fiscal year 2004 to \$29.5 million, as a result of changes in the estimate of future post closure costs. Revenue has increased by \$2.5 million, or 7%, and is primarily due to an increase in other operating revenues. Expenses have increase \$7 million due to higher contractual waste haulers expense, up by \$2.7 million from fiscal year 2003 and increases to landfill reserves, up \$3.6 million from the previous year.

#### *Fiduciary Fund Types*

Fiduciary funds include the Pension Trust Funds and the Agency Funds. The Pension Trust Funds are presented for the calendar year ended December 31, 2003. The Pension Trust Funds' assets increased by \$191.5

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2004

million from 2002 to 2003, or 22%. Since the economy has slowly improved, the contributions of \$34 million during 2004, and the asset appreciation of \$195.4 million, more than compensated for the decline noted in 2002. Agency funds have shown no significant changes, with net assets increasing from \$16 million at the end of fiscal year 2003 to \$16.7 million at the end of fiscal year 2004.

**Budgetary Variations**

The budgetary statements of the General Fund show actual revenues of \$941.7 million compared to budgeted amounts of \$892.4 million, resulting in \$49.2 million more revenues than anticipated. The most significant budgetary variations within components of revenue were actual local income taxes over expected of \$17 million and recordation and transfer taxes in excess of budget by \$34 million. These fluctuations were caused by changes in economic factors discussed in the financial highlights.

Functional expenditures were within budget for all categories. Total expenditures on a budgetary basis were \$892 million compared to appropriation authority of \$901.8, resulting in \$9.9 million, or 1%, less than planned. As a result, the amended budget anticipated using fund balance of \$9.4 million, however, \$49.7 million of fund balance was added.

The General Government and Public Works categories of expenditures had significant increases to the budget of \$3,157,500 and \$3,268,000, respectively during fiscal year 2004. The increase to General Government was primarily due to \$6,988,300 million of additional appropriations added for Self Insurance Fund premiums. This additional appropriation was offset by the use of unused appropriations within the general government function moved to other primarily due to the additional clean up costs for damages resulting from Hurricane Isabel in September 2003. Besides these two changes to budget appropriations, there were no significant changes between original and amended budget in the General Fund. Management is not aware of any reasons why these and other budgetary variations would have a significant effect on future liquidity or services.

**Capital Assets**

The table below presents the asset values of the capital asset categories in governmental and business-type activities, net of accumulated depreciation. A discussion of the fluctuations and other analysis follows.

Anne Arundel County, Maryland						
Capital Assets (net of depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2004	2003 (restated)	2004	2003	2004	2003 (restated)
Land and easements	\$ 152,128,829	\$ 143,709,828	\$ 8,549,360	\$ 8,365,864	\$ 160,678,189	\$ 152,075,692
Historical property						
and works of art	4,095,225	4,095,225	-	-	4,095,225	4,095,225
Land improvements	40,337,951	40,906,926	16,226,706	16,628,136	56,564,657	57,535,062
Buildings	154,476,999	151,929,236	11,329,930	11,600,322	165,806,929	163,529,558
Roads, bridges and signals	132,426,385	131,766,223	-	-	132,426,385	131,766,223
Sidewalks, curbs and gutters	13,079,858	12,257,702	-	-	13,079,858	12,257,702
Storm drains and culverts	87,599,148	90,172,267	-	-	87,599,148	90,172,267
Water and sewer plants and lines	-	-	809,200,045	802,981,916	809,200,045	802,981,916
Automobiles and rolling stock	17,992,055	18,078,900	1,144,604	1,100,372	19,136,659	19,179,272
Furniture and equipment	7,212,597	8,616,466	2,450,086	3,223,301	9,662,683	11,839,767
Software	4,517,475	5,784,423	-	-	4,517,475	5,784,423
Construction in progress	242,389,776	217,858,104	119,605,402	97,188,200	361,995,178	315,046,304
Total	\$ 856,256,298	\$ 825,175,300	\$ 968,506,133	\$ 941,088,111	\$ 1,824,762,431	\$ 1,766,263,411

*Governmental capital assets* - Total governmental assets show a slight increase from the prior year of \$31.8 million, or 4%. A review of the categories shows only a couple of significant changes. Land and easements have increased by \$8.4 million and construction in progress has increased by \$24.5 million. A review of the detail supporting this table show additions in fiscal year 2004 greater than the 2003 additions; however, many of the

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2004

current year additions have been outpaced by depreciation.

Land and easements and construction in progress typically increase because these assets are not depreciated. There were approximately \$6.1 million of additions in this category, including \$2.8 million of agricultural easements. The only significant land purchase in fiscal year 2004 was a 303-acre parcel at Jug Bay, a South County park, which included \$4.7 million of land. The increase in construction in progress was caused by the continual construction of major capital improvements, including the 800 MGZ communication system and the West County Regional Library. These two projects added \$12.1 million and \$5.7 million of costs, respectively in fiscal 2004.

*Business-type capital assets* – The capital assets in business-type activities have increased by \$27.4 million, or 3% from fiscal year 2003. Most of the categories of assets show little change since new additions are negated by the continued depreciation of existing assets. Construction in progress has increased by \$22.7 million. Construction on major wastewater projects caused this increase. Woodland Beach Sewer Pumping Station and Annapolis Wastewater Reclamation Facility upgrades added \$4.2 million and \$8.5 million of costs, respectively during fiscal year 2004.

The statement of net assets presents the gross asset balances and total accumulated depreciation. The table below summarizes this information for depreciable assets and presents accumulated depreciation as a % of the gross depreciable assets.

Anne Arundel County, Maryland  
Analysis of Depreciable Assets

	Governmental			Business-type		
	2004	2003	2002	2004	2003	2002
Total depreciable capital assets	\$ 861,104,562	\$ 841,621,562	\$ 829,617,900	\$ 1,200,681,588	\$ 1,166,808,643	\$ 1,140,124,702
Accumulated depreciation	(403,462,094)	(382,109,419)	(359,839,272)	(360,330,217)	(331,274,596)	(309,162,398)
Net depreciable capital assets	\$ 457,642,468	\$ 459,512,143	\$ 469,778,628	\$ 840,351,371	\$ 835,534,047	\$ 830,962,304
Net value as a percent of total	53%	55%	57%	70%	72%	73%
Accumulated depreciation as a percent of total	47%	45%	43%	30%	28%	27%

This analysis shows that the governmental capital assets were 47%, 45%, and 43% depreciated in fiscal years 2004, 2003, and 2002, respectively. The business-type capital assets show a 1% increase in the percent depreciated from fiscal year 2002 to 2003 and then another 2% increase in fiscal year 2004. The increase in accumulated depreciation as a percent implies that the asset base is aging slightly in the years presented. The comparison of these fiscal years does not provide any definite conclusion about the County's replacement of aging assets; however an upward trend in accumulated depreciation as a percent of gross assets over several years might indicate that the asset base is aging. Management will continue to monitor this trend. Additional information about the County's capital assets and changes therein is provided in the notes to the basic financial statements.

**Debt Administration**

The County's outstanding debt at the end of fiscal years 2004 and 2003 is presented in the table below. The County had been utilizing short-term bond anticipation notes to fund capital project expenditures and converting this debt to long term after the funds had been spent.

In May 2004 the County issued \$52.5 million short-term bonds in anticipation of capital project spending in early fiscal year 2005. Of the total, \$32.5 million of the proceeds will be used for general county projects such as

**Anne Arundel County, Maryland**

**Management Discussion and Analysis**

**Year Ended June 30, 2004**

infrastructure, education, public safety, libraries, and parks and recreation. The water and wastewater projects will utilize \$19 million of the proceeds and waste collection will use \$1 million for landfill related projects.

**Anne Arundel County, Maryland  
Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Bond anticipation notes	\$ 32,500,000	\$ 29,000,000	\$ 20,000,000	\$ 13,000,000	\$ 52,500,000	\$ 42,000,000
General obligation bonds	493,467,418	494,467,307	266,560,378	273,778,401	760,027,796	768,245,708
Special assessment debt	56,215,000	50,300,000	-	-	56,215,000	50,300,000
State loans	2,723,733	3,058,346	-	-	2,723,733	3,058,346
Capital leases	161,801	210,045	-	-	161,801	210,045
Installment purchase agreements	8,397,948	6,689,948	-	-	8,397,948	6,689,948
<b>Total</b>	<b>\$ 593,465,900</b>	<b>\$ 583,725,646</b>	<b>\$ 286,560,378</b>	<b>\$ 286,778,401</b>	<b>\$ 880,026,278</b>	<b>\$ 870,504,047</b>

The County issued general obligation bonds of \$62.5 million in March 2004, including \$49.5 million for governmental activities and \$13 million for business-type activities. The proceeds were used to pay off \$42 million of bond anticipation notes issued in May 2003 and the net amount of \$20.5 million was used for governmental activities in the General County Capital Projects Fund.

The County took advantage of the low interest rates to issue refunding bonds in May 2004 for both the Arundel Mills and West County tax increment districts' special assessment debt. The proceeds were placed in escrow and will be used to service the refunded bonds and pay off the principal on the earliest callable date. The refunding resulted in an additional \$4,005,000 in principal. The County also sold special assessment bonds for the Nursery Road Tax Increment District totaling \$2,570,000 in order to facilitate some public improvements in the BWI Technology Park.

The changes to the State loans were not significant as there were no new loans in fiscal year 2004 and the decline noted in the table is due to principal payments in 2004. There were no new capital leases added in 2004 and the decline reflects the amortization of the liability. The County's initiative to purchase agricultural easements through installment purchase agreements resulted in two new agreements in fiscal year 2004, totaling \$1,721,000.

Other changes to debt balances resulted from principal payments during fiscal year 2003. Additional information about the County's debt and changes therein is provided in the notes to the basic financial statements.

**Fiscal Year 2005 and Beyond**

Promulgations by the Governmental Accounting Standards Board require Management to include descriptions of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, or other changes in net assets.) In that regard there have been no major incidents that are expected to have a major impact on the County's financial position.

The State of Maryland faced budgetary shortfalls in 2004 and fiscal years 2005 and 2006 are expected to be problematic. To date Anne Arundel County has been successful in reacting to any changes in funding from State sources. The County continues to see growth in its major revenue sources as new residents continue to move here as Federal government support industries expand. Real property values have continued to increase in the beginning of fiscal year 2005 and real estate sales and mortgage refinancing continue to provide strong revenue inflow of recordation and transfer taxes.

**Basic  
Financial  
Statements**

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Anne Arundel County, Maryland  
Statement of Net Assets  
June 30, 2004

	Primary Government			Discretely Presented Component Units			
	Governmental Activities	Business-type Activities	Total	Board of Education	Community College	Other Nonmajor	
<b>ASSETS</b>							
Current Assets							
Cash and temporary investments	\$ 92,421,061	\$ 37,060,619	\$ 129,481,680	\$ 81,531,663	\$ 7,103,546	\$ 1,618,725	
Investments						834,669	
Taxes and other State revenue receivable	130,270,053	-	130,270,053	2,101,975	249,557	-	
Service billings receivable	-	17,867,943	17,867,943	-	-	-	
Prepays and other receivables	7,203,628	-	7,203,628	4,088,743	7,164,388	1,048,752	
Inventories	1,518,453	1,217,152	2,735,605	1,911,133	858,983	21,904	
Due from primary government	-	-	-	11,635,755	1,640,709	1,155,920	
Restricted assets							
Cash and temporary investments	132,205,954	157,662,786	289,868,740	217,600	-	689,615	
Investments						277,157	
Receivables							
Due from other governmental agencies	13,035,552	1,055,803	14,091,355	-	-	34,431	
Other, net	3,964,120	2,675,482	6,639,602	-	-	440,576	
Other assets	790,041	-	790,041	-	-	-	
Total current restricted assets	149,995,667	161,394,071	311,389,738	217,600	-	1,441,779	
Noncurrent Assets							
Restricted assets							
Deferred assessment and connection charges	-	65,209,109	65,209,109	-	-	-	
Notes receivable	-	7,200,957	7,200,957	-	-	-	
Total noncurrent restricted assets	-	72,410,066	72,410,066	-	-	-	
Loans receivable and other assets							
Capital assets not being depreciated	398,613,830	128,154,762	526,768,592	119,955,038	16,813,994	1,678,117	
Capital assets being depreciated	861,104,562	1,200,681,588	2,061,786,150	772,360,677	91,542,894	3,071,237	
Less accumulated depreciation	(403,462,094)	(360,330,217)	(763,792,311)	(350,072,785)	(39,777,968)	(5,614,648)	
	457,642,468	840,351,371	1,297,993,839	422,287,892	51,764,926	10,552,320	
Total capital assets	856,256,298	968,506,133	1,824,762,431	542,242,930	68,578,920	13,623,557	
Total assets	1,237,665,160	1,258,455,984	2,496,121,144	643,729,799	91,635,940	21,423,423	

Anne Arundel County, Maryland  
Statement of Net Assets  
June 30, 2004

	Primary Government			Discretely Presented Component Units			
	Governmental Activities	Business-type Activities	Total	Board of Education	Community College	Other Nonmajor	
<b>LIABILITIES</b>							
Current liabilities							
Accrued liabilities	33,789,145	7,231,755	41,020,900	72,297,774	6,446,723	1,212,699	
Current portion of non-current liabilities	71,237,179	22,446,763	93,683,942	4,495,880	-	586,573	
Notes payable	-	-	-	-	7,157	1,790,140	
Bond anticipation notes	32,500,000	20,000,000	52,500,000	-	-	-	
Internal balances	(105,100)	105,100	-	-	-	-	
Due to component units	1,905,920	-	1,905,920	-	-	-	
Escrow deposits	114,937	217,629	332,566	-	-	24,706	
Deferred revenue	-	-	-	1,253,518	6,062,547	436,819	
Liabilities related to restricted assets							
Accrued liabilities	9,703,100	13,577,520	23,280,620	-	263,372	237,816	
Due to component units	12,526,464	-	12,526,464	-	-	-	
Escrow and other deposits	2,783,384	1,017,270	3,800,654	-	-	-	
Deferred revenue	-	6,211,157	6,211,157	-	-	220,000	
<b>Total current liabilities</b>	<b>164,455,029</b>	<b>70,807,194</b>	<b>235,262,223</b>	<b>78,047,172</b>	<b>12,779,799</b>	<b>4,508,753</b>	
Noncurrent liabilities							
Compensated absences and other obligations	1,670,051	178,748	1,848,799	-	410,861	-	
Unpaid insurance claims	26,883,000	-	26,883,000	-	-	-	
Estimated landfill closure and postclosure	-	29,517,058	29,517,058	-	-	-	
Long-term debt, net of deferred refunding gain/loss	517,716,599	245,416,615	763,133,214	27,614,223	16,520,804	203,594	
Deferred revenue	12,993,298	13,833,541	26,826,839	-	-	-	
<b>Total liabilities</b>	<b>723,717,977</b>	<b>359,753,156</b>	<b>1,083,471,133</b>	<b>105,661,395</b>	<b>29,711,464</b>	<b>4,712,347</b>	
<b>NET ASSETS</b>							
Capital assets, net of related debt	505,949,827	710,573,981	1,216,523,808	541,977,474	55,658,557	13,616,748	
Restricted for:							
Revenue stabilization	27,177,741	-	27,177,741	-	-	-	
Debt service	13,346,926	156,003,350	169,350,276	-	-	-	
Capital improvements	59,022,217	27,995,401	87,017,618	217,600	-	-	
Other purposes	7,503,264	794,814	8,298,078	3,172,142	4,149,506	1,754,413	
Unrestricted	(99,052,792)	3,335,282	(95,717,510)	(7,298,812)	2,116,413	1,339,915	
<b>Total net assets</b>	<b>\$ 513,947,183</b>	<b>\$ 898,702,828</b>	<b>\$ 1,412,650,011</b>	<b>\$ 538,068,404</b>	<b>\$ 61,924,476</b>	<b>\$ 16,711,076</b>	

Accompanying notes to the basic financial statements are an integral part of this statement. 27

Anne Arundel County, Maryland

Statement of Activities

Year Ended June 30, 2004

Functions / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Education	\$ 460,910,902	\$ -	\$ -	\$ 10,764,050
Public Safety	174,599,087	8,938,688	9,686,298	768,569
General government	89,831,540	23,231,798	7,002,035	1,010,421
Health and human services	68,204,598	3,464,494	30,280,340	-
Public works	53,980,672	1,723,233	18,826,410	13,717,628
Recreation and community services	40,949,426	8,041,927	178,839	12,456,096
Judicial	18,962,146	2,541,805	1,568,882	-
Code enforcement	9,996,379	13,281,829	-	-
Land use and development	10,261,520	2,657,538	405,979	-
Economic development	3,342,050	27,162	18	-
Interest on debt and leases	27,974,513	-	69,777	-
	<u>959,012,833</u>	<u>63,908,474</u>	<u>68,018,578</u>	<u>38,716,764</u>
Business-type activities:				
Water and wastewater	85,920,260	59,599,990	-	28,947,374
Waste collection	42,946,457	35,448,676	-	-
Child care	2,014,545	2,084,344	-	-
	<u>130,881,262</u>	<u>97,133,010</u>	<u>-</u>	<u>28,947,374</u>
Total primary government	<u>1,089,894,095</u>	<u>161,041,484</u>	<u>68,018,578</u>	<u>67,664,138</u>
Component units:				
Board of Education	713,331,712	16,672,950	107,257,170	47,381,781
Community College	93,966,734	32,324,107	6,592,211	13,610,045
Library System	16,849,991	595,642	2,660,633	2,460,522
Economic Development Corp	3,831,079	632,384	1,790,450	-
Tipton Airport Authority	906,378	860,006	-	1,801,264
Workforce Development	2,432,834	-	2,358,519	-
Total component units	<u>\$ 831,318,728</u>	<u>\$ 51,085,089</u>	<u>\$ 120,658,983</u>	<u>\$ 65,253,612</u>

General revenues:  
 General property taxes  
 Local income taxes  
 State shared taxes  
 Recordation and transfer taxes  
 Local sales taxes  
 Unrestricted contributions  
 Restricted contributions  
 Investment income  
 Other revenue  
 Total general revenues,  
 special items, and transfers

Change in net assets

Net assets, July 1 (as restated)  
 Net assets, June 30

Accompanying notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenues and Changes in Net Assets

Primary Government			Discretely Presented Component Units		
Governmental Activities	Business-type Activities	Total	Board of Education	Community College	Other Nonmajor
\$ (450,146,852)	\$ -	\$ (450,146,852)	\$ -	\$ -	\$ -
(155,205,532)	-	(155,205,532)	-	-	-
(58,587,286)	-	(58,587,286)	-	-	-
(34,459,764)	-	(34,459,764)	-	-	-
(19,713,401)	-	(19,713,401)	-	-	-
(20,272,564)	-	(20,272,564)	-	-	-
(14,851,459)	-	(14,851,459)	-	-	-
3,285,450	-	3,285,450	-	-	-
(7,198,003)	-	(7,198,003)	-	-	-
(3,314,870)	-	(3,314,870)	-	-	-
(27,904,736)	-	(27,904,736)	-	-	-
<u>(788,369,017)</u>	<u>-</u>	<u>(788,369,017)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	2,627,104	2,627,104	-	-	-
-	(7,497,781)	(7,497,781)	-	-	-
-	69,799	69,799	-	-	-
<u>-</u>	<u>(4,800,878)</u>	<u>(4,800,878)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(788,369,017)	(4,800,878)	(793,169,895)	-	-	-
-	-	-	(542,019,811)	-	-
-	-	-	-	(41,440,371)	-
-	-	-	-	-	(11,133,194)
-	-	-	-	-	(1,408,245)
-	-	-	-	-	1,754,892
-	-	-	-	-	<u>(74,315)</u>
-	-	-	(542,019,811)	(41,440,371)	(10,860,862)
393,883,820	-	393,883,820	-	-	-
289,676,102	-	289,676,102	-	-	-
6,918,566	-	6,918,566	-	-	787,444
99,053,108	-	99,053,108	-	-	-
30,830,077	-	30,830,077	-	-	-
-	-	-	542,751,154	44,712,440	11,910,973
-	-	-	-	1,619,149	-
1,632,805	3,729,904	5,362,709	569,246	434,481	17,092
<u>6,671,086</u>	<u>7,286,423</u>	<u>13,957,509</u>	<u>1,791,999</u>	<u>294,955</u>	<u>59,407</u>
<u>828,665,564</u>	<u>11,016,327</u>	<u>839,681,891</u>	<u>545,112,399</u>	<u>47,061,025</u>	<u>12,774,916</u>
40,296,547	6,215,449	46,511,996	3,092,588	5,620,654	1,914,054
<u>473,650,636</u>	<u>892,487,379</u>	<u>1,366,138,015</u>	<u>534,975,816</u>	<u>56,303,822</u>	<u>14,797,022</u>
\$ <u>513,947,183</u>	\$ <u>898,702,828</u>	\$ <u>1,412,650,011</u>	\$ <u>538,068,404</u>	\$ <u>61,924,476</u>	\$ <u>16,711,076</u>

## Anne Arundel County, Maryland

## Balance Sheet

## Governmental Funds

June 30, 2004

	Major Funds			Nonmajor	Totals
	General	Impact Fees	General County Capital Projects	Governmental Funds	
<b>ASSETS</b>					
Cash and temporary investments	\$ 49,730,856	\$ 56,364,409	\$ 55,178,130	\$ 20,663,415	\$ 181,936,810
Receivables					
Property taxes					
(net of \$3,419,823 allowance)	2,375,482	-	-	-	2,375,482
Local sales taxes	3,648,013	-	-	-	3,648,013
State shared revenues	20,748,438	-	-	-	20,748,438
Due from other governmental agencies	6,534,484	-	12,237,774	797,778	19,570,036
Local income tax	96,963,636	-	-	-	96,963,636
Other, net	2,446,102	-	3,358,925	605,195	6,410,222
Inventories	939,042	-	-	-	939,042
Other assets	-	-	790,041	-	790,041
Total assets	<u>183,386,053</u>	<u>56,364,409</u>	<u>71,564,870</u>	<u>22,066,388</u>	<u>333,381,720</u>
<b>LIABILITIES</b>					
Accrued liabilities	21,130,716	-	8,527,891	1,175,209	30,833,816
Due to other funds	4,122,651	-	-	-	4,122,651
Due to component units					
Board of Education	-	-	11,635,755	-	11,635,755
Community College	750,000	-	890,709	-	1,640,709
Library	1,155,920	-	-	-	1,155,920
Escrow and other deposits	114,937	-	-	2,783,384	2,898,321
Deferred revenue	56,496,462	-	14,405,889	25,924	70,928,275
Total liabilities	<u>83,770,686</u>	<u>-</u>	<u>35,460,244</u>	<u>3,984,517</u>	<u>123,215,447</u>
<b>FUND BALANCES:</b>					
Reserved for:					
Encumbrances	5,834,558	-	38,254,855	1,342,633	45,432,046
Revenue stabilization fund	27,177,741	-	-	-	27,177,741
Reserved for debt service	5,996,172	-	-	351,171	6,347,343
Inventories	939,042	-	-	-	939,042
Unreserved:					
Designated for subsequent year's expenditures in:					
General fund	23,569,200	-	-	-	23,569,200
Special revenue funds	-	44,635,472	-	857,900	45,493,372
Capital projects funds	-	-	-	401,700	401,700
Debt service funds	-	-	-	2,134,300	2,134,300
Undesignated in:					
General fund	36,098,654	-	-	-	36,098,654
Special revenue funds	-	11,728,937	-	8,071,115	19,800,052
Capital projects funds	-	-	(2,150,229)	57,769	(2,092,460)
Debt service funds	-	-	-	4,865,283	4,865,283
Total fund balances	<u>99,615,367</u>	<u>56,364,409</u>	<u>36,104,626</u>	<u>18,081,871</u>	<u>210,166,273</u>
Total liabilities and fund balances	\$ <u>183,386,053</u>	\$ <u>56,364,409</u>	\$ <u>71,564,870</u>	\$ <u>22,066,388</u>	\$ <u>333,381,720</u>

Anne Arundel County, Maryland

Reconciliation of Governmental Fund Balance to Governmental Net Assets

Governmental Funds

June 30, 2004

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Total fund balance for governmental funds as shown on the previous page	\$	210,166,273
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on governmental funds balance sheet.		841,614,694
Certain liabilities are not due and payable in the current period and, therefore, are not included on governmental funds balance sheet.		(609,944,960)
Accrued interest payable on debt is recorded in governmental activities.		(8,464,458)
Revenues not available for use in the current fiscal year have been deferred until future periods on the governmental funds balance sheet.		70,418,381
The assets and liabilities recorded in the internal service funds have been added to governmental net assets because these funds are used to provide services to other funds.		21,062,015
Premiums received on certain bond issues have been deferred on the Statement of Net Assets.		(12,483,404)
Certain expenditures paid with current resources have been deferred to future periods on the Statement of Net Assets.		<u>1,578,642</u>
Total net assets for governmental activities as shown on Statement of Net Assets	\$	<u>513,947,183</u>

*Accompanying notes to basic financial statements are an integral part of this statement.*

Anne Arundel County, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2004

	Major Funds			Nonmajor	Totals
	General	Impact Fees	General County Capital Projects	Governmental Funds	
<b>REVENUES</b>					
General property taxes	\$ 386,355,438	\$ -	\$ -	\$ 8,992,508	\$ 395,347,946
Local income taxes	298,065,106	-	-	-	298,065,106
State shared taxes	25,613,319	-	-	-	25,613,319
Grants and aid	43,821,816	-	20,418,701	6,761,767	71,002,284
Recordation and transfer taxes	99,053,108	-	-	-	99,053,108
Local sales taxes	29,255,189	-	-	1,574,888	30,830,077
License and permit fees	15,154,020	-	-	-	15,154,020
Impact fees	-	10,715,560	-	-	10,715,560
Special community benefit taxes	-	-	-	3,829,032	3,829,032
Investment income	805,477	650,606	720,968	53,672	2,230,723
Other revenue	25,339,731	439,608	2,428,610	4,852,153	33,060,102
<b>Total revenues</b>	<b>923,463,204</b>	<b>11,805,774</b>	<b>23,568,279</b>	<b>26,064,020</b>	<b>984,901,277</b>
<b>EXPENDITURES</b>					
<b>Current</b>					
Education	413,237,691	-	47,514,828	-	460,752,519
Public safety	170,143,272	-	-	942,278	171,085,550
Health and human services	62,076,561	-	-	6,491,750	68,568,311
General government	64,194,640	-	-	886,461	65,081,101
Public works	27,172,688	644,619	-	1,772,870	29,590,177
Recreation and community services	25,188,750	-	-	3,603,976	28,792,726
Judicial	17,531,229	-	-	-	17,531,229
Code enforcement	9,980,085	-	-	-	9,980,085
Land use and development	8,244,505	-	-	355,621	8,600,126
Economic development	1,740,000	-	-	1,602,050	3,342,050
Capital outlay	1,221,885	-	74,604,495	1,463,763	77,290,143
<b>Debt service</b>					
Interest payments on debt	23,791,533	-	-	3,696,648	27,488,181
Principal payments on debt	71,919,901	-	-	1,057,527	72,977,428
Interest payments on leases	18,406	-	-	-	18,406
Principal payments on leases	48,244	-	-	-	48,244
<b>Total expenditures</b>	<b>896,509,390</b>	<b>644,619</b>	<b>122,119,323</b>	<b>21,872,944</b>	<b>1,041,146,276</b>
<b>Revenues over (under) expenditures</b>	<b>26,953,814</b>	<b>11,161,155</b>	<b>(98,551,044)</b>	<b>4,191,076</b>	<b>(56,244,999)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	5,709,289	-	39,401,327	1,750,000	46,860,616
Transfers out	(35,057,000)	(5,898,994)	(720,968)	(5,183,654)	(46,860,616)
Proceeds from general obligation bonds	49,500,000	-	-	-	49,500,000
Proceeds from bond anticipation notes	-	-	32,500,000	-	32,500,000
Proceeds from Nursery Road Tax Increment bonds	-	-	2,500,000	70,000	2,570,000
Proceeds from Dorchester Taxing District	-	-	5,388,744	-	5,388,744
Installment purchase contracts issued	-	-	1,721,000	-	1,721,000
Proceeds from lease financing	-	-	-	-	-
Proceeds from refunding issue	-	-	-	47,724,175	47,724,175
Premiums (discounts) from sale of bonds	3,330,438	-	-	(35,516)	3,294,922
Payments to escrow agent	-	-	-	(51,047,973)	(51,047,973)
<b>Total other financing sources (uses)</b>	<b>23,482,727</b>	<b>(5,898,994)</b>	<b>80,790,103</b>	<b>(6,722,968)</b>	<b>91,650,868</b>
<b>Net change in fund balances</b>	<b>50,436,541</b>	<b>5,262,161</b>	<b>(17,760,941)</b>	<b>(2,531,892)</b>	<b>35,405,869</b>
Fund balances, July 1	49,178,826	51,102,248	53,865,567	20,613,763	174,760,404
Fund balances, June 30	\$ 99,615,367	\$ 56,364,409	\$ 36,104,626	\$ 18,081,871	\$ 210,166,273

Accompanying notes to basic financial statements are an integral part of this statement.

Anne Arundel County, Maryland

Reconciliation of Changes in Fund Balances to Changes in Net Assets

Governmental Fund Types

Year Ended June 30, 2004

Changes in fund balances as shown on Statement of Revenues,  
Expenditures, and Changes in Fund Balances, Governmental Funds \$ 35,405,869

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over the estimated useful lives of those assets through an annual depreciation charge. The differences are as follows:

Current year additions and donations of capital assets	58,568,005
Current year disposals of capital assets	(1,743,524)
Depreciation expense recorded in the Statement of Activities	(25,722,919)

Governmental funds report the additions and payments of long term liabilities in the period that current resources are provided or used. However, in the Statement of Activities, new debt is recorded as a liability and payments of principal are charged against that liability. In addition, interest payable must be accrued from the date of the last interest payment to the end of the fiscal year. Debt related differences are as follows:

New debt issued in current year (including refunding debt)	(108,898,749)
Principal payments on debt	91,429,720
Change in accrued interest payable	(467,926)
Loss on refunding	7,328,798
Amortization of prior year refunding gain	201,245

Certain charges paid with current financial resources are deferred and amortized over one or more periods on the Statement of Activities. The differences are as follows:

Expense was deferred to future periods	1,170,384
Amortization of expenditures deferred in previous years	(585,518)

Premiums received on bond issues have been deferred in the government-wide statements. The revenue will be recognized over the life of the related bonds.

The differences are as follows:

Deferred revenue	(3,294,922)
Amortization of amounts deferred	1,024,041

Certain revenue was deferred on the governmental fund statements because it was not available to pay expenditures of the current period. These deferred amounts are recognized as revenue in the Statement of Activities.

(13,485,297)

The current year activity in the internal service funds has been combined and eliminated against the governmental activities in the Statement of Activities. However, the net activity in the internal service funds that resulted from provision of services to business-type activities, component units, and outside agencies must be recognized in the Statement of Activities.

(632,660)

Changes in Net assets as shown in governmental activities on the Statement of Activities \$ 40,296,547

*Accompanying notes to basic financial statements are an integral part of this statement.*

Anne Arundel County, Maryland

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

General Fund

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance Over (Under)
<b>REVENUES</b>				
General property taxes	\$ 385,089,000	\$ 385,089,000	\$ 386,355,438	\$ 1,266,438
Local income taxes	281,106,000	281,106,000	298,065,106	16,959,106
State shared taxes	23,290,000	23,290,000	25,744,976	2,454,976
Grants and aid	45,171,800	48,012,800	43,682,563	(4,330,237)
Recordation and transfer taxes	65,047,000	65,047,000	99,053,108	34,006,108
Local sales taxes	29,929,000	29,929,000	29,255,189	(673,811)
Licenses and permits	13,602,100	13,602,100	15,154,020	1,551,920
Investment income	2,220,000	2,220,000	1,234,180	(985,820)
Interfund recoveries	18,526,300	18,526,300	17,002,509	(1,523,791)
Other revenues	25,625,600	25,625,600	26,114,949	489,349
<b>Total revenues</b>	<b>889,606,800</b>	<b>892,447,800</b>	<b>941,662,038</b>	<b>49,214,238</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
Education	416,820,000	416,820,000	416,588,804	(231,196)
Higher education	24,395,000	25,145,000	25,041,893	(103,107)
Public safety	173,312,400	172,406,700	170,688,743	(1,717,957)
Health and human services	65,169,400	65,636,500	62,100,968	(3,535,532)
General government	72,943,400	76,100,900	74,264,588	(1,836,312)
Public works	29,716,700	32,984,700	32,273,534	(711,166)
Recreation and community services	24,911,100	25,207,600	25,177,732	(29,868)
Judicial	17,752,300	17,968,200	17,699,830	(268,370)
Land use and development	8,735,700	8,540,700	8,135,677	(405,023)
Code enforcement	9,957,600	10,207,600	10,066,594	(141,006)
Economic development	1,740,000	1,740,000	1,740,000	-
Debt service	36,439,400	36,239,400	35,368,736	(870,664)
Pay go funding - capital projects	12,807,000	12,807,000	12,807,000	-
<b>Total expenditures</b>	<b>894,700,000</b>	<b>901,804,300</b>	<b>891,954,099</b>	<b>(9,850,201)</b>
Revenues over (under) expenditures	(5,093,200)	(9,356,500)	49,707,939	\$ 59,064,439
Fund balances, budgetary, July 1	17,512,490	17,512,490	17,512,490	
Fund balances, budgetary, June 30	\$ 12,419,290	\$ 8,155,990	\$ 67,220,429	
<b>Fund balances - Unreserved</b>				
Undesignated - GAAP basis			\$ 36,098,654	
Effect of revenue deferrals			3,429,924	
Allocation for self insurance fund deficit			4,122,651	
Undesignated - Non-GAAP basis			43,651,229	
Designated for subsequent years			23,569,200	
			\$ 67,220,429	

Accompanying notes to basic financial statements are an integral part of this statement.

## Statement of Net Assets

## Proprietary Funds

June 30, 2004

	Business-Type Activities - Enterprise Funds				Governmental
	Major Funds		Nonmajor Fund	Totals	Internal
	Water and Wastewater	Solid Waste	Child Care		Service Funds
<b>ASSETS</b>					
Current Assets					
Cash and temporary investments	\$ 16,471,362	\$ 19,714,303	\$ 874,954	\$ 37,060,619	\$ 42,690,205
Service billings receivable	16,082,323	1,785,123	497	17,867,943	849,697
Due from other funds	-	-	-	-	4,663,497
Inventories	1,143,989	73,163	-	1,217,152	579,411
Other	-	-	-	-	2,329,187
Restricted assets					
Cash and temporary investments	144,748,217	12,914,569	-	157,662,786	-
Receivables					
Due from other governmental agencies	1,055,803	-	-	1,055,803	-
Other, net	2,675,482	-	-	2,675,482	-
Total current assets	<u>182,177,176</u>	<u>34,487,158</u>	<u>875,451</u>	<u>217,539,785</u>	<u>51,111,997</u>
Noncurrent assets					
Restricted assets					
Deferred connection and assessment charges	65,209,109	-	-	65,209,109	-
Notes receivable	7,200,957	-	-	7,200,957	-
Capital assets	1,274,095,812	54,740,538	-	1,328,836,350	46,547,444
Less accumulated depreciation	(333,637,007)	(26,693,210)	-	(360,330,217)	(31,905,840)
Total capital assets, net of depreciation	<u>940,458,805</u>	<u>28,047,328</u>	<u>-</u>	<u>968,506,133</u>	<u>14,641,604</u>
Total assets	<u>1,195,046,047</u>	<u>62,534,486</u>	<u>875,451</u>	<u>1,258,455,984</u>	<u>65,753,601</u>
<b>LIABILITIES</b>					
Current liabilities					
Accrued liabilities	4,197,372	2,973,988	60,395	7,231,755	4,193,971
Current portion of long-term debt and obligations	19,186,957	3,245,042	14,764	22,446,763	13,102,282
Bond anticipation notes	19,000,000	1,000,000	-	20,000,000	-
Due to other funds	471,804	35,096	33,946	540,846	-
Escrow deposits	90,763	126,866	-	217,629	-
Liabilities related to restricted assets					
Accrued liabilities	13,576,770	750	-	13,577,520	-
Escrow deposits	1,017,270	-	-	1,017,270	-
Deferred revenue	6,211,157	-	-	6,211,157	-
Total current liabilities	<u>63,752,093</u>	<u>7,381,742</u>	<u>109,105</u>	<u>71,242,940</u>	<u>17,296,253</u>
Noncurrent liabilities					
Accrued liability for compensated absences	105,477	63,736	9,535	178,748	76,586
Unpaid insurance claims	-	-	-	-	26,883,000
Estimated landfill closure and postclosure	-	29,517,058	-	29,517,058	-
Long-term debt, net of deferred refunding loss	225,402,686	20,013,929	-	245,416,615	-
Deferred revenue	13,833,541	-	-	13,833,541	-
Total liabilities	<u>303,093,797</u>	<u>56,976,465</u>	<u>118,640</u>	<u>360,188,902</u>	<u>44,255,839</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	699,669,719	10,904,262	-	710,573,981	14,641,604
Restricted for debt service	156,003,350	-	-	156,003,350	-
Restricted for capital improvements	22,354,802	5,640,599	-	27,995,401	-
Restricted for other purposes	-	794,814	-	794,814	-
Unrestricted	13,924,379	(11,781,654)	756,811	2,899,536	6,856,158
Total net assets	<u>\$ 891,952,250</u>	<u>\$ 5,558,021</u>	<u>\$ 756,811</u>	<u>\$ 898,267,082</u>	<u>\$ 21,497,762</u>

*Reconciliation of net assets to business-type activities net assets:*

Net assets shown above	\$ 898,267,082
A portion of the assets, liabilities, and current year activity within the internal service funds has been allocated to business-type activities.	<u>435,746</u>
Net assets shown on government wide statement of net assets	<u>\$ 898,702,828</u>

Accompanying notes to basic financial statements are an integral part of this statement.

Anne Arundel County, Maryland

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds				Governmental
	Major Funds		Nonmajor Fund		Activities
	Water and Wastewater	Solid Waste	Child Care	Totals	Internal Service Funds
<b>OPERATING REVENUES</b>					
Charges for services	\$ 59,599,990	\$ 33,249,700	\$ 2,084,344	\$ 94,934,034	\$ 31,376,206
Landfill charges	-	2,198,976	-	2,198,976	-
Medical premiums	-	-	-	-	50,523,553
Other revenues	3,508,999	3,616,993	-	7,125,992	363,731
Total operating revenues	63,108,989	39,065,669	2,084,344	104,259,002	82,263,490
<b>OPERATING EXPENSES</b>					
Personal services	20,135,225	5,004,813	1,500,622	26,640,660	5,338,949
Contractual services	20,171,672	25,474,689	216,737	45,863,098	2,522,837
Supplies and materials	3,075,729	667,601	150,060	3,893,390	651,178
Business and travel	100,917	15,617	10,945	127,479	28,456
Cost of goods issued	-	-	-	-	2,889,608
Depreciation	27,234,540	2,316,772	-	29,551,312	5,652,714
Provision for claims and estimated losses	-	-	-	-	65,607,972
Landfill closure and postclosure costs	-	5,609,305	-	5,609,305	-
Other	5,561,400	2,614,600	133,986	8,309,986	760,000
Total operating expenses	76,279,483	41,703,397	2,012,350	119,995,230	83,451,714
Operating income (loss)	(13,170,494)	(2,637,728)	71,994	(15,736,228)	(1,188,224)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	1,204,589	457,611	-	1,662,200	355,701
Interest earned on long-term receivables	2,067,704	-	-	2,067,704	-
Other revenues	160,431	-	-	160,431	-
Interest expense	(9,167,242)	(1,175,003)	-	(10,342,245)	-
Other expenses	(324,247)	-	-	(324,247)	(19,676)
Income (loss) before contributions	(19,229,259)	(3,355,120)	71,994	(22,512,385)	(852,199)
Capital contributions, fees, and grants	28,947,374	-	-	28,947,374	-
Change in net assets	9,718,115	(3,355,120)	71,994	6,434,989	(852,199)
Net assets/equity, July 1	882,234,135	8,913,141	684,817	891,832,093	22,349,961
Net assets/equity, June 30	\$ 891,952,250	\$ 5,558,021	\$ 756,811	\$ 898,267,082	\$ 21,497,762

*Reconciliation of changes in net assets per statement above to change in net assets business-type activities:*

Change in net assets shown above	\$ 6,434,989
The portion of internal service funds' current year activity related to enterprise funds has been allocated to the business-type activities on the government-wide statement of activities.	(219,540)
Increase in net assets as shown on the government-wide statement of activities	\$ 6,215,449

Accompanying notes to basic financial statements are an integral part of this statement.

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Anne Arundel County, Maryland

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds				Governmental
	Major Funds		Nonmajor Fund	Totals	Internal
	Water and Wastewater	Solid Waste	Child Care		Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received for services	\$ 58,823,713	\$ 34,791,737	\$ 2,083,937	\$ 95,699,387	\$ 82,318,196
Cash received for expense reimbursement	-	-	-	-	236,634
Cash payments to suppliers for goods and services	(29,286,866)	(27,885,668)	(487,967)	(57,660,501)	(6,504,475)
Cash payments to employees for services	(19,846,231)	(4,904,717)	(1,498,182)	(26,249,130)	(5,291,465)
Cash payments for insurance claims	-	-	-	-	(64,391,129)
Cash payments for landfill closure costs	-	(79,574)	-	(79,574)	-
Other receipts (expenses)	2,307,763	3,616,993	-	5,924,756	338,731
Net cash provided by operating activities	11,998,379	5,538,771	97,788	17,634,938	6,706,492
<b>CASH FLOWS FROM NONCAPITAL</b>					
<b>FINANCING ACTIVITIES:</b>					
Negative cash balance implicitly financed	-	-	-	-	(44,058)
Payments of long-term debt related to closure activities	-	(436,560)	-	(436,560)	-
Interest payments related to closure activities	-	(306,465)	-	(306,465)	-
Net cash provided by (used for) noncapital financing activities	-	(743,025)	-	(743,025)	(44,058)
<b>CASH FLOWS FROM CAPITAL AND RELATED</b>					
<b>FINANCING ACTIVITIES:</b>					
Proceeds from sale of bonds and bond anticipation notes	30,750,000	1,000,000	-	31,750,000	-
Proceeds from grant funds	1,546,800	-	-	1,546,800	-
Proceeds from developers' contributions	990,199	-	-	990,199	-
Proceeds from sale of equipment	-	-	-	-	1,485
Refunds to developers	(701,836)	-	-	(701,836)	-
Cash received from assessments and connection charges	25,534,152	-	-	25,534,152	-
Environmental protection fees for capital assets	4,853,845	-	-	4,853,845	-
Payments of long-term debt	(17,988,359)	(2,493,594)	-	(20,481,953)	-
Payments of bond anticipation notes	(11,750,000)	-	-	(11,750,000)	-
Interest payments	(11,559,586)	(899,659)	-	(12,459,245)	-
Acquisition and construction of capital assets	(37,886,249)	(2,739,928)	-	(40,626,177)	(5,653,314)
Payments for debt issuance costs	(407,027)	-	-	(407,027)	-
Payments received on note receivable	1,874,506	-	-	1,874,506	-
Proceeds from other capital contributions	108,630	-	-	108,630	-
Net cash used for capital and related financing activities	(14,634,925)	(5,133,181)	-	(19,768,106)	(5,651,829)
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>					
Purchase of investment securities	(243,732,447)	-	-	(243,732,447)	(70,337,894)
Sale of investment securities	242,733,319	-	-	242,733,319	72,443,692
Interest on investments	1,798,415	457,611	-	2,256,026	279,210
Net cash provided by (used for) investing activities	799,287	457,611	-	1,256,898	2,385,008
Net increase in cash and cash equivalents	(1,837,259)	120,176	97,788	(1,619,295)	3,395,613
Cash and cash equivalents, July 1	75,609,458	32,508,696	777,166	108,895,320	15,786,424
Cash and cash equivalents, June 30	73,772,199	32,628,872	874,954	107,276,025	19,182,037
Investment in non-cash equivalents	87,447,380	-	-	87,447,380	23,508,168
Total cash and temporary investments	\$ 161,219,579	\$ 32,628,872	\$ 874,954	\$ 194,723,405	\$ 42,690,205

## Statement of Cash Flows

## Proprietary Funds

Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds				Governmental
	Major Funds		Nonmajor Fund		Activities
	Water and Wastewater	Solid Waste	Child Care	Totals	Internal Service Funds
<b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>					
<b>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ (13,170,494)	\$ (2,637,728)	\$ 71,994	\$ (15,736,228)	\$ (1,188,224)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	27,234,540	2,316,772	-	29,551,312	5,652,714
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	(1,993,072)	(663,939)	(407)	(2,657,418)	82,776
Decrease (increase) in inventories	(62,327)	2,536	-	(59,791)	17,732
Increase in other assets	-	-	-	-	(146)
Decrease (increase) in deposit with provider	-	-	-	-	(629,041)
Increase (decrease) in accrued liabilities	(390,733)	925,565	9,316	544,148	(2,258,242)
Increase in unpaid claims	-	-	-	-	5,017,716
Increase in landfill closure and postclosure costs	-	5,529,725	-	5,529,725	-
Increase in (decrease) in due to other funds	283,222	16,325	18,917	318,464	-
Increase in escrow deposits	15,559	7,000	-	22,559	-
Increase in accrued liability for compensated absences	81,684	42,515	(2,032)	122,167	11,207
Net cash provided by operating activities	\$ <u>11,998,379</u>	\$ <u>5,538,771</u>	\$ <u>97,788</u>	\$ <u>17,634,938</u>	\$ <u>6,706,492</u>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

In fiscal year 2004, facilities with an estimated market value of \$6,481,940 were contributed to the Enterprise funds by developers. These were primarily water and sewer lines placed in new developments.

In fiscal year 2004, amortization of refunding gains and losses resulted in a net expense of \$689,427 in the Water and Wastewater Fund, and \$11,062 in the Solid Waste Fund.

In fiscal year 2004, the net fair market value adjustment related to investments was a loss of \$364,823 in the Water and Wastewater Fund, and a loss of \$36,759 in the Internal Service Funds.

*Accompanying notes to basic financial statements are an integral part of this statement.*

Anne Arundel County, Maryland

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Pension Trust Funds (As of December 31, 2003)	Agency Funds
<b>ASSETS</b>		
Investments, at fair value:		
Cash and temporary investments	\$ 92,383,229	\$ 16,660,487
U. S. Government obligations	28,744,895	-
Corporate obligations	106,133,003	-
Corporate obligation investment pools	63,986,863	-
International obligations	27,053,044	-
Common stocks	374,096,897	-
Common stock investment pools	79,105,483	-
International stock investment pools	117,252,882	-
Mortgages and mortgage related securities	72,671,223	-
Real estate investment pools	61,688,707	-
Insurance company general accounts	58,982,856	-
Total investments	<u>1,082,099,082</u>	<u>16,660,487</u>
Collateral from securities lending transactions	<u>57,991,030</u>	<u>-</u>
Receivables:		
Employer contributions	2,442,514	-
Participant contributions	604,370	-
Accrued interest and dividends	3,617,700	-
Investment sales proceeds	31,198,810	-
Total receivables	<u>37,863,394</u>	<u>-</u>
Deposits on hand	<u>205,747</u>	<u>-</u>
Total assets	<u>1,178,159,253</u>	<u>16,660,487</u>
<b>LIABILITIES</b>		
Accounts payable	1,770,249	47,561
Escrow and other deposits	-	16,612,926
Investment commitments payable	74,391,091	-
Obligation for collateral received under securities lending transactions	<u>57,991,030</u>	<u>-</u>
Total liabilities	<u>134,152,370</u>	<u>16,660,487</u>
<b>NET ASSETS HELD IN TRUST</b>	<u>\$ 1,044,006,883</u>	<u>\$ -</u>
(A schedule of funding progress for each plan is presented on page 64.)		

*Accompanying notes to the basic financial statements are an integral part of this statement.*

Anne Arundel County, Maryland

Statement of Changes in Fiduciary Net Assets

Pension Trust Funds

Year Ended December 31, 2003

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	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 26,287,740
Participant	7,785,438
Total contributions	<u>34,073,178</u>
Investment income:	
Net appreciation in fair value	
of investments	175,027,075
Interest income	16,416,882
Dividend income	3,957,455
Total investment income	<u>195,401,412</u>
Less investment expense	<u>(4,099,896)</u>
Net income from investing activities	191,301,516
Securities lending activities:	
Securities lending income	620,824
Securities lending expenses:	
Borrower rebates	451,751
Management fees	54,381
Securities lending expense	<u>506,132</u>
Securities lending net income	<u>114,692</u>
Total net investment income	<u>191,416,208</u>
Total additions	<u>225,489,386</u>
DEDUCTIONS	
Participant benefit payments and refunds	32,736,809
Administrative expenses	1,277,345
Total deductions	<u>34,014,154</u>
Net increases (decreases)	191,475,232
Net assets, beginning of year	<u>852,531,651</u>
Net assets, end of year	<u>\$ 1,044,006,883</u>

*Accompanying notes to the basic financial statements are an integral part of this statement.*

**1 Summary of Significant Accounting Policies**

The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). This note summarizes the significant accounting policies.

**A Reporting Entity** – The County’s basic financial statements include various departments, agencies, and other organizational units governed directly by the County Executive and the County Council, herein referred to as the Primary Government. These statements also include other entities, which by their relationship with the Primary Government are considered component units of the County. Accounting principles dictate that those entities that are financially accountable to the Primary Government or where exclusion would cause the financial statements to be misleading or incomplete should be included in the County’s basic financial statements. The County’s component units and the reasons for their inclusion are as follows:

- **Anne Arundel County Board of Education** (Board of Education) - The Board of Education and the Anne Arundel County Public School System provide public education for the County’s students in grades kindergarten through twelve.
- **Anne Arundel Community College** (Community College) – The Community College operates an institution of higher education within the County.
- **Public Library of Annapolis and Anne Arundel County** (Library) – The Library operates the public library system within the County.
- **Anne Arundel Economic Development Corporation** (Economic Development) – Economic Development provides services and programs that promote economic development within the County.
- **Tipton Airport Authority** (Tipton Airport) – Tipton Airport operates a general aviation airport in the western area of the County.
- **Anne Arundel Workforce Development Corporation** (Workforce Development) – Workforce Development provides jobs training and placement services to County citizens.

All of these entities are component units because the Primary Government approves their respective budgets and/or provides a substantial amount of their funding. In addition, the County Executive appoints a majority of the members of the governing bodies for the Economic Development Corporation, Tipton airport, and Workforce Development.

All of these entities are discretely presented in the government-wide statements. The Board of Education and the Community College are considered major component units and have been presented in separate columns on the face of the government-wide statements.

Separately issued financial statements for the Board of Education, the Community College, Economic Development, Tipton Airport, and Workforce Development may be obtained from their respective administrative offices. The addresses are provided below. The Library does not issue separate financial statements, and all of their required financial statements have been included in the County’s comprehensive annual financial report.

Anne Arundel County Board of Education  
2644 Riva Road  
Annapolis, MD 21401

Anne Arundel Community College  
101 College Parkway  
Arnold, MD 21012

Anne Arundel Economic Development Corp.  
2660 Riva Road, Suite 200  
Annapolis, MD 21401

Tipton Airport Authority  
P. O. Box 155  
Odenton, MD 21113-0155

Anne Arundel Workforce Development  
401 Headquarters Drive, Suite 205  
Millersville, MD 21108

**B** *Financial Statement Presentation, Measurement Focus, and Bases of Accounting* – The basic financial statements are divided into three categories: government-wide financial statements, fund financial statements, and budgetary statements.

### **Government-Wide Financial Statements**

The government-wide financial statements, consisting of the Statement of Net Assets and the Statement of Activities, are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year when levied, and grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met.

The government-wide statements present governmental activities, which are primarily supported by taxes and intergovernmental revenues, separately from business-type activities, which are primarily funded by user fees. In addition, the Primary Government's activity is presented separately from its discretely presented component units. The government-wide statements do not include the net assets or activities of the fiduciary funds, which include the pension trust funds and the agency funds, because these funds account for assets that are not owned by the County.

Interfund activity within the Primary Government's governmental activities and business-type activities has been eliminated from the government-wide statements. Residual balances between the governmental and business-type categories are presented on the Statement of Net Assets as "Internal balances." In addition, transactions between these activities and the internal service funds, which primarily serve the Primary Government, have been eliminated. Residual assets, liabilities, and net assets of the internal service funds have been added to governmental activities. In addition, transactions between the internal service funds and component units or other non-County agencies have been included in governmental activities.

### **Fund Financial Statements**

The fund financial statements herein include statements for the governmental funds, the proprietary funds, and the fiduciary funds. Major funds within each category have been presented in separate columns, while all nonmajor funds are combined in one column.

**Governmental fund financial statements** - The governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. Revenues are considered available when they are collectible within the current period or shortly thereafter to pay liabilities of the current period. Expenditures are generally recorded when incurred; however, expenditures for debt service, compensated absences, claims, and judgments are recorded when payments are due.

The County considers revenue collected within 90 days of the end of the year as available, except for property taxes, which must be collected within 60 days. Therefore, the property taxes, income taxes, and grants that have not been received within the availability period have been deferred to future periods.

The governmental fund financial statements separately present the following major funds:

- **General Fund** – This fund is the primary operating fund. It accounts for all financial resources of the Primary Government, except those accounted for in another fund.
- **Impact Fee Fund** – This special revenue fund accounts for impact fees collected from developers to pay a share of the cost of additional school capacity and road improvements necessitated by the development.
- **General County Capital Projects Fund** – This fund accounts for all resources, both restricted and unrestricted, that are received and used for the acquisition or development of major capital improvements. Resources received are applied in the following order: pay-as-you-go, dedicated revenues such as developer contributions, grants, and bonds. This fund is also used to account for certain multi-year Federal grant programs related to housing and tenant rental assistance.

**Proprietary fund financial statements** - The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of cash flows. These funds account for County services that operate as self-supporting activities. Those who benefit from these services bear the cost through the payment of user fees. The proprietary fund financial statements separately present the following major enterprise funds:

- **Water and Wastewater** – This fund accounts for the operating, debt service, and capital improvement activities of the water and wastewater utility services provided to County residents and businesses.
- **Solid Waste** – This fund accounts for the costs associated with the collection and disposal of refuse for County residents and businesses. This includes the cost of operations, debt service, capital improvement, and landfill restoration.

The proprietary fund statements also include a column that presents totals for internal service funds. These funds operate as self-supporting activities, which primarily serve the Primary Government, its component units, and agencies. The following funds comprise the internal service funds of the County:

- **Self Insurance** – The County is self-insured for workers' compensation, auto liability, and general liability insurance. This fund accounts for this self-insured activity and the purchase of policies from commercial insurers for certain specific exposures. These services, provided to the Primary Government and certain component units, are funded through charges to the users.
- **Health Insurance** – The County is self-insured for employee medical benefits. This fund accounts for this health insurance activity and the payment to outside administrators and medical service providers. These services are provided to the Primary Government and certain component units and other agencies and are funded through premiums charged to the users.
- **Print Shop** – This fund accounts for the activity in the County's print shop. These services are provided to the County, its component units, and agencies, and costs are recouped through user charges.
- **Central Garage and Transportation** – This fund accounts for activity in the County's Central Garage, which provides the Primary Government and its component units with vehicle maintenance, fuel usage, and motor pool vehicles. Costs are recovered through fees to users for maintenance, fuel use, and vehicle lease and replacement charges.

**Fiduciary fund financial statements** - The fiduciary statements include columns for the following:

- **Pension Trust Funds** – This column includes the activities of the Anne Arundel County Retirement and Pension System (Retirement System). The Retirement System accounts for the activity in the Primary Government's four defined-benefit pension plans and reports on a calendar year basis. The Pension Trust funds are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. These plans accumulate employer and employee contributions and invest these funds to provide guaranteed pension benefits after retirement. Employer contributions are based on actuarial recommendations.
- **Agency Funds** – This column includes the balances of assets and liabilities maintained in the Primary Government's agency funds. Since agency funds report only assets and liabilities, these funds do not use a measurement focus. These funds account for deposits that are collected and held on behalf of individuals, organizations, or other governments. These monies include escrow deposits for developer subdivisions, sediment control, recreation land, tax sale, and other miscellaneous purposes; monies held on behalf of the Farmington Special Assessment District; and taxes collected for other governments.

### **Budgetary Statements**

The basic financial statements include a Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for the General Fund. This statement is compiled using the budgetary basis of accounting in which revenues are recognized when measurable and available, except for grant revenue, which is recognized when the grant-related reimbursable expenditures are made. Budgetary expenditures are recognized when encumbered. The Impact Fee Fund, a major governmental fund, does not have a legally adopted budget as the fees are expended through the capital projects fund.

**Combining and Other Supplementary Schedules**

For all columns in the basic financial statements that accumulate the data for nonmajor funds or component units, we have provided combining statements herein that present the individual funds included in these nonmajor categories. In addition, we have provided budgetary statements of revenue and expenditures for all Primary government funds. Separate financial statements for the Library, a nonmajor component unit, are also presented here because the Library does not issue separate financial statements.

**C Cash, Investments, and Related Income** – Cash and temporary investments include both cash deposits and investments that mature within one year. These temporary investments are recorded at fair value, except for repurchase agreements, which are valued at cost. Available cash from the Primary Government and Library is pooled in the General Fund and invested in overnight or other temporary investments. To facilitate the pooling, cash belonging to other funds is transferred to and from the General Fund.

Investment income earned on temporary investments is generally allocated to each fund based on its proportionate share of the cash balance at the end of each month. However, investment income earned on the balances in certain special revenue funds and by the Library is retained in the General Fund. In addition, investment earnings recognized in the General County Capital Projects Fund are transferred to the General Fund.

On the Statement of Cash Flows for the proprietary funds, cash and cash equivalents include bank deposits and highly liquid investments readily convertible to cash, with original maturities of three months or less.

Investments of the Retirement System are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price using current exchange rates. The fair value of underlying assets in the real estate investment pools is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

**D Inventories and Prepaid Expenses** – Inventories of parts and supplies, recorded in the General Fund and certain proprietary funds, are valued at cost assuming a first-in, first-out consumption pattern. The government-wide and the fund statements record the cost of inventory as it is consumed, while the budgetary statements record the cost when the inventory is purchased. For the government-wide statements, prepaid expenses are recognized as the services are consumed.

**E Capital Assets** – Capital assets of the Primary Government are recorded in the applicable governmental or business-type activities columns on the government-wide Statement of Net Assets. These asset balances include all constructed, purchased, or developer-donated public domain infrastructure (roads, bridges, and similar items). Only items with a value of \$5,000 or more are capitalized. Capital assets are valued at historical cost or estimated historical cost. Donated assets are valued at their estimated fair value on the date donated. Depreciable assets are depreciated on a straight-line basis over their respective useful lives. The estimated useful lives of the capital assets are:

<u>Category</u>	<u>Years</u>	<u>Category</u>	<u>Years</u>
Buildings, structures, sidewalks, curbs, gutters and water / sewer lines	50	Heavy machinery and other equipment	10
Water / sewer structures	35	Library collection	10
Land improvements	30	Furniture and fixtures	5 – 10
Culverts and storm drains	25 – 50	Office equipment, software, and telecommunication systems	5 – 7
Roads and bridges	17 – 30	Automobiles and small rolling stock	5
Landfills	15 – 20		

**F Program Revenues** – The government-wide Statement of Activities is presented using a net-cost format. Total costs are presented on a functional basis. Some of these functional activities are financed in whole or in part by program revenues received from parties outside the County government. These program revenues are subtracted from the functional costs to arrive at net costs. General County revenues are then applied against the net costs to arrive at changes in net assets for the fiscal year.

Program revenues include amounts received from those who purchase, use, or directly benefit from a program; amounts received from outside parties that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific purpose. Program revenues include user fees and charges, impact fees, fines, license and permit fees, special community benefit district assessments, grants and contributions, and restricted investment income.

**G Operating, Non-operating Revenues and Capital Contributions** – The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds has categorized revenue sources into operating, non-operating and capital contributions. Operating revenues include charges for water, wastewater, landfill usage, child care, and other revenue used to fund the ongoing provision of utility, refuse collection and child care services to citizens. Non-operating revenues include all other sources such as interest earned and other revenue. Capital contributions include developer-contributed assets and grants, capital connection fees, capital facility assessments, and front foot benefit fees restricted for the construction of capital assets or the payment of debt issued for capital construction.

**H Capitalized interest** – The Primary Government’s Statement of Net Assets for business-type activities includes capitalized interest. Management estimates the fiscal year interest expensed on debt used for the construction of capital assets. This interest is added to the value of the capital assets and is depreciated over the life of the related water and sewer lines and structures.

**I Indirect costs** – Administrative costs of the Primary Government are generally included in the general government function on the government-wide Statement of Activities and the fund financial statements. However, some allocations of administrative costs are made through an indirect cost allocation plan, resulting in charges to the County Parking Garage special revenue fund, proprietary funds, Retirement System, and General County Capital Projects Fund. These allocated costs are included in the functional expenses of these other funds.

**J Encumbrances** – The governmental funds utilize encumbrance accounting under which purchase orders, contracts, and other commitments are recorded in order to reserve budget appropriations for that purpose. Open encumbrances at fiscal year-end are shown as reservations of fund balance in the governmental fund statements and are recorded as expenditures on the budgetary statement. Encumbrances at June 30, 2004 totaled \$45,432,046 in the governmental fund types, \$38,254,855 of which is for construction activity; and \$52,854,818 in the proprietary funds, \$47,267,710 of which is for construction activity.

**K Private sector guidance** – As allowed by generally accepted accounting principles for business-type activities and enterprise funds, the County has chosen not to implement pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 unless those pronouncements are specifically adopted by GASB.

**L Restatement of Beginning Net Assets** – As a result of a duplication of some land and developer-built capital assets, beginning construction in progress for governmental activities was reduced by \$32,485,490.

**M Compensated absences** - The Primary Government’s Statements of Net Assets include an accrual for compensated absences. This accrual is an estimate of unused annual leave at June 30, 2004. The annual leave accrual is calculated using unused annual leave hours at June 30, 2004 and pay rates in place for each employee at fiscal year end.

The compensated absences also includes an estimate of sick leave payouts earned as of fiscal year end. Certain employees are paid \$25 per day for unused sick leave upon retirement. The estimate uses unused sick days at year end multiplied by \$25 per day. The accrual is then adjusted to reflect an estimate of the current employees that will ultimately retire with the Primary Government.

**N Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and the related notes. Actual results could differ from those estimates.

**O New Pronouncements** – The Governmental Accounting Standards Board Statement 39 – Determining Whether Certain Organizations are Component Units became effective in fiscal year 2004. As a result the Community College, a discretely presented component unit, has included the College’s Foundation units financial statements included herein.

**2 Budgetary Information**

*A Excess Expenditures over Appropriations and Fund Deficits* – During the fiscal year certain departments and/or funds overspent legal budget appropriations.

The States Attorney’s office overspent its appropriation authority by \$41,280. Personal services costs exceeded budget estimate due to low employee turnover. The Cooperative Extension Service overspent its appropriation by \$56.

The West County and Arundel Mills Tax Increment debt service funds overspent legal budget appropriations by \$1,384,202 and \$3,051,890, respectively. This was caused by an advanced refunding of these districts’ outstanding bonds during fiscal year 2004. The refunding, discussed in Note 8I, resulted in the liquidation of cash reserves and other issuance costs not anticipated in the budget process. This action was approved by the County Council in the form of a resolution.

At fiscal year end the Self Insurance Fund had a total deficit of \$4,441,115. The deficit was allocated to the participating funds of the Primary Government. The portion of the deficit related to the Board of Education was allocated to the General Fund. The allocation was made on the government-wide and modified accrual statements only. Recognition on a budgetary basis will occur when appropriation authority is granted.

*B Reconciliation Between Fund Financial Statements and Budgetary Statements* - Since the General Fund’s Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual use different revenue and expenditure recognition policies, a reconciliation of these two statements is provided below:

Revenue under expenditures - budgetary basis	\$ 49,707,939
Net effect of encumbrances	(365,637)
Changes in Revenue Stabilization Reserve	2,249,340
Timing differences in revenue recognition	(292,331)
Net effect of fiscal 2003 and 2004 Self Insurance Fund deficits allocation	140,633
Bond proceeds reserved for debt service	(1,254,961)
Net inventory change	251,558
Change in fund balance - modified accrual basis	<u>\$ 50,436,541</u>

**3 Cash and Investments**

The Primary Government pools available cash and centrally invests these funds to maximize earnings. The component units also pool available cash in this manner. The Retirement System cash is held separately. Significant accounting policies related to cash and investments are included in Note 1C.

*A Policies* - The Primary Government is authorized to invest available cash in obligations of the U.S. Government, its agencies and instrumentalities; repurchase agreements that are fully collateralized by direct U. S. Government obligations and U. S. Government agency and instrumentality obligations, including fixed rate Mortgage-Backed Securities; Bankers’ Acceptances; mutual funds that invest in U. S. Government securities and/or repurchase agreements; Certificates of Deposit; and Commercial Paper. In addition, the Primary Government can participate in the local government investment pool authorized and maintained by the State of Maryland, regulated by the Annotated Code of Maryland, and audited by State Treasury officials. The fair value of the position in the pool is the same as the value of the shares. Finally, the Primary government is also authorized to invest bond proceeds that are subject to arbitrage rebate requirements in state and local government obligations.

Pooled cash is primarily used to purchase short-term investments, and the bank invests any remaining bank deposits in overnight repurchase agreements prior to the close of each business day. Policy requires that the initial collateral securities underlying repurchase agreements have a market value of at least 102% of the cost of the repurchase agreement. When the collateral falls under 101% or is \$100,000 less than the 102%, additional collateral is required to bring the total to the required level.

The Retirement System is authorized to invest in U. S. Government securities, insurance company general accounts, commercial paper, money market mutual funds, corporate bonds, common and international stocks, mortgage participations, and real estate. The Retirement System lends their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Retirement System's custodian lends securities of the type on loan at year-end for collateral in the form of cash or other securities in an amount equal to 102% of the market value of the securities loaned.

Either the Retirement System or the borrower may terminate security loans on demand, although the average term of the loans is one week. Cash collateral is invested in the lending agent's money market mutual fund, which at December 31, 2003 had a weighted average maturity of 190 days. The relationship between the maturities of the investment pool and the Retirement System's loans is affected by the maturities of the security loans made by other entities that use the agent's pool, which the Retirement System cannot determine. The Retirement System cannot pledge or sell collateral securities received unless the borrower defaults.

**B** *Balances and Custodial Risk* – At June 30, 2004, the carrying amount of the Primary Government's bank deposits was (\$7,246,270), while bank balances were \$72,855. Available cash invested overnight as discussed above was \$97,487. The bank balances of \$72,855 were fully secured by Federal Deposit insurance.

The Primary Government's investment balances at year end are summarized on the following page and categorized according to the level of custodial credit risk. Category 1 includes investments held by the Primary Government's agent in the Primary Government's name, Category 2 includes uninsured and unregistered securities held by the counterparty's trust department in the Primary Government's name, and Category 3 includes uninsured and unregistered investments held by the counterparty, but not in the Primary Government's name. Certain investments cannot be categorized because securities are not used as evidence of the investment. Although Banker's Acceptances and Commercial Paper are held in the County's name, the investments are not collateralized. However, in accordance with the County's policy, such investments are limited to highly rated institutions and are limited as a percent of the total portfolio.

Securities on loan at year-end for securities collateral are classified according to the category for the collateral in the following schedule of investments. Securities on loan for cash collateral are unclassified since the cash is invested in a collateral investment pool. At year-end the County has limited credit risk exposure to borrowers because the amounts the County owes the borrowers exceed the amounts the borrowers owe the County.

Cash balances of the Board of Education component unit are fully secured by Federal Deposit Insurance and/or collateral held in the component unit's name at the Federal Reserve. The Community College held \$1,976,984 in uninsured, un-collateralized deposits as of June 30, 2004. The cash balances of the other non-major component units are insured or collateralized except \$231,671, which is neither insured nor collateralized. These cash balances and investments of the component units are summarized on the following page.

Anne Arundel County, Maryland  
Notes to the Basic Financial Statements

Primary Government	Category			Not Categorized	Carrying Amount
	1	2	3		
Investments:					
Repurchase agreements	\$ 163,623,125	\$ -	\$ -	\$ -	\$ 163,623,125
U.S. Government Securities	-	-	-	-	-
U.S. Government Agencies	162,916,518	-	-	-	162,916,518
U.S. Government obligations	-	28,744,895	-	-	28,744,895
U.S. Zero coupon bonds	2,129,050	-	-	-	2,129,050
Money market mutual funds	-	-	-	145,904,858	145,904,858
Bankers acceptances	23,926,807	-	-	-	23,926,807
Municipal securities	15,717,103	-	-	-	15,717,103
Commercial paper	21,422,937	-	-	-	21,422,937
Corporate bonds, net of securities loan	-	133,186,047	-	-	133,186,047
Common stock, net of securities loan	-	374,096,897	-	-	374,096,897
Investments held by broker-dealer under securities loan with cash collateral					
U.S. Government obligations	-	-	-	36,541,445	36,541,445
Corporate obligations	-	-	-	21,449,585	21,449,585
Int'l obligation investment pool	-	-	-	-	-
Common and international stock pools	-	-	-	258,047,072	258,047,072
Corporate bond investment pools	-	-	-	63,986,863	63,986,863
Mortgage and related pools	-	-	-	72,671,223	72,671,223
Insurance company general accounts	-	-	-	58,982,856	58,982,856
	<u>\$ 389,735,540</u>	<u>\$ 536,027,839</u>	<u>\$ -</u>	<u>\$ 657,583,902</u>	<u>\$ 1,583,347,281</u>

Cash and investments shown on Statement of Net Assets:

Governmental activities	\$ 224,627,015
Business-type activities	194,723,405
Fiduciary fund types	1,156,750,599
	<u>\$ 1,576,101,019</u>

Cash and investment balances composed of:

Bank deposits	\$ (7,246,262)
Investments	1,583,347,281
	<u>\$ 1,576,101,019</u>

Component Units

Component Units	Category			Not Categorized	Carrying Amount
	1	2	3		
Board of Education					
Repurchase agreements	\$ 2,233,783	\$ -	\$ -	\$ -	2,233,783
Investment pools	-	-	-	79,265,892	79,265,892
	<u>2,233,783</u>	<u>-</u>	<u>-</u>	<u>79,265,892</u>	<u>\$ 81,499,675</u>

Cash and investment balances composed of:

Cash	\$ 31,988
Investments	81,499,675
	<u>\$ 81,531,663</u>

Anne Arundel County, Maryland  
Notes to the Basic Financial Statements

Component Units continued	Category			Not Categorized	Carrying Amount
	1	2	3		
Community College					
Repurchase agreements	\$ 437	\$ -	\$ -	\$ -	\$ 437
US Government securities	492,805	-	-	-	492,805
Investment pools	-	-	-	4,719,923	4,719,923
Corporate bonds	550,820	-	-	-	550,820
International bonds	78,136	-	-	-	78,136
Common stock	1,831,462	-	-	-	1,831,462
Guaranteed Inst. Trusts	-	-	-	1,174,998	1,174,998
	<u>\$ 2,953,660</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,894,921</u>	<u>\$ 8,848,581</u>
Cash and investment balances composed of:					
Cash					\$ 2,814,442
Investments					8,848,581
					<u>\$ 11,663,023</u>
Other Non major component units					
Repurchase agreements	\$ 1,099,882	\$ -	\$ -	\$ -	\$ 1,099,882
Investment pools	-	-	-	107,608	107,608
Debt Instruments	834,669	-	277,157	-	1,111,826
	<u>\$ 1,934,551</u>	<u>\$ -</u>	<u>\$ 277,157</u>	<u>\$ 107,608</u>	<u>\$ 2,319,316</u>
Cash and investment balances composed of:					
Cash					\$ 1,100,850
Investments					2,319,316
					<u>\$ 3,420,166</u>

#### 4 Receivables

**A Property Taxes Receivable** - The County's property tax is levied each July 1<sup>st</sup> based on values assessed and certified by the Maryland State Department of Assessments as of that date. Liens are placed on property at that time. A revaluation of each property is required to be completed every three years. For owner-occupied residential property, property owners can choose to pay one payment due September 30<sup>th</sup> or two installments due on September 30<sup>th</sup> and December 31<sup>st</sup>. Property taxes are due from all other taxpayers on September 30<sup>th</sup>. After these dates interest is charged each month on the unpaid balance. Property with delinquent taxes is sold at public auction each June.

**B Long Term Receivables** - The Primary Government has long-term receivables recorded in the Utility Fund consisting of deferred connection and assessment charges and a note receivable. The deferred charges are primarily for front foot benefit assessments, capital connections, and capital facility assessments. These receivables are collected over five to thirty years and include an interest charge that varies from 2% to 8%. The balance at June 30, 2004 is \$65,209,109.

The note receivable is due from a developer based on an agreement to provide utility infrastructure and service to the development area. The note is being collected over 10 years and bears an interest rate of 4.25%. The balance at fiscal year end was \$7,200,957.

**C Grants Receivable** - At June 30, 2004 the general county capital projects fund has a receivable of \$1,773,013 recorded for the State of Maryland related to the Waterway Improvement Program. The State has reduced its annual allotment for the County to \$150,000. Therefore, this receivable may not be collected within one year.

#### 5 Capital Assets

The components of capital assets, changes in asset categories, and accumulated depreciation for the fiscal year ended June 30, 2004 are presented on the following pages.

Anne Arundel County, Maryland  
Notes to the Basic Financial Statements

Primary Government

Category	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and easements	\$ 143,709,828	\$ 8,419,001	\$ -	\$ 152,128,829
Historical property/works of art	4,095,225	-	-	4,095,225
Construction in progress (as restated)	217,858,104	51,803,437	(27,271,765)	242,389,776
Total assets not depreciated	<u>365,663,157</u>	<u>60,222,438</u>	<u>(27,271,765)</u>	<u>398,613,830</u>
<i>Capital assets being depreciated:</i>				
Land improvements	73,914,131	2,001,451	-	75,915,582
Buildings	194,736,281	6,558,171	-	201,294,452
Roads and bridges	244,258,782	10,674,952	(4,936,658)	249,997,076
Sidewalks, curbs, and gutters	23,990,520	1,076,351	(3,384)	25,063,487
Storm drains and culverts	191,194,443	4,174,852	(879,753)	194,489,542
Automobiles and rolling stock	59,225,836	5,958,579	(3,768,268)	61,416,147
Furniture, fixtures, and equipment	31,857,032	797,840	(423,803)	32,231,069
Software	22,444,537	28,450	(1,775,780)	20,697,207
Total assets depreciated	<u>841,621,562</u>	<u>31,270,646</u>	<u>(11,787,646)</u>	<u>861,104,562</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(33,007,205)	(2,570,426)	-	(35,577,631)
Buildings	(42,807,045)	(4,000,684)	(9,724)	(46,817,453)
Roads and bridges	(112,492,560)	(8,650,866)	3,572,735	(117,570,691)
Sidewalks, curbs, and gutters	(11,732,818)	(260,683)	9,872	(11,983,629)
Storm drains and culverts	(101,022,175)	(6,419,419)	551,200	(106,890,394)
Automobiles and rolling stock	(41,146,935)	(6,014,815)	3,737,658	(43,424,092)
Furniture, fixtures, and equipment	(23,240,566)	(2,192,095)	414,189	(25,018,472)
Software	(16,660,115)	(1,266,645)	1,747,028	(16,179,732)
Total accumulated depreciation	<u>(382,109,419)</u>	<u>(31,375,633)</u>	<u>10,022,958</u>	<u>(403,462,094)</u>
Total capital assets, being depreciated, net	<u>459,512,143</u>	<u>(104,987)</u>	<u>(1,764,688)</u>	<u>457,642,468</u>
Total governmental activities, net	\$ <u>825,175,300</u>	\$ <u>60,117,451</u>	\$ <u>(29,036,453)</u>	\$ <u>856,256,298</u>
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and easements	\$ 8,365,864	\$ 183,496	\$ -	\$ 8,549,360
Construction in progress	97,188,200	46,493,959	(24,076,757)	119,605,402
Total assets not depreciated	<u>105,554,064</u>	<u>46,677,455</u>	<u>(24,076,757)</u>	<u>128,154,762</u>
<i>Capital assets being depreciated:</i>				
Buildings	16,154,759	-	-	16,154,759
Landfills	33,720,615	667,231	-	34,387,846
Water and sewer plants and lines	1,098,798,118	32,784,265	-	1,131,582,383
Automobiles and rolling stock	7,468,246	441,013	(418,775)	7,490,484
Furniture, fixtures, and equipment	10,666,905	486,127	(86,916)	11,066,116
Total assets depreciated	<u>1,166,808,643</u>	<u>34,378,636</u>	<u>(505,691)</u>	<u>1,200,681,588</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(4,554,437)	(270,392)	-	(4,824,829)
Landfills	(17,092,479)	(1,068,661)	-	(18,161,140)
Water and sewer plants and lines	(295,816,202)	(26,566,137)	-	(322,382,339)
Automobiles and rolling stock	(6,367,874)	(396,781)	418,776	(6,345,879)
Furniture, fixtures, and equipment	(7,443,604)	(1,249,341)	76,915	(8,616,030)
Total accumulated depreciation	<u>(331,274,596)</u>	<u>(29,551,312)</u>	<u>495,691</u>	<u>(360,330,217)</u>
Total capital assets, being depreciated, net	<u>835,534,047</u>	<u>4,827,324</u>	<u>(10,000)</u>	<u>840,351,371</u>
Total business-type activities, net	\$ <u>941,088,111</u>	\$ <u>51,504,779</u>	\$ <u>(24,086,757)</u>	\$ <u>968,506,133</u>

Anne Arundel County, Maryland  
Notes to the Basic Financial Statements

Category	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
<b>Component Units</b>				
<b>Board of Education:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements	\$ 44,964,098	\$ -	\$ -	\$ 44,964,098
Construction in progress	104,678,709	39,981,762	(69,669,531)	74,990,940
Total assets not depreciated	<u>149,642,807</u>	<u>39,981,762</u>	<u>(69,669,531)</u>	<u>119,955,038</u>
<i>Capital assets being depreciated:</i>				
Buildings	662,200,296	57,535,503	(1,803,132)	717,932,667
Furniture, fixtures, and equipment	54,843,165	3,332,096	(3,747,251)	54,428,010
Total assets depreciated	<u>717,043,461</u>	<u>60,867,599</u>	<u>(5,550,383)</u>	<u>772,360,677</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(294,945,851)	(25,717,175)	1,803,132	(318,859,894)
Furniture, fixtures, and equipment	(28,456,151)	(6,047,620)	3,290,880	(31,212,891)
Total accumulated depreciation	<u>(323,402,002)</u>	<u>(31,764,795)</u>	<u>5,094,012</u>	<u>(350,072,785)</u>
Total capital assets, being depreciated, net	<u>393,641,459</u>	<u>29,102,804</u>	<u>(456,371)</u>	<u>422,287,892</u>
Total Board of Education, net	<u>\$ 543,284,266</u>	<u>\$ 69,084,566</u>	<u>\$ (70,125,902)</u>	<u>\$ 542,242,930</u>
<b>Community College:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,377,654	\$ -	\$ -	\$ 2,377,654
Construction in progress	2,638,775	13,694,353	(1,896,788)	14,436,340
Total assets not depreciated	<u>5,016,429</u>	<u>13,694,353</u>	<u>(1,896,788)</u>	<u>16,813,994</u>
<i>Capital assets being depreciated:</i>				
Land improvements	3,938,139	-	(2,020)	3,936,119
Buildings and improvements	69,988,954	789,808	(449,655)	70,329,107
Furniture, fixtures, and equipment	25,611,970	2,351,226	(10,685,528)	17,277,668
Total assets depreciated	<u>99,539,063</u>	<u>3,141,034</u>	<u>(11,137,203)</u>	<u>91,542,894</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(2,581,220)	(178,880)	1,145	(2,758,955)
Buildings and improvements	(23,116,065)	(2,131,653)	225,659	(25,022,059)
Furniture, fixtures, and equipment	(17,813,896)	(2,104,234)	7,921,176	(11,996,954)
Total accumulated depreciation	<u>(43,511,181)</u>	<u>(4,414,767)</u>	<u>8,147,980</u>	<u>(39,777,968)</u>
Total capital assets, being depreciated, net	<u>56,027,882</u>	<u>(1,273,733)</u>	<u>(2,989,223)</u>	<u>51,764,926</u>
Total Community College, net	<u>\$ 61,044,311</u>	<u>\$ 12,420,620</u>	<u>\$ (4,886,011)</u>	<u>\$ 68,578,920</u>
<b>Other non-major:</b>				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 2,715,757	\$ 355,480	\$ -	\$ 3,071,237
<i>Capital assets being depreciated:</i>				
Airport improvements	682,206	1,445,784	-	2,127,990
Library collection	11,444,107	2,460,522	(1,887,640)	12,016,989
Automobiles and rolling stock	53,072	-	-	53,072
Furniture, fixtures, and equipment	1,581,263	430,280	(42,626)	1,968,917
Total assets depreciated	<u>13,760,648</u>	<u>4,336,586</u>	<u>(1,930,266)</u>	<u>16,166,968</u>
<i>Less accumulated depreciation for:</i>				
Airport improvements	(117,279)	(106,400)	-	(223,679)
Library collection	(3,688,852)	(1,144,411)	674,780	(4,158,483)
Automobiles and rolling stock	(39,452)	(8,427)	-	(47,879)
Furniture, fixtures, and equipment	(981,745)	(227,594)	24,732	(1,184,607)
Total accumulated depreciation	<u>(4,827,328)</u>	<u>(1,486,832)</u>	<u>699,512</u>	<u>(5,614,648)</u>
Total capital assets, being depreciated, net	<u>8,933,320</u>	<u>2,849,754</u>	<u>(1,230,754)</u>	<u>10,552,320</u>
Total other non-major, net	<u>\$ 11,649,077</u>	<u>\$ 3,205,234</u>	<u>\$ (1,230,754)</u>	<u>\$ 13,623,557</u>

The County has established tax increment and special taxing districts to aid in development efforts within certain geographical areas. The proceeds of debt issued on behalf of the districts are primarily used for capital improvements. Expenditures related to the improvements are recorded in the County's capital projects and are included as construction in progress until the projects are completed. Upon project completion, the amounts recorded in construction in progress are expensed, and the related assets are capitalized when developer construction agreements are finalized and the assets inspected. The assets are depreciated over the estimated useful lives.

Depreciation expense has been included in the functional categories on the Statement of Activities based on the governmental department, business-type activity, or component unit responsible for the asset. The tables on the following page show the depreciation expense for each functional category.

<i>Governmental activities:</i>		<i>Business-type activities:</i>	
Education	\$ 43,102	Water and wastewater	\$ 27,234,540
Public Safety	1,761,385	Waste collection	2,316,772
General government	8,747,530		\$ <u>29,551,312</u>
Health and human services	289,325	<i>Component units:</i>	
Public works	16,036,222	Board of Education	\$ 31,764,795
Recreation and community services	3,149,382	Community College	4,414,767
Judicial	1,300,903	Library System	1,263,695
Code enforcement	14,033	Economic Development Corp	77,480
Land use and development	33,751	Tipton Airport Authority	107,970
	\$ <u>31,375,633</u>	Workforce Development	37,687
			\$ <u>37,666,394</u>

## **6 Restricted Assets and Liabilities**

The revenue stabilization fund is restricted in the net assets of the General Fund. The assets of the impact fees, general county capital projects, and other nonmajor governmental funds are being retained in separate funds for their respective purposes and are, therefore, shown as restricted assets on the Statement of Net Assets. In addition, fees collected by the Water and Wastewater proprietary fund, including capital connection, front foot benefit, and environmental protection fees are restricted for the payment of debt service incurred for the construction of capital facilities. The Water and Sewer capital project funding from grants, developer contributions, and other sources are restricted for the construction of capital assets. These restricted debt service and capital projects funds are restricted in the business-type activities of the Statement of Net Assets.

## **7 Interfund and Inter Entity Balances and Transfers**

The interfund balances of the Primary Government consist of the following at June 30, 2004:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Amount</u>
Internal Service Funds	General Fund	\$ 4,122,651
	Water and Wastewater	471,804
	Solid Waste	35,096
	Child Care	33,946
		\$ <u>4,663,497</u>

Interfund balances between the General Fund and internal service funds have been eliminated on the government-wide Statement of Net Assets; however, this government-wide statement does include a balance due to the governmental activities from the business-type activities of the Primary Government of \$105,100. This represents the proprietary funds' share of the residual equity of the internal service funds of \$435,746 less the Self Insurance Fund's deficit allocation to proprietary funds of \$540,846.

Transfers between the Primary Government's funds totaled \$46,860,616 for fiscal year 2004. The purposes of these transfers are General Fund bond proceeds and pay-as-you-go funds for capital projects and agricultural easements; impact fee funding for capital projects; capital project investment earnings retained by the General Fund; transfers from special revenues funds to capital projects; excess Parking Garage funds transferred to the General

Fund; and tax increment funds legally appropriated for transfer to the General Fund. A summary of these transfers is presented below:

<u>Originating Fund</u>	<u>Recipient Fund</u>	<u>Amount</u>
General	General County Capital Projects	\$ 33,307,000
	Nonmajor Governmental	1,750,000
<u>Impact Fees</u>	<u>General County Capital Projects</u>	<u>5,898,994</u>
<u>General County Capital Projects</u>	<u>General</u>	<u>720,968</u>
Nonmajor Governmental	General	4,988,321
	General County Capital Projects	195,333
		<u>\$ 46,860,616</u>

At June 30, 2004, receivable and payable balances remained between the Primary Government and its discretely presented component units. Those balances and the payments from the Primary Government to these parties are presented below:

**Receivables/Payables**

<u>Entity with Receivable</u>	<u>Entity with Payable</u>	<u>Amount</u>
Board of Education	Primary Government	\$ 11,635,755
Community College	Primary Government	1,640,709
Other Nonmajor	Primary Government	1,155,920
		<u>\$ 14,432,384</u>

**Primary Government Expenditures**

<u>Originating Entity</u>	<u>Recipient Entity</u>	<u>Amount</u>
Primary Government	Board of Education	\$ 424,889,600
Primary Government	Community College	35,126,855
Primary Government	Other Nonmajor	16,248,281
		<u>\$ 476,264,736</u>

**8 Bonded Debt and Other Obligations**

The Primary Government's Statement of Net Assets includes short and long-term debt and obligations comprised of bond anticipation notes, general obligation bonds, special assessment debt, leases, installment purchase agreements, and liabilities related to State loans, unpaid insurance claims, compensated absences and claims and judgments. Descriptions of certain of these obligations and the respective balances, debt service requirements, and changes during fiscal year 2004 are provided below and on the following page.

**A Bond Anticipation Notes** – The County periodically incurs short-term debt by issuing bond anticipation notes in the form of commercial paper. Notes are sold with an initial maturity from 1 to 270 days, and on refinancing at their maturity with additional notes marketed at then current interest rates. This remarketing is backed for liquidity purposes by a letter of credit, the terms of which provide that no principal repayments are due by the County (if there is a call on the letter of credit) until the termination of the agreement, which is maintained at two years at all times. The maturity date of this liquidity arrangement is May 1, 2007. The maturities of notes outstanding during fiscal year 2004 ranged from 24 to 207 days and interest rates ranged from 0.93% to 1.12%. The County plans to issue long-term debt in the Spring of 2005 to payoff bond anticipation notes outstanding at June 30, 2004. The terms of this refinancing have not been determined.

**B General Obligation Bonds** – Substantially all long-term bonded debt is issued as general obligation bonds and guaranteed by the full faith and credit of the County, subject to limitations set forth in section 710 (d) of the County Charter, which restricts the growth of revenue derived from property taxes. The debt service requirements for the bonds outstanding at June 30, 2004 are provided in the following table:

Year ended June 30,	General Obligation Bonds					
	Governmental		Business-type		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 43,099,038	\$ 24,301,283	\$ 21,663,477	\$ 12,742,155	\$ 64,762,515	\$ 37,043,438
2006	42,413,423	22,212,159	20,970,619	11,759,945	63,384,042	33,972,104
2007	41,356,000	20,076,933	19,418,695	10,785,920	60,774,695	30,862,853
2008	39,222,500	18,038,701	18,434,968	9,866,416	57,657,468	27,905,117
2009	36,651,500	16,060,520	17,491,087	8,969,615	54,142,587	25,030,135
2010-2014	149,320,000	55,520,025	65,538,992	34,171,113	214,858,992	89,691,138
2015-2019	95,225,000	24,643,188	49,761,894	19,498,610	144,986,894	44,141,798
2020-2024	48,575,000	6,429,333	31,600,001	10,007,836	80,175,001	16,437,169
2025-2029	3,685,000	281,438	18,595,000	3,678,826	22,280,000	3,960,264
2030-2033	-	-	5,730,000	534,075	5,730,000	534,075
	<u>\$ 499,547,461</u>	<u>\$ 187,563,580</u>	<u>\$ 269,204,733</u>	<u>\$ 122,014,511</u>	<u>\$ 768,752,194</u>	<u>\$ 309,578,091</u>

**C Special Assessment Debt** - At June 30, 2004, there was \$56,215,000 of Special Obligation Tax Increment Bonds payable from property tax revenue generated from assessment increases occurring since the formation of the tax increment districts. This debt is included in the Primary Government's long-term debt on the Statement of Net Assets. The County has not pledged its full faith and credit for these bonds. During the fiscal year ended June 30, 2004, \$8,992,508 of incremental property tax revenue was collected and available for debt service purposes as reported on the Combining Statement of Revenues, Expenditures and Changes in Fund Balances for the Non-major Governmental Funds. The table below outlines the debt service requirements for these bonds.

June 30,	Principal	Interest	June 30,	Principal	Interest
2005	\$ 695,000	\$ 1,873,723	2010-2014	8,785,000	11,849,726
2006	725,000	2,691,191	2015-2019	9,415,000	9,845,118
2007	835,000	2,653,241	2020-2024	14,160,000	6,974,347
2008	875,000	2,612,666	2025-2029	19,230,000	2,606,922
2009	915,000	2,570,166	2030-2033	580,000	14,450
			Total	<u>\$ 56,215,000</u>	<u>\$ 43,691,550</u>

In addition, there were \$6,085,000 and \$4,722,000 of special tax district bonds related to the Farmington Village Project and the Villages of Dorchester outstanding at June 30, 2004, respectively. The proceeds of these bonds were used to finance infrastructure improvements within the special district. These bonds are payable solely from the proceeds of a special tax levied on parcels within the district and are not backed by the County's full faith and credit. This debt does not appear on the Statement of Net Assets. The County acts only as a fiduciary in collecting the taxes and servicing the debt.

**D State Loans** - The County has loans outstanding at June 30, 2004 of \$2,723,766. These loans were received from the State for highway improvements and waterway improvements. During fiscal year 2004 the County paid \$334,580 and \$9,000 for principal and interest, respectively. The table below outlines the debt service requirements.

Year ended June 30,	Principal	Interest	Year ended June 30,	Principal	Interest
2005	\$ 341,106	\$ 3,073	2010-2014	822,697	-
2006	215,668	-	2015-2019	564,947	-
2007	213,018	-	2020-2024	146,138	-
2008	213,017	-	2025-2029	13,130	-
2009	194,045	-	2030-2033	-	-
			Total	<u>\$ 2,723,766</u>	<u>\$ 3,073</u>

**E Leases** - The County has entered into various lease agreements for assets, which qualify as capital leases for accounting purposes. These agreements have resulted in capital assets totaling \$1,244,554, all of which are used for governmental activities. Mechanical equipment leased consists of a road-striping unit used by the Department of Public Works and golf carts used by the Department of Recreation and Parks. These equipment leases are 5 years in

length and annual payments for all total about \$8,500. Computer hardware comprises the remaining capital leases. These agreements are primarily three years in length with annual payments totaling about \$58,000. The net present value of these minimum lease payments as of June 30, 2004 and the future minimum lease obligations were as follows:

Year ended June 30,	Present Value of Minimum Lease Payments	Interest	Total Minimum Payments
2005	\$ 53,038	\$ 12,729	\$ 65,767
2006	53,264	7,288	60,552
2007	55,499	3,680	59,179
	<u>\$ 161,801</u>	<u>\$ 23,697</u>	<u>\$ 185,498</u>

The County has also entered into several operating lease arrangements for office space and equipment. All leases are cancelable at the option of the County. Many of the agreements contain renewal options and some have rent escalation clauses. Total lease expenses for fiscal year 2004 were \$2,535,031. Minimum annual rental costs required by the leases are summarized below:

Year ending June 30,	Annual Rentals	Year ending June 30,	Annual Rentals
2005	\$ 1,534,959	2009	\$ 1,058,269
2006	1,422,862	2010-2014	790,320
2007	1,322,408	2015-2019	879,363
2008	1,180,598	2020	64,640
			<u>\$ 8,253,419</u>

**F Installment Purchase Agreements** – The County has instituted an Installment Purchase Program to facilitate County purchases of real property easements to maintain farmland and other open space. Under this program the County signs long-term debt agreements with property holders with a minimal down payment, typically \$1,000. Interest and nominal principal payments are made over the life of the agreement and a balloon payment is due at the end of the term to pay off the remaining principal balance. In order to pay the balloon payment, the County purchases and reserves a zero coupon U.S. Treasury Strip. This investment matures when the agreement expires and effectively earns the same interest rate that the County pays on the debt. The debt requirements as of June 30, 2004 are presented below:

Year ended June 30,	Principal	Interest	Year ended June 30,	Principal	Interest
2005	\$ 13,948	\$ 466,945	2010-2014	\$ 80,000	\$ 2,364,073
2006	16,000	478,275	2015-2019	80,000	2,341,323
2007	16,000	477,364	2020-2024	80,000	2,318,573
2008	16,000	476,455	2025-2029	6,551,000	1,928,768
2009	16,000	475,544	2030-2033	1,529,000	90,000
			Total	<u>\$ 8,397,948</u>	<u>\$ 11,417,320</u>

**G Year End Balances, Debt Limitations, and Authorized Debt** - A summary of the debt issues currently outstanding is provided below:

	Due Dates	Interest Rates	Amount of Original Issue	Amount Outstanding
<b>Governmental activities:</b>				
Serial bonds	2005-2027	3.00% to 7.00%	\$ 858,500,750	\$ 499,547,461
Tax increment district bonds	2005-2030	2.00% to 7.35%	98,875,000	56,215,000
Installment purchase agreements	2005-2030	4.95% to 6.00%	8,425,177	8,397,948
Loans payable	2005-2026	2.80% to 4.90%	8,727,644	2,723,766
Total governmental activities			<u>974,528,571</u>	<u>566,884,175</u>
<b>Business-type activities:</b>				
Water and wastewater serial bonds	2005-2033	1.00% to 7.50%	544,005,355	246,122,194
Solid waste serial bonds	2005-2024	2.00% to 6.00%	49,274,250	23,082,539
Total business-type activities			<u>593,279,605</u>	<u>269,204,733</u>
			<u>\$ 1,567,808,176</u>	<u>\$ 836,088,908</u>

Anne Arundel County, Maryland  
Notes to the Basic Financial Statements

The County Charter authorizes the County Council to approve the issuance of general obligation bonds (other than water and sewer) up to a limit of 5.2% of the assessable basis of real property and 13% of the assessable base of personal property and certain operating real property of the County; and to issue general obligation water and sewer bonds up to a debt limit of 5.6% of the assessable basis of real property and 14% of the assessable base of personal property and certain operating real property within the County's sanitary district. At June 30, 2004 a review of the legal debt limitations reveals the following:

	General Bonds (5.2%/13% Limitations)	Water and Wastewater (5.6%/14% Limitations)
Charter imposed limitation	\$ 2,343,410,800	\$ 2,325,512,017
Bonded debt outstanding		
Bond anticipation notes	33,500,000	19,000,000
Long-term serial bonds	<u>522,630,000</u>	<u>246,122,194</u>
	<u>556,130,000</u>	<u>265,122,194</u>
Legal debt margin	\$ <u><u>1,787,280,800</u></u>	\$ <u><u>2,060,389,823</u></u>

As of June 30, 2004, the County had the authority to issue bonds in the amount of \$303,525,887, over and above bonds already issued, including \$162,547,528 of water and wastewater series bonds and \$3,493,688 of solid waste series bonds. This unused authority will be used to fund existing capital projects and those appropriated for fiscal year 2005 and to refund outstanding bond anticipation notes.

**H Changes in Debt and Obligations** – In prior years, the General Fund and the internal service funds are the governmental funds that have been used to liquidate long-term liabilities other than debt. The changes in the Primary Government's long-term liabilities are presented below:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
Bond anticipation notes	\$ 29,000,000	\$ 32,500,000	\$ 29,000,000	\$ 32,500,000	\$ 32,500,000
Bonds payable:					
General obligation bonds	493,017,307	49,500,000	42,969,846	499,547,461	43,099,038
Deferred refunding gain (loss)	1,450,000	(7,328,798)	201,245	(6,080,043)	(1,061,559)
Special assessment debt	50,300,000	48,575,000	42,660,000	56,215,000	695,000
Total bonds payable	<u>544,767,307</u>	<u>90,746,202</u>	<u>85,831,091</u>	<u>549,682,418</u>	<u>42,732,479</u>
State loans	3,058,346	-	334,580	2,723,766	341,106
Capital leases	210,045	-	48,244	161,801	53,038
Installment purchase agreements	6,689,948	1,721,000	13,000	8,397,948	13,948
Unpaid insurance claims	34,688,241	65,607,972	60,590,256	39,705,957	12,822,957
Compensated absences	16,625,031	18,929,003	18,719,095	16,834,939	15,273,651
Total long-term	<u>606,038,918</u>	<u>177,004,177</u>	<u>165,536,266</u>	<u>617,506,829</u>	<u>71,237,179</u>
Total governmental activities	<u>\$ 635,038,918</u>	<u>\$ 209,504,177</u>	<u>\$ 194,536,266</u>	<u>\$ 650,006,829</u>	<u>\$ 103,737,179</u>
<b>Business-type activities:</b>					
Bond anticipation notes	\$ 13,000,000	\$ 20,000,000	\$ 13,000,000	\$ 20,000,000	\$ 20,000,000
Bonds payable:					
General obligation bonds	277,123,245	13,000,000	20,918,513	269,204,732	21,663,477
Less: deferred refunding loss	<u>(3,344,844)</u>	<u>-</u>	<u>(700,489)</u>	<u>(2,644,355)</u>	<u>(519,714)</u>
Total bonds payable	<u>273,778,401</u>	<u>13,000,000</u>	<u>20,218,024</u>	<u>266,560,377</u>	<u>21,143,763</u>
Compensated absences	1,359,581	1,482,697	1,360,532	1,481,746	1,303,000
Total long-term	<u>275,137,982</u>	<u>14,482,697</u>	<u>21,578,556</u>	<u>268,042,123</u>	<u>22,446,763</u>
Total business-type activities	<u>\$ 288,137,982</u>	<u>\$ 34,482,697</u>	<u>\$ 34,578,556</u>	<u>\$ 288,042,123</u>	<u>\$ 42,446,763</u>

**I Loans Payable** – On April 15, 2002, the Anne Arundel Community College Foundation finalized an agreement between Anne Arundel County, Maryland and The Bank of New York whereby the Foundation borrowed \$16,090,000 from the issuance of revenue bonds by the County. The proceeds of the loan were used to finance the cost of the construction of educational facilities. Interest only payments are due semi-annually on September 1 and March 1. Principal payments will begin September 1, 2005 with the final principal payment on September 1, 2028. Interest on the bonds varies from 3.14% to 5.25%. The loan balance at June 30, 2004 was \$16,090,000. Scheduled principal payments due on the bonds payable for future years ending June 30 are as follows:

Year ending June 30,	Principal Payments	Year ending June 30,	Principal Payments
2005	\$ -	2008	\$ 385,000
2006	360,000	2009	400,000
2007	370,000	Thereafter	14,575,000
			<u>\$ 16,090,000</u>

**J Advanced Refundings** – In fiscal year 2004, the County defeased the callable portion of certain series of Tax Increment Bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The resulting loss is netted against the new debt and amortized over the remaining life of the refunded debt. The refunding resulted in a net present value savings of \$5,386,908 and decreased the aggregate debt service costs by \$15,763,441.

	Governmental
Carrying value of refunded bonds	\$ 42,000,000
Reacquisition Price	51,047,973
	<u>(9,047,973)</u>
Net Premium on refunding bonds	1,719,175
Net loss on refunding	<u>\$ (7,328,798)</u>

## 9 Pension Plan

Most County employees participate in one of four single-employer defined benefit pension plans, which are in separate trust funds and administered by the Anne Arundel County Retirement and Pension System (Retirement System). The Retirement System issues a separate financial report for these plans. A copy of this report can be obtained from the Anne Arundel County Office of Personnel, 2662 Riva Road, Annapolis, Maryland, 21401. Some County employees participate in two multi-employer cost sharing pension plans administered by the State. The County plans were established under authority created by County Charter and legislation, while the State plans were created by State legislation.

**A Single Employer Defined Benefit Pension Plans** - The Retirement System administers the Anne Arundel County Employees' Retirement Plan (Employees Plan), Anne Arundel County Police Service Retirement Plan (Police Plan), Anne Arundel County Fire Service Retirement Plan (Fire Plan), and Anne Arundel County Detention Officers' and Deputy Sheriffs' Pension Plan (Detention Plan). Although the assets of the plans are commingled for investment purposes, each plan's assets must be used for the payment of benefits to the participants within that plan, in accordance with the terms of the plan. All benefit provisions are established by County legislation. Each of the plans provides for cost of living adjustments to annual benefit payments.

Membership in each plan consisted of the following at January 1, 2004, the date of the latest actuarial valuation:

	Employees Plan	Police Plan	Fire Plan	Detention Plan
Retirees and beneficiaries receiving payments	848	411	254	64
Terminated plan members entitled to but not yet receiving payments	205	-	-	8
DROP	-	55	103	-
Active plan members	2,239	555	496	365
	<u>3,292</u>	<u>1,021</u>	<u>853</u>	<u>437</u>

**Employees Plan** - All permanent County employees not included in another pension plan and employees of Economic Development are eligible to participate in the Employees Plan. Benefits vest after five years of service. The normal retirement age is age 60, or if earlier, when the employee has completed 30 years of service. Employees may elect one of two benefit structures. Tier One employees contribute 4% of their base salary to the Plan. Tier Two employees make no employee contributions. At normal retirement, Tier One employees receive 2% of final

average basic pay (defined as the participant's highest three annual basic pays out of the last five years) times the years and months of credited service, and 2% for unused disability leave and up to three years of pre-employment military service. The maximum benefit is 60% of final average basic pay, except participants may accrue benefits in excess of the 60% cap for credited disability leave and up to three years of pre-employment military service. Tier Two employees receive 1% of final average earnings times the years and months of credited service. The Plan also provides death and disability benefits.

*Police Plan* - Permanent County employees in police service are eligible to participate in the Police Plan. Benefits vest at 20 years of service or normal retirement age of 50 with five years of service for those hired on or after February 25, 2002; and 20 years of service or age 50 for those hired before that date. Employees who retire are entitled to an annual benefit in an amount equal to 2.5% of final basic pay (defined as the participant's highest three annual basic pays out of the last five years) for each year of service up to 20 years, plus 2% for each year of service between 20 and 30 years, and 2% for unused disability leave and up to three years of pre-employment military service. The maximum benefit is 70% of final average basic pay, except participants may accrue benefits in excess of the 70% cap for unused disability leave and up to three years of pre-employment military service. Participants with 20 years service may elect normal retirement, regardless of age. The Plan also provides death and disability benefits.

Participants in the Police Service Retirement Plan may participate in the deferred retirement option program (DROP) if they were actively employed by the County in a position covered by the Plan and have completed 20 years of actual Plan service. The participant's initial DROP term is three years, but he or she may extend participation for two additional one-year terms. A DROP participant continues as an active employee of the County but the participant no longer makes employee contributions to the plan and accrues no additional pension benefit. During the term of DROP participation, the participant's annual retirement benefit as of the date DROP participation begins is credited to the participant in an account earning 8% interest annually. When the DROP participation ends and the employee terminates service to the County, the account balance is distributed to the participant.

*Fire Plan* - Permanent County employees in fire service are eligible to participate in the Fire Plan. Benefits vest at normal retirement age. Participants may retire when they have 20 years of service, regardless of age or at age 50 with 5 years of actual service. Employees who retire are entitled to an annual benefit in an amount equal to 2.5% of final average basic pay (defined as the participant's highest three annual basic pays out of the last five years) for each year of service up to 20 years, plus 2% for each year of service between 20 and 30 years, and 2% for unused disability leave and up to three years of pre-employment military service. The maximum benefit is 70% of final earnings, except participants may accrue benefits in excess of the 70% cap for unused disability leave and up to three years of pre-employment military service. The Plan also provides death and disability benefits.

Through June 30, 2002, participants with 20 years of County service who are at least age 50 may participate in a deferred retirement option program with provisions similar to those described for the Police Plan. After June 30, 2002, any participant with 20 years of service may participate, regardless of age.

*Detention Plan* - Permanent County detention center officers, personnel, and sheriff deputies are eligible to participate in the Detention Plan. Benefits vest after five years of service. The normal retirement age for the members is age 50. Members are entitled to an annual benefit in the amount of 2.5% of final average basic pay (defined as the participant's highest three annual basic pays out of the last five years) for each year of service up to 20 years, plus 2% of final average basic pay for each additional year, and 2% for unused disability leave and up to three years of pre-employment military service. The maximum benefit is 70% of final earnings, except participants may accrue benefits in excess of the 70% cap for unused disability leave and up to 3 years of active military service. The Plan also provides death and disability benefits.

**B** *Multiple-Employer Pension Plans* - Primary Government employees hired prior to July 1, 1969 who elected not to transfer to the Employees Plan and substantially all employees of the Board of Education, Library and Community College participate in plans of the State Retirement and Pension Systems of Maryland, which are multi-employer cost sharing defined benefit pension plans. The system plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The State Retirement and Pension System of Maryland issues a financial report that includes financial statements and required supplementary information. That report may be obtained by writing to State Retirement Agency of Maryland, 120 East Baltimore Street, Baltimore, MD 21202.

**C Funding Policy and Annual Pension Cost** - The employee contribution requirements for each employer defined benefit plan in the Retirement System are set by County legislation. The County's annual contribution is based on annual actuarial valuations. The table below provides the actuarial assumptions, funding methods and contributions related to the fiscal year 2004 financial statements. The actuarial funding method changed from the frozen entry age normal to the projected unit credit method.

	Employees Plan	Police Plan	Fire Plan	Detention Plan
Contribution rates:				
County	Legislated amount	Legislated amount	Legislated amount	Legislated amount
Plan members				
Tier One	4.00%	6.00%	5.00%	5.00%
Tier Two	-	Not applicable	Not applicable	Not applicable
Annual pension cost	\$7,545,780	\$8,814,480	\$8,217,564	\$3,106,740
Contributions made	\$7,545,780	\$8,814,480	\$8,217,564	\$3,106,740
Actuarial valuation date	January 1, 2004	January 1, 2004	January 1, 2004	January 1, 2004
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level % of payroll	Level % of payroll	Level % of payroll	Level % of payroll
Remaining amortization period	30 years, closed	30 years, closed	30 years, closed	30 years, closed
Asset valuation method	5-yr smoothed market	5-yr smoothed market	5-yr smoothed market	5-yr smoothed market
Actuarial assumptions:				
Inflation rate	3.50%	3.50%	3.50%	3.50%
Investment rate of return	4.50%	4.50%	4.50%	4.50%
Projected salary increases (graded scale)	Varies by age	Varies by age	Varies by age	Varies by age
Cost of living adjustments:				
Benefits earned prior to 1/31/97	3.00%	3.50%	3.50%	3.50%
Benefits earned thereafter	2.10%	2.10%	2.10%	2.10%

The next table provides five-year trend data for contributions. The actuarial valuation made no significant changes in assumptions from the prior year.

**Five Year Trend Information - Schedule of Employer Contributions**  
Fiscal year ended June 30,

	2000	2001	2002	2003	2004
<i>Employees Plan</i>					
Annual Pension Cost (APC)	\$ 4,545,366	\$ 2,898,335	\$ 4,592,060	\$ 6,575,769	\$ 7,545,780
Percentage of APC Contributed	100.0%	100.0%	83.0%	100.0%	100.0%
Net Pension Obligation	\$ -	\$ -	\$ 760,179	\$ -	\$ -
<i>Police Plan</i>					
Annual Pension Cost (APC)	\$ 5,062,818	\$ 4,633,411	\$ 6,512,433	\$ 7,759,342	\$ 8,814,480
Percentage of APC Contributed	100.0%	100.0%	89.0%	100.0%	100.0%
Net Pension Obligation	\$ -	\$ -	\$ 714,947	\$ -	\$ -
<i>Fire</i>					
Annual Pension Cost (APC)	\$ 4,953,920	\$ 3,677,602	\$ 5,864,022	\$ 7,506,840	\$ 8,217,564
Percentage of APC Contributed	100.0%	100.0%	83.0%	100.0%	100.0%
Net Pension Obligation	\$ -	\$ -	\$ 1,025,411	\$ -	\$ -
<i>Detention Plan</i>					
Annual Pension Cost (APC)	\$ 1,599,575	\$ 2,012,848	\$ 2,539,796	\$ 2,885,509	\$ 3,106,740
Percentage of APC Contributed	100.0%	100.0%	94.0%	100.0%	100.0%
Net Pension Obligation	\$ -	\$ -	\$ 140,993	\$ -	\$ -

Certain participants in the State Retirement and Pension Systems (State plans) are required to contribute 5% to 7% of compensation to the plans. The County is required to contribute the remaining amounts necessary to fund the plans, except that the State pays the employer's share of retirement costs on behalf of certain teachers, professional librarians, and related positions for the Board of Education, Library, and Community College, in accordance with State law. These amounts are shown as grant revenue and current expenses in the financial statements of these component units. County expenditures for those employees in the State plans for the year ended June 30, 2004, 2003, and 2002 equal the required contributions and are summarized below along with the State's contribution on behalf on the employees discussed on the previous page.

	Fiscal Year Ended June 30,		
	2004	2003	2002
County contributions:			
Primary Government	\$ 1,084,222	\$ 1,032,592	\$ 983,000
Board of Education	4,063,522	4,250,249	3,721,000
Community College	117,400	134,200	118,000
State contributions on behalf of:			
Board of Education	31,419,929	29,119,401	27,193,546
Community College	1,500,000	1,300,000	1,200,000
Library	685,797	687,026	675,000
Total	\$ <u>38,870,870</u>	\$ <u>36,523,468</u>	\$ <u>33,890,546</u>

## **10 Other Post-retirement Benefits**

Retirees of the Primary Government, Library, and Economic Development continue to receive medical coverage. The Primary Government pays eighty percent of the cost. These retirees have the option of retaining dental and vision coverage, but must pay the full cost of these benefits. Health benefits are provided to retirees through an agreement between the Primary Government and the Police labor union, and are extended to others by administrative policy. There were 1,654 retirees and spouses receiving health benefits as of June 30, 2004.

Retirees of the Board of Education who receive benefits from the State Retirement System may elect to continue medical coverage. Retirees may also continue in the Board's dental or vision programs. The Board pays eighty percent of the cost of the basic health care and dental programs with the balance of the cost deducted from the retirees' monthly check. These benefits are provided through an agreement between the Board and Anne Arundel County Retired Teachers Association. There were approximately 3,200 retirees eligible for benefits at June 30, 2004.

Retirees of the Community College receive certain health care and dental benefits. The Community College contributes to the cost of these health and dental benefits at a rate of 2.5 percent per year for each year of service. Employees must have at least 10 years of service to qualify and the maximum paid by the College is 75%. Retirees have no vested rights to these benefits, which are subject to modifications by the Board of Trustees. There were 178 College retirees eligible for benefits at June 30, 2004.

These costs are recognized when paid. Total costs incurred for these benefits for the year ended June 30, 2004 were as follows:

Entity	Amount
Primary Government	\$ 7,510,549
Board of Education	18,248,300
Community College	464,447
Other Nonmajor Component Units	304,011
	\$ <u>26,527,307</u>

## **11 Risk Management**

The County retains the risk of loss for workers' compensation and Directors and Officers coverage for the Primary Government, the Library, the Board of Education, and the Community College; general liability and vehicle liability coverage for the Primary Government, Library and the Board of Education; and health coverage for the Primary Government. The County purchases insurance coverage for real and personal property and money and security coverage, as well as school bus insurance for the bus contractors of the Board of Education. All insurance

activities are recorded in the Self Insurance Fund, except for health activity, which is recorded in the Health Insurance Fund.

The Self Insurance Fund has recognized a liability at fiscal year-end for those claims where a loss has occurred and the amount of loss can be reasonably estimated. An actuarial review of all claims is used as the basis for determining the liability at the end of the year. Management, with the assistance of claims administrators, estimates the liabilities for the Health Insurance Fund. Both funds include estimated liabilities for claims that have been incurred but not reported. Claims are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability as of June 30, 2004 is undiscounted. Changes in the balances of claims liabilities during fiscal years 2004 and 2003 were as follows:

	2004	2003
Liability balance, July 1	\$ 34,688,241	\$ 29,601,732
Current year claims	65,607,972	58,106,550
Claims payments	(60,590,256)	(53,020,041)
Liability balance, June 30	<u>\$ 39,705,957</u>	<u>\$ 34,688,241</u>

## **12 Landfill Closure, Postclosure, and Remediation**

The Primary Government has utilized three landfill sites; however, only one site, the Millersville Landfill, is still accepting trash. The others, Glen Burnie and Sudley, were closed in 1983 and 1993, respectively. The Millersville site consists of nine individual cells. Cells 1 through 7 are closed, cell 8 is active and 65.2% full and cell 9 has not yet opened. Cell 8 and cell 9 have useful lives to at least 2009 and 2034, respectively. The table below presents the costs and liabilities related to all sites. The costs for cells 8 and 9 at the Millersville Landfill are determined by applying the percent of capacity used to the total estimated closure and postclosure costs.

	<u>Millersville</u>	<u>Closed Sites</u>	<u>Total</u>
Total costs:			
Closure	\$ 52,279,224	\$ 18,121,184	\$ 70,400,408
Post closure	<u>26,403,134</u>	<u>5,770,984</u>	<u>32,174,118</u>
	78,682,358	23,892,168	102,574,526
Less:			
Amount recognized thru June 30, 2004	<u>45,697,483</u>	<u>23,892,168</u>	<u>69,589,651</u>
Costs remaining to be recognized	<u>32,984,875</u>	<u>-</u>	<u>32,984,875</u>
Liability recorded at June 30, 2004:			
Closure	7,302,513	-	7,302,513
Post closure	<u>16,443,561</u>	<u>5,770,984</u>	<u>22,214,545</u>
	<u>\$ 23,746,074</u>	<u>\$ 5,770,984</u>	<u>\$ 29,517,058</u>

The Primary Government accounts for landfill activities in the Solid Waste Fund. Management uses federal and state regulations to estimate the costs of closure, remediation, and monitoring the landfills. These estimates are recorded at current costs and are management's best judgment of the minimum cost required to correct identified problems and close and remediate open cells. These estimates are subject to periodic reevaluation and actual costs may differ due to inflation or deflation, changes in technology, or changes in applicable laws and regulations.

The Primary Government has financial assurance requirements that require the reservation of funds to pay landfill liabilities. The financial assurance reservation totaled \$12,914,569 at June 30, 2004.

## **13 Contingent Liabilities**

**A Impact Fees** – At June 30, 2004, the Primary Government held impact fees accumulated for construction of schools and roads in designated districts of the County. The legislation authorizing the collection of such fees requires the Primary Government to expend or encumber these funds within specified times after collection.

Although as of June 30, 2004, \$45,258,011 is subject to return if not spent, management believes the refund of these fees is unlikely.

The County has entered into impact fee agreements with developers who provide offsite improvements designed to lessen the impact of the development on the immediate community. Unredeemed impact fee credits totaled \$6,846,369 at June 30, 2004.

**B Regional Composting Facility** – Under the terms of an intergovernmental agreement with Baltimore County, Howard County, and the Maryland Environmental Service (MES), the County is participating in the use of a regional yard waste composting facility. Pursuant to the agreement, the County has agreed to deliver a minimum of 15,000 tons of yard debris per year at a cost of \$37.45 per ton. This charge pays for the County's share of facility operations and the debt service on the related MES bonds. The agreement also gives the County the option of paying for its proportionate share of the cost of operations in lieu of delivering the required 15,000 tons of yard debris. This agreement will expire in the year 2015.

Due to odor problems at the composting facility, operations have been discontinued. Yard debris is being transferred from the facility site to another site outside the County for composting. MES, the County and the other parties to the agreement have sold a portion of the site. Proceeds have been placed in escrow until the outstanding bonds can be called. No impact on the County processing fee is anticipated.

**C Lawsuits** – Property owners and taxpayers have filed a class action suit against the County seeking refunds of development impact fees paid to the County. The case was dismissed by the Circuit Court, but the Court of Special Appeals reversed and remanded the case to Circuit Court. The Court of Special Appeals dismissed a substantial portion of the plaintiffs' claims, but granted summary judgment as to liability on several others. The amount of the claim is in excess of \$30,000,000. In the opinion of the County Attorney, the likelihood of an outcome unfavorable to the County is somewhere between probable and remote, and the County's liability if the outcome were to be unfavorable is unlikely to exceed \$5,000,000.

The County is party to other legal proceedings that normally occur in governmental operations. Such proceedings include developer's claims, property damage, employee liability, and workers compensation. These proceedings are not, in the opinion of the County Attorney, likely to have a material, adverse impact on the financial position of the County as a whole, as reserves for losses have been established in the Self Insurance Fund.

**D Federal Financial Assistance** - The County receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits. Any disallowances as a result of these audits become a liability of the fund that received the grants. As of June 30, 2004, the County estimates that no material liabilities will result from such audits.

## **14 Conduit Debt**

The County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition or construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on underlying mortgage loans. Upon repayment of the bonds, ownership of the facilities transfers to the private entity served by the bond issuance.

As of June 30, 2004, 153 Industrial Revenue Bonds series had been issued. The aggregate principal amount payable for the nine series issued after July 1, 1996, was \$18,569,000. The aggregate principal amount payable for the 145 issued prior to July 1, 1996, could not be determined; however, their original issue totaled \$582,700,000. The County is not obligated in any manner for payment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

## Required Supplementary Information

Year Ended June 30, 2004

The information below is intended to help users assess pension plan funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

## Schedule of Funding Progress for Single Employer Defined Benefit Pension Plans - Last Six Years

	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL)	(B - A) Unfunded AAL (UAAL)	(A / B) Funded Ratio	(C) Covered Payroll	(B - A / C) UAAL as a % of Covered Payroll
<b>Employees Retirement Plan:</b>						
January 1, 1999	258,183,198	274,366,089	16,182,891	94.1%	87,089,448	18.6%
2000	282,462,621	298,209,381	15,746,760	94.7%	89,714,539	17.6%
2001	302,805,427	339,312,018	36,506,591	89.2%	88,927,130	41.1%
2002	321,443,897	357,796,625	36,352,728	89.8%	100,417,059	36.2%
2003	335,539,414	372,472,369	36,932,955	90.1%	101,172,221	36.5%
2004	367,756,502	367,541,352	(215,150)	100.1%	100,944,238	-0.2%
<b>Police Service Retirement Plan:</b>						
January 1, 1999	212,252,477	244,248,434	31,995,957	86.9%	25,658,645	124.7%
2000	235,557,469	268,006,977	32,449,508	87.9%	26,840,786	120.9%
2001	252,149,932	288,017,982	35,868,050	87.5%	28,535,848	125.7%
2002	268,703,856	304,997,842	36,293,986	88.1%	31,105,473	116.7%
2003	281,967,318	318,635,793	36,668,475	88.5%	33,459,024	109.6%
2004	311,371,499	325,555,840	14,184,341	95.6%	31,915,536	44.4%
<b>Fire Service Retirement Plan</b>						
January 1, 1999	185,328,626	214,692,436	29,363,810	86.3%	24,874,704	118.0%
2000	207,721,341	237,433,797	29,712,456	87.5%	25,551,279	116.3%
2001	225,133,219	264,632,156	39,498,937	85.1%	27,373,670	144.3%
2002	241,162,428	281,086,721	39,924,293	85.8%	30,548,866	130.7%
2003	256,190,269	296,478,237	40,287,968	86.4%	32,000,686	125.9%
2004	286,763,188	301,900,234	15,137,046	95.0%	31,463,220	48.1%
<b>Pension Plan for Detention Officers and Personnel:</b>						
January 1, 1999	21,543,373	25,695,468	4,152,095	83.8%	9,570,569	43.4%
2000	27,204,448	32,677,761	5,473,313	83.3%	11,893,991	46.0%
2001	31,116,751	36,777,916	5,661,165	84.6%	12,302,830	46.0%
2002	34,742,230	40,453,761	5,711,531	85.9%	13,565,333	42.1%
2003	38,889,689	47,135,488	8,245,799	82.5%	14,690,339	56.1%
2004	45,710,145	52,889,538	7,179,384	86.4%	15,396,361	46.6%

**Notes to Required Supplementary Information**

**A.** Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of pension plan funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the pension plan.

**B.** Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of pension plan progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the pension plan.