



Independent Auditor's Report

The County Executive and the Honorable 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, 2005, 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 54 percent, 51 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, 2005, 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 *Government Auditing Standards*, we have also issued our report dated December 16, 2005 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 *Government 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 and the other auditors 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 16, 2005



**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.

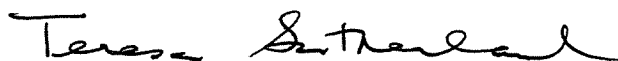
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Anne Arundel County, Maryland, as of June 30, 2005, 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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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 and the other auditors did not audit the information and express no opinion on it.

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Annapolis, Maryland
December 16, 2005



Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2005

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, 2004 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 General County Capital Projects Fund, which is used to accumulate and spend resources to construct capital assets;

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2005

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 third 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

Overall Financial Position – During fiscal year 2005 the County's governmental activities have shown definite improvement in financial position. All components of net assets have increased, with a notable increase in the unrestricted net assets of \$29.7 million. The fiscal year 2005 results for the County's business-type activities show little change in the overall financial position of these activities. Total net assets increase only 2%, which was generated by additional capital assets. The restricted net assets set aside for debt service decreased; and unrestricted

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Year Ended June 30, 2005

net assets only increased by \$2.4 million.

Changes to net assets – Net assets related to governmental activities increased \$37.3 million from fiscal year 2004 to 2005. This is due to an increase in total assets of \$90.6 million, which outpaced the increase in total liabilities of \$53.4 million. The current assets category showed the highest increase, of approximately \$52.6 million, which was caused by higher cash balances. Cash and investments increased by \$60.9 million, from \$92.4 in fiscal year 2004 to \$153.3 million in fiscal year 2005. The additional cash was generated primarily by the recordation and transfer taxes of \$116.7 million that were \$41.1 million in excess of budget. The increase in total liabilities was caused by a net increase in long term bonded debt of \$62.3 million.

Net assets related to business-type activities increased \$15.1 million or 2% in fiscal year 2005. The fluctuation was caused by assets increasing \$14.4 million, and liabilities decreasing by \$669,517. Asset increases were caused by the net change of \$36.1 million in capital assets, which was offset by decreases in the other asset categories. The decreases were most notable in cash balances and short term liabilities. These two categories decreased by \$11.9 million and \$11.1 million, respectively because bond anticipation notes issued in 2005 were only \$7 million compared to \$20 million in 2004.

Significant changes in revenues and expenses – In fiscal year 2005 the economy was in recovery. General revenues in governmental activities increased \$50.9 million, or 6% from fiscal year 2004. Anne Arundel County experienced growth in property tax revenues of \$18.1 million, local income taxes of \$18.5 million, and recordation and transfer taxes of \$17.7 million. Investment earnings increased in fiscal year 2005 due to the climb in interest rates. Investment earnings increased from \$1.6 million to \$4.4 million but remains less than 1% of general revenues and has little effect on financial position.

The growth in revenues resulted from increasing housing values, home sales, and mortgage refinancing. The County has experienced positive growth in its property and income tax bases due to significant Federal defense and intelligence presence in the County. These agencies and the related support industries continue to provide the County with positive growth trends.

The program revenues within governmental activities increased by \$16.1 million. Of this increase, charges for services increased \$8.3 million, or 13%; operating grants & contribution grew by \$7.5 million, or 11%, while capital grants & contributions were consistent with the previous fiscal year. The increase to charges for services was caused by the \$5 million increase in health care premiums paid to the Health Insurance Fund. The increase in operating grants & contributions was caused by an approximate \$4 million increase in highway user revenues, a \$1 million increase in admissions and amusement taxes, and a \$1.1 million gain on the value of investments held by the Installment Purchase Agreement Fund, compared to a loss recorded in the previous year.

The business-type activities show an increase in total program revenue of \$12.8 million. There was a modest increase in charges for services of \$3.3 million or 3%; however, capital grants and contributions increased by \$9.6 million from fiscal year 2004.

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 increase of \$59.7 million in fiscal year 2005. The County issued \$55 million of bonds for governmental activities, \$25.5 million for business-type activities, \$73.1 million of refunding bonds, and \$24.5 million for the purchase of a golf course. Of the annual issue of \$80.5 million, \$52.5 million of the proceeds were used to liquidate BANS issued in May of 2004 and \$28 million was used to fund ongoing capital projects.

The County issued \$41.5 million of BANS in March 2005 to fund capital expenditures in fiscal year 2006. Of this amount, \$34.5 million related to governmental activities, including education, public safety, infrastructure improvements, recreation, and general government improvements. The business-type activities received the

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2005

remaining \$7 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 Condensed Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)
Assets:						
Current	\$ 284,030,718	\$ 231,413,195	\$ 44,258,114	\$ 56,145,714	\$ 328,288,832	\$ 287,558,909
Restricted - Current	145,942,375	149,995,667	158,647,257	161,394,071	304,589,632	311,389,738
Restricted - Noncurrent	-	-	65,368,463	72,410,066	65,368,463	72,410,066
Capital	885,222,594	843,148,711	1,000,241,341	964,121,157	1,885,463,935	1,807,269,868
Total	<u>1,315,195,687</u>	<u>1,224,557,573</u>	<u>1,268,515,175</u>	<u>1,254,071,008</u>	<u>2,583,710,862</u>	<u>2,478,628,581</u>
Liabilities:						
Current	146,733,675	139,442,081	38,869,267	50,001,247	185,602,942	189,443,328
Restricted - current	31,463,525	25,012,948	21,194,711	20,805,947	52,658,236	45,818,895
Noncurrent	598,930,412	559,262,948	299,019,661	288,945,962	897,950,073	848,208,910
Total	<u>777,127,612</u>	<u>723,717,977</u>	<u>359,083,639</u>	<u>359,753,156</u>	<u>1,136,211,251</u>	<u>1,083,471,133</u>
Net Assets:						
Invested in capital assets, net of related debt	496,848,918	492,842,240	730,703,264	706,189,005	1,227,552,182	1,199,031,245
Restricted	110,596,682	107,050,148	173,035,962	184,793,565	283,632,644	291,843,713
Unrestricted	(69,377,525)	(99,052,792)	5,692,310	3,335,282	(63,685,215)	(95,717,510)
Total	<u>\$ 538,068,075</u>	<u>\$ 500,839,596</u>	<u>\$ 909,431,536</u>	<u>\$ 894,317,852</u>	<u>\$ 1,447,499,611</u>	<u>\$ 1,395,157,448</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 \$52.6 million higher in fiscal year 2005 in the governmental activities primarily due to increases in cash and temporary investments of \$60.9 million. The increase in cash and investments is due to the overall increase in revenues noted earlier. The General Fund's fund balance has grown \$43 million since fiscal year 2004. The business-type activities show a decrease in current assets of \$11.9 million, due to the lower level of BANS issued in fiscal year 2005 compared to 2004. The smaller issue resulted in lower cash balances for capital project activity and lower current debt.

Restricted assets in governmental activities have decreased only \$4.1 million, caused by a \$3.7 million

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Management Discussion and Analysis

Year Ended June 30, 2005

decrease in cash and receivables in the Impact Fee Fund, \$3.9 million increase in cash and receivables in the General County Capital Projects Fund and an increase in the cash and receivables balances of \$3.6 million in the Nonmajor funds.

The current restricted assets in business-type activities shows an insignificant change. Restricted noncurrent assets have decreased by \$7.0 million from fiscal year 2004, a 10% decrease. 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 in advance.

The governmental capital assets net balance has increased by \$42.1 million from the previous year, a 5% increase. There was no significant increase in any one category of capital assets. Capital assets in the business-type activities increased by \$36.1 million, or 4%.

Current liabilities for governmental activities have increased by \$7.3 million, or 5% from the previous fiscal year. The increase in bond anticipation notes of \$2 million from the previous year along with increases in accounts payable caused the change. The current liabilities in business-type activities decreased by \$11.1 million, or 22%, from fiscal year 2004. The drop in bond anticipation notes outstanding from \$20 million in 2004 to \$7 million in 2005 caused this change.

Restricted current liabilities for governmental activities have increased \$6.5 million, or 26% from fiscal year 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 \$1.3 million and the liability to the College increased \$821,283. In addition, construction accounts payable balances within the General County Capital Projects Fund increased by \$34 million. Restricted current liabilities for business-type activities show little change.

Noncurrent liabilities consist of bonded debt, self insurance reserves, loans, capital leases, and other liabilities. These liabilities increased \$39.7 million or 7% in governmental activities and climbed by \$10.1 million, or 3% in business-type activities. For governmental activities the long-term insurance reserves have increased by \$3.9 million due to increase in health care costs and self insurance claims reserves. The long-term bonds and agreements have increased by \$35 million, due to the additional issue of \$24.5 million to purchase the Compass Pointe Golf Course. The balances in the business-type activities increase by \$10.1 million or 3%.

The components of net assets in the governmental activities have all increased during fiscal year 2005. Capital assets net of related debt has increased \$4 million or 1%, Restricted net assets have increased \$3.5 million or 3%, and the unrestricted net assets have increased \$29.7 million, an increase of 30%. 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 maintenance of spending levels.

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 \$69.4 million reflects this treatment. The Board of Education and Community College capital net asset bases of approximately \$570.1 million and \$57.6 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 saw a change in this trend reducing the amount to (\$99.1)

Anne Arundel County, Maryland

Management Discussion and Analysis

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and fiscal year 2005 decreased the balance further to (\$69.4). Therefore, recent trends are positive.

The net asset components for business type activities show moderate changes. Capital assets have increased by \$24.5 million due to additional developer built assets and continual construction of new water, sewer, and landfill assets. The restricted net assets have decreased by \$11.8 million from fiscal year 2004. These restricted net assets relate primarily to the long term receivables for utility connection fees. These receivable balances continue to decline as the number of properties eligible for long term fee deferral are declining. Unrestricted net assets have increased by \$2.4 million.

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.

	Statement of Activities					
	Governmental Activities		Business-type Activities		Total	
	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)
Program revenues:						
Charges for services	\$ 72,250,898	\$ 63,908,474	\$ 100,386,154	\$ 97,133,010	\$ 172,637,052	\$ 161,041,484
Operating grants & contributions	75,547,948	68,018,578	-	-	75,547,948	68,018,578
Capital grants & contributions	38,942,152	38,716,764	38,538,873	28,947,374	77,481,025	67,664,138
	<u>186,740,998</u>	<u>170,643,816</u>	<u>138,925,027</u>	<u>126,080,384</u>	<u>325,666,025</u>	<u>296,724,200</u>
General revenue:						
General property taxes	412,001,280	393,883,820			412,001,280	393,883,820
Local income taxes	308,215,401	289,676,102			308,215,401	289,676,102
State shared taxes	6,613,645	6,918,566			6,613,645	6,918,566
Recordation & transfer taxes	116,713,326	99,053,108			116,713,326	99,053,108
Local sales taxes	31,249,156	30,830,077			31,249,156	30,830,077
Investment income	4,437,329	1,632,805	4,920,451	3,729,904	9,357,780	5,362,709
Other revenue	336,090	6,671,086	7,042,120	7,286,423	7,378,210	13,957,509
	<u>879,566,227</u>	<u>828,665,564</u>	<u>11,962,571</u>	<u>11,016,327</u>	<u>891,528,798</u>	<u>839,681,891</u>
Total revenues	<u>1,066,307,225</u>	<u>999,309,380</u>	<u>150,887,598</u>	<u>137,096,711</u>	<u>1,217,194,823</u>	<u>1,136,406,091</u>
Expenses:						
Education	506,794,807	460,910,902			506,794,807	460,910,902
Public safety	185,398,446	176,268,939			185,398,446	176,268,939
General government	90,537,732	89,888,695			90,537,732	89,888,695
Health & human services	69,008,933	68,204,598			69,008,933	68,204,598
Public works	57,415,844	54,775,929			57,415,844	54,775,929
Recreation & community services	50,097,353	41,314,210			50,097,353	41,314,210
Judicial	19,673,396	18,962,146			19,673,396	18,962,146
Code enforcement	10,699,715	9,996,379			10,699,715	9,996,379
Land use & development	9,686,322	10,261,520			9,686,322	10,261,520
Economic development	3,330,000	3,342,050			3,330,000	3,342,050
Interest expense on debt	26,436,198	27,974,513			26,436,198	27,974,513
Water & wastewater			94,416,480	85,920,260	94,416,480	85,920,260
Waste collection			38,995,723	42,946,457	38,995,723	42,946,457
Child care			2,361,711	2,014,545	2,361,711	2,014,545
Total expenses	<u>1,029,078,746</u>	<u>961,899,881</u>	<u>135,773,914</u>	<u>130,881,262</u>	<u>1,164,852,660</u>	<u>1,092,781,143</u>
Change in net assets	<u>37,228,479</u>	<u>37,409,499</u>	<u>15,113,684</u>	<u>6,215,449</u>	<u>52,342,163</u>	<u>43,624,948</u>
Net assets, beg of year, as restated	<u>500,839,596</u>	<u>463,430,097</u>	<u>894,317,852</u>	<u>888,102,403</u>	<u>1,395,157,448</u>	<u>1,351,532,500</u>
Net assets, end of year	<u>\$ 538,068,075</u>	<u>\$ 500,839,596</u>	<u>\$ 909,431,536</u>	<u>\$ 894,317,852</u>	<u>\$ 1,447,499,611</u>	<u>\$ 1,395,157,448</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 \$67 million, which is a 7% increase from the previous year. Except for less significant decreases in State shared taxes and other revenue, all sources have increased since fiscal year 2004. Most notably is the increase of \$17.7 million in recordation and transfer taxes, the \$18.1 million increase in general property taxes, and the \$18.5 million in

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2005

additional local income taxes. Since local tax rates did not increase in fiscal year 2005, these factors are evidence of the improvements to the County's economy.

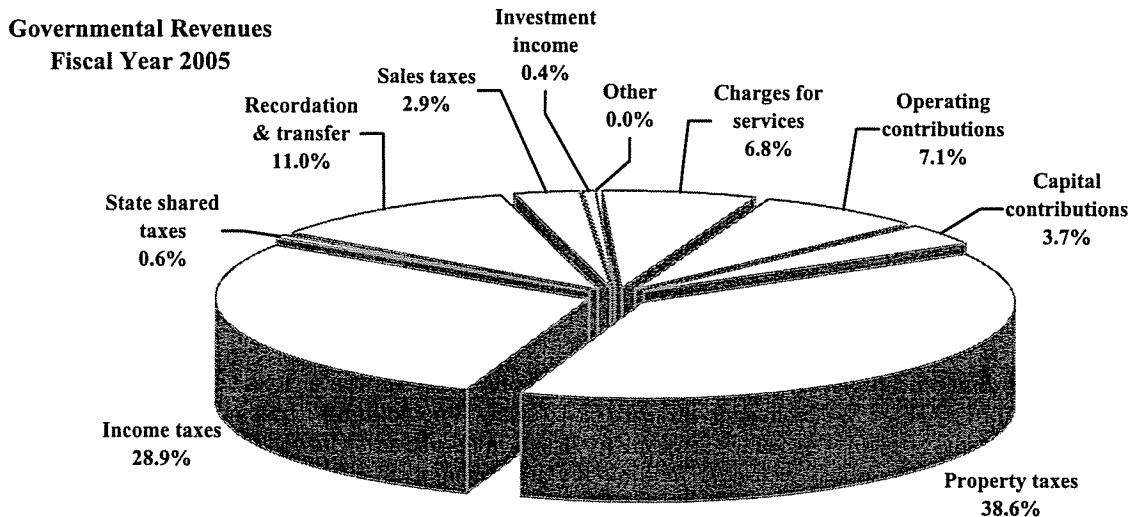
The expenses of the governmental activities have increased by \$67.2 million or 7% from fiscal year 2004. Most functional categories have increased since the previous fiscal year, as 2004 was a conservative spending year. The increase is primarily due to additional spending for capital projects. Most classes of capital projects have experienced increases in spending. Most notable are School Construction, which is \$24.5 million (70%) higher in fiscal year 2005 and Recreation, which has increased \$23.6 million (288%). There was a \$575,189 decrease in Land use and development expenses and a \$1.5 million decrease in interest expense.

In business-type activities there was a modest increase in charges for services of \$3.3 million or 3% in fiscal year 2005. Capital grants and contributions have climbed \$9.6 million, or 33% from the previous year. Additional developer built assets transferred to County ownership and the increased use of capital connection vouchers caused this increase. This activity indicates that the pace of development of new properties connecting to the County's water and wastewater systems is increasing. Investment income has increased \$1.2 million or 32% from fiscal year 2004 to 2005. The climbing interest rates have caused this fluctuation as noted previously in this analysis.

Business-type expenses show Water and wastewater activities increased by \$8.5 million or 10%, Waste collection activity decreased \$4 million or 9%, and Child care activities increased by \$347,166, or 17%. The increase in Water and wastewater was caused primarily by increases in usage. However, there was a write off of abandoned capital assets, amounting to approximately \$3 million. Waste collection expenses are less than fiscal year 2004 because the adjustment to the landfill closure and post closure accruals were much less in fiscal year 2005.

Distribution of Revenues and Expenses

The charts below show the percentage distribution of revenues from governmental activities and the percentage expended on each function. Discussion of the 2005 distribution and significant changes 2004 follows.



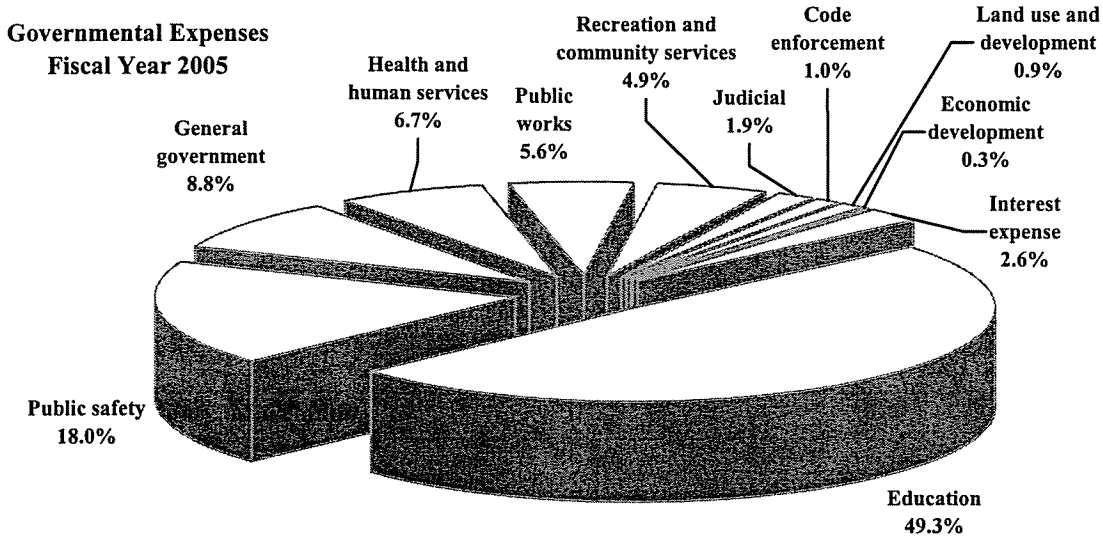
General revenue sources continue to provide the vast majority of the County's revenue. Tax revenues from property assessments, income, state shared sources, recordation and transfer, and sales of certain goods provided 82% of our revenue base, the same percent as fiscal year 2004. There were no significant changes in the other components' percentages as well.

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2005

An analysis of the percentage distribution of expenses by function revealed that there were no significant changes in any of the functions as a percent of the total. Education increased from 48.1% of total expenses to 49.3% and General Government dropped from 9.4% of total expenses in fiscal year 2004 to 8.8% in fiscal year 2005.



Fund Statements

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

Governmental Funds:

Total assets in the General Fund increased from \$183.4 million to \$230.7 million, an increase of \$47.3 million from fiscal year 2004. The increases occurred primarily in cash, up by \$55.4 million, offset by a decrease in the receivable for State Income Taxes. Recordation and transfer taxes in excess of the anticipated amount by \$41.1 million was the primary reason for the increase in fund balance. The income tax receivable amount is lower than the previous year by \$16.4 million. Income tax receipts are being sent to the County earlier than in previous years and therefore the amount outstanding on past tax years is dropping.

The total fund balance has increased from \$99.6 million to \$142.7 million, an increase of \$43.1 million. Management had budgeted to use some of the fiscal year 2004 fund balance in supporting the fiscal year 2005 budget. However, favorable trends in revenues actually created additional fund balance of \$18.2 million.

The unreserved and undesignated General Fund balance has decreased from \$36.1 million in fiscal year 2004 to \$18.2 million in 2005 because more of the excess fund balance was programmed for use in the subsequent year. Specifically the amount of fund balance designated for use in the subsequent year has grown from \$23.6 million to \$75.9 million. These funds were earmarked for capital improvements as pay as you go funding for general county capital projects jumped from \$33.4 million in fiscal year 2005 to \$81 million in fiscal year 2006.

The County has a revenue reserve fund of \$35.6 million at the end of fiscal year 2005. The growth in this fund from the prior year of \$8.4 million was due to an additional contribution of \$7.8 million in fiscal year 2005 and interest earnings of \$656,392. 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 2006 budget provides for an additional \$1.7 million of General Fund monies be reserved. This fund has been in existence since fiscal year 1994 and has not been utilized by Management.

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2005

The General Fund's balance sheet also includes a \$4.8 million liability to the Self Insurance Fund (an internal service fund). In fiscal year 2005, 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 \$4.5 million reserve for debt service. The County received a premium from its March 2004 and 2005 general obligation bond sales. These premiums have been recognized as revenue in the fund 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 \$54.7 million compared to the prior fiscal year. Additional property tax revenue of \$14.6 million, state income taxes of \$10.5 million, and recordation and transfer taxes of \$17.7 million account for most of the increase. Most other revenue sources showed only modest increases from fiscal 2004. Expenditures however increased only \$50.8 million. All categories of functional expenditures increased except Public Works and Economic Development. Public Works decreased from \$27.2 million to 25.4 million due to the fiscal year 2004 expenditures related to Hurricane Isabel. The decrease in Economic Development costs was insignificant.

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 dropped from \$56.4 million in fiscal year 2004 to \$52.6 million at the end of fiscal year 2005. The drop is attributable to an increase in the amount transferred to the General Capital Projects Fund where the impact fees are utilized. In fiscal year 2004, \$5.9 million was transferred compared to \$15.5 million in fiscal year 2005. There were no other notable fluctuations.

The General County Capital Projects Fund's balance sheet shows \$3.9 million fewer assets in fiscal year 2005, from \$71.6 million to \$67.7 million. This decline is primarily a decrease cash balances, down \$3.1 million from the previous year. Total liabilities are fairly consistent with the previous year. There was an increase in revenues of \$5.3 million, primarily from grants; and an increase in other financing sources and uses of \$48.6 million, primarily from additional bonds and pay as you go funds. In addition, expenditures increased by \$38.9 million from the previous year.

Proprietary Funds:

The Water and Wastewater Fund's assets increased by \$13.1 million during fiscal year 2005, caused by a \$32.2 million increase in capital assets, net of depreciation, which was offset by declines in current assets (primarily cash) of \$12 million and long term receivables of \$5.2 million. The capital assets increase each year as capital projects are completed and developer donated water and sewer facilities are added. Liabilities have declined by \$11.4 million. Current liabilities include a lower balance in short-term debt from bond anticipation notes, \$13 million higher than in fiscal year 2004; however, this is offset by the increase in long-term debt of \$17.9 million. As a result of the changes in assets and liabilities the Water and Wastewater Fund's net assets increased only \$13.6 million, or 1.5%.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets shows only modest increases in operating revenues of \$1.7 million. Operating expenses have increased by \$6.7 million. In addition to an increase in contractual services expense, the fund received an additional \$1.3 million in indirect cost allocation and \$585,600 of additional insurance allocations. Nonoperating components also show little change except an analysis of fixed assets resulted in a \$3.1 million write off in fiscal year 2005. Capital contributions, fees and grants have increased substantially from \$28.9 million to \$38.5 million. These contributions represent the capital assets built by developers and fees collected from properties connecting to the County's water and wastewater systems.

The Solid Waste Fund's assets have increased by \$3.9 million, or 17%. Liabilities have decreased by \$165,869 million, primarily due to a decline in long term debt of \$2.1 million, offset by increases in the other categories. The most notable increase was \$1.2 million increase in closure and post closure reserves. Operating revenue has increased by only \$432,770. Expenses have decreased \$4.2 million due to a lower increase in the reserves.

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2005

Fiduciary Funds:

Fiduciary funds include the Pension Trust Funds and the Agency Funds. The Pension Trust Funds are presented for the calendar year ended December 31, 2004. Investment growth has slowed somewhat since calendar 2003. Therefore, the contributions of \$37.3 million during 2004, and the asset appreciation of \$101.3 million, resulted in a smaller increase in net assets of \$100.2 million, compared to the \$191.5 million in 2003. Agency funds have grown from \$16.7 million to \$22.7 million. The increase was caused by additional tax sale escrow deposits, tax collections to be paid to other jurisdictions, and an additional escrow balance related the County's purchase of the Compass Pointe Golf Course.

Budgetary Variations

The budgetary statements of the General Fund show actual revenues of \$1.0 billion compared to budgeted amounts of \$949.1 million, resulting in \$53 million more revenue than anticipated. The most significant budgetary variation within components of revenue was actual recordation and transfer taxes which exceeded budget by \$41.1 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 \$967 million compared to appropriation authority of \$982.1, resulting in \$15.1 million, or 1.5%, less than planned. As a result, the amended budget anticipated using fund balance of \$32 million, however, \$35.1 million of fund balance was added.

The notable variances in expenditures were Health and Human Services, which under spent by \$3.6 million or 5.4% and Debt service costs, which were \$5.4 million or 13.3% less than the appropriations. Health and Human Services under spending was primarily due to lower realization of grants revenue. Debt service costs appropriations did not include a reduction for premiums from the previous bond sales. However, \$4.9 million of premiums were applied against the budgetary debt service expenditures in fiscal year 2005.

In reviewing the changes from the original budget to final budget, the budget for General government expenditures increased from \$76.5 million to \$83.2 million. The increase was due to additional appropriations granted in the fourth quarter of fiscal year 2005. The excess fund balance from fiscal year 2004 was used to fund an additional appropriation to the Self Insurance Fund of \$4.4 million, an additional transfer to the Revenue Reserve Fund, and an additional transfer to the Health Insurance Fund of \$950,000. 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 on the following page presents the asset values of the capital asset categories in governmental and business-type activities, net of accumulated depreciation. A discussion of the fluctuations follows.

Governmental capital assets - Total governmental assets show an increase from the prior year of \$42.1 million, or 5%. There was only one significant change and that was the increase in Construction in progress. This item has increased by \$16.7 million, or 12.1%. As noted previously in this analysis the capital projects activity increased for most categories, notably for school construction and recreation and parks. Land and easements and construction in progress typically increase because these assets are not depreciated. There were approximately \$8.3 million of additions in this category, which includes purchases of land for recreation, attainment of right of way for road and other construction, and the purchase of development easements on rural land.

Business-type capital assets - The capital assets in business-type activities have increased by \$36.1 million, or 3.7% from fiscal year 2004. 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 \$27.9 million. Construction on major wastewater projects caused this increase.

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2005

Anne Arundel County, Maryland Capital Assets (net of depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)
Land and easements	\$ 160,429,707	\$ 152,128,829	\$ 8,549,360	\$ 8,549,360	\$ 168,979,067	\$ 160,678,189
Historical property and works of art	4,166,465	4,095,225	-	-	4,166,465	4,095,225
Land improvements	47,296,911	46,347,203	5,901,778	8,004,744	53,198,689	54,351,947
Buildings	229,596,100	222,010,489	15,282,794	15,078,375	244,878,894	237,088,864
Roads, bridges and signals	152,928,876	148,475,347	-	-	152,928,876	148,475,347
Sidewalks, curbs and gutters	14,389,868	13,079,858	-	-	14,389,868	13,079,858
Storm drains and culverts	84,727,855	87,599,147	-	-	84,727,855	87,599,147
Water and sewer plants and lines	-	-	818,441,152	809,200,044	818,441,152	809,200,044
Automobiles and rolling stock	21,606,490	17,992,055	1,724,304	1,144,605	23,330,794	19,136,660
Furniture and equipment	12,158,364	9,168,709	2,843,536	2,538,627	15,001,900	11,707,336
Software	3,480,655	4,517,476	-	-	3,480,655	4,517,476
Construction in progress	154,441,303	137,734,375	147,498,417	119,605,402	301,939,720	257,339,777
Total	\$ 885,222,594	\$ 843,148,713	\$ 1,000,241,341	\$ 964,121,157	\$ 1,885,463,935	\$ 1,807,269,870

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		
	2005	2004	2003	2005	2004	2003
Total depreciable capital assets	\$ 1,008,434,748	\$ 963,163,491	\$ 841,621,562	\$ 1,231,438,067	\$ 1,196,556,016	\$ 1,166,808,643
Accumulated depreciation	(442,249,629)	(413,973,207)	(382,109,419)	(387,244,503)	(360,589,624)	(331,274,596)
Net depreciable capital assets	\$ 566,185,119	\$ 549,190,284	\$ 459,512,143	\$ 844,193,564	\$ 835,966,392	\$ 835,534,047
Net value as a percent of total	56%	57%	55%	69%	70%	72%
Accumulated depreciation as a percent of total	44%	43%	45%	31%	30%	28%

This analysis shows that the governmental capital assets were 44%, 43%, and 45% depreciated in fiscal years 2005, 2004, and 2003, respectively. The business-type capital assets show a 2 basis point increase in the percent depreciated from fiscal year 2003 to 2004 and then another 1 basis point increase in fiscal year 2005. 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 Note 5 to the basic financial statements.

Debt Administration

The County's outstanding debt at the end of fiscal years 2005 and 2004 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 March 2005 the County issued \$41.5 million short-term bonds in anticipation of capital project spending in early fiscal year 2006. Of the total, \$34.5 million of the proceeds will be used for general county projects such as infrastructure, education, public safety, libraries, and parks and recreation. The water and wastewater projects will utilize \$6 million of the proceeds and waste collection will use

Anne Arundel County, Maryland

Management Discussion and Analysis

Year Ended June 30, 2005

\$1 million for landfill related projects.

**Anne Arundel County, Maryland
Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Bond anticipation notes	\$ 34,500,000	\$ 32,500,000	\$ 7,000,000	\$ 20,000,000	\$ 41,500,000	\$ 52,500,000
General obligation bonds	530,959,939	493,467,418	283,103,612	266,560,378	814,063,551	760,027,796
Special assessment debt	55,520,000	56,215,000	-	-	55,520,000	56,215,000
State loans	2,382,660	2,723,733	-	-	2,382,660	2,723,733
Capital leases	111,901	161,801	-	-	111,901	161,801
Installment purchase agreements	8,679,000	8,397,948	-	-	8,679,000	8,397,948
Total	\$ 632,153,500	\$ 593,465,900	\$ 290,103,612	\$ 286,560,378	\$ 922,257,112	\$ 880,026,278

The County issued general obligation bonds of \$80.5 million in March 2005, including \$55 million for governmental activities and \$25.5 million for business-type activities. The proceeds were used to pay off \$52.5 million of bond anticipation notes issued in May 2004 and the net amount of \$28 million was used for \$22.5 million of improvements for general county projects and \$5.5 million was used to fund projects in the water and sewer and landfill capital projects.

The County took advantage of the low interest rates to issue refunding bonds in March 2005 for both general county and water and wastewater bond series. 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 a reduction of outstanding principal of \$745,000. The County also sold general obligation bonds of \$24,530,000 for the purchase of Compass Pointe Golf Course.

The changes to the State loans were not significant as there were no new loans in fiscal year 2005 and the decline noted in the table is due to principal payments in 2005. There were no new capital leases added in 2005 and the decline reflects the amortization of the liability. The County's initiative to purchase agricultural easements through installment purchase agreements resulted in one new agreement in fiscal year 2005, totaling \$295,000. Other changes to debt balances resulted from principal payments during fiscal year 2004. Additional information about the County's debt and changes therein is provided in Note 8 to the basic financial statements.

Fiscal Year 2006 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 2005. 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 2006 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, 2005

	Primary Government			Discretely Presented Component Units			
	Governmental Activities	Business-type Activities	Total	Board of Education	Community College	Other Nonmajor	
ASSETS							
Current Assets							
Cash and investments	\$ 153,344,372	\$ 24,999,074	\$ 178,343,446	\$ 93,079,142	\$ 12,228,923	\$ 2,248,715	
Taxes and other State revenue receivable	119,441,367	-	119,441,367	7,388,859	10,803	-	
Service billings receivable	-	18,379,530	18,379,530	-	-	-	
Prepays and other assets	9,663,679	-	9,663,679	3,726,235	8,030,649	1,230,479	
Inventories	1,581,300	879,510	2,460,810	1,777,899	935,355	37,511	
Due from primary government	-	-	-	12,951,925	1,711,992	1,829,506	
Restricted assets							
Cash and temporary investments	128,110,693	153,328,188	281,438,881	-	-	1,062,983	
Investments	-	-	-	-	-	410,610	
Receivables							
Due from other governmental agencies	12,770,769	685,908	13,456,677	-	-	6,635	
Other, net	2,841,631	4,633,161	7,474,792	-	-	-	
Other assets	2,219,282	-	2,219,282	-	-	255,859	
Total current assets	429,973,093	202,905,371	632,878,464	118,924,060	22,917,722	7,082,298	
Noncurrent Assets							
Restricted assets							
Deferred assessment and connection charges	-	60,042,012	60,042,012	-	-	-	
Notes receivable	-	5,326,451	5,326,451	-	-	-	
Total noncurrent restricted assets	-	65,368,463	65,368,463	-	-	-	
Loans receivable and other assets	-	-	-	-	7,696,515	1,055,348	
Capital assets not being depreciated	319,037,475	156,047,777	475,085,252	138,200,021	2,757,419	147,743	
Capital assets being depreciated	1,008,434,748	1,231,438,067	2,239,872,815	814,871,923	111,343,993	23,139,960	
Less accumulated depreciation	(442,249,629)	(387,244,503)	(829,494,132)	(378,509,674)	(43,962,798)	(6,455,041)	
Total capital assets	566,185,119	844,193,564	1,410,378,683	436,362,249	67,381,195	16,684,919	
Total assets	885,222,594	1,000,241,341	1,885,463,935	574,562,270	70,138,614	16,832,662	
	1,315,195,687	1,268,515,175	2,583,710,862	693,486,330	100,752,851	24,970,308	

Anne Arundel County, Maryland
Statement of Net Assets
June 30, 2005

	Primary Government		Discretely Presented Component Units			
	Governmental Activities	Business-type Activities	Total	Board of Education	Community College	Other Nonmajor
LIABILITIES						
Current liabilities						
Accrued liabilities	37,983,530	8,005,882	45,989,412	89,965,004	6,655,040	1,313,906
Current portion of non-current liabilities	72,860,613	23,192,856	96,053,469	6,448,538	-	646,484
Notes payable	-	-	-	-	-	904,234
Bond anticipation notes	34,500,000	7,000,000	41,500,000	-	-	-
Internal balances	(456,176)	456,176	-	-	-	-
Due to component units	1,657,421	-	1,657,421	-	-	-
Escrow deposits	188,287	214,353	402,640	-	-	-
Deferred revenue	-	-	-	2,614,296	5,831,899	445,874
Liabilities related to restricted assets						
Accrued liabilities	13,567,931	14,655,313	28,223,244	-	635,811	292,294
Due to component units	14,836,002	-	14,836,002	-	-	-
Escrow and other deposits	2,909,592	858,974	3,768,566	-	-	37,830
Deferred revenue	150,000	5,680,424	5,830,424	-	-	237,917
Total current liabilities	178,197,200	60,063,978	238,261,178	99,027,838	13,122,750	3,878,539
Noncurrent liabilities						
Compensated absences and other obligations	1,658,925	186,611	1,845,536	-	1,328,452	-
Unpaid insurance claims	30,707,820	-	30,707,820	-	-	-
Estimated landfill closure and postclosure	-	30,692,350	30,692,350	-	-	-
Long-term debt, net of deferred refunding gain/loss	551,777,815	261,203,142	812,980,957	28,705,474	16,198,903	204,630
Deferred revenue	14,785,852	6,937,558	21,723,410	-	-	-
Total liabilities	777,127,612	359,083,639	1,136,211,251	127,733,312	30,650,105	4,083,169
NET ASSETS						
Capital assets, net of related debt	496,848,918	730,703,264	1,227,552,182	570,092,766	57,594,809	16,598,861
Restricted for:						
Revenue stabilization	35,634,133	-	35,634,133	-	-	-
Debt service	13,155,834	147,894,257	161,050,091	-	-	-
Capital improvements	51,130,409	24,161,749	75,292,158	-	-	-
Other purposes	10,676,306	979,956	11,656,262	4,138,866	5,666,448	1,478,593
Unrestricted	(69,377,525)	5,692,310	(63,685,215)	(8,478,614)	6,841,489	2,809,685
Total net assets	\$ 538,068,075	\$ 909,431,536	\$ 1,447,499,611	\$ 565,753,018	\$ 70,102,746	\$ 20,887,139

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, 2005

Functions / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Education	\$ 506,794,807	\$ -	\$ -	\$ 10,546,015
Public Safety	185,398,446	11,935,632	10,788,624	772,502
General government	90,537,732	27,057,151	8,503,156	2,637,331
Health and human services	69,008,933	3,133,674	28,451,792	-
Public works	57,415,844	1,905,230	24,249,980	11,240,397
Recreation and community services	50,097,353	9,265,099	39,899	13,745,907
Judicial	19,673,396	2,588,716	1,647,355	-
Code enforcement	10,699,715	13,609,780	-	-
Land use and development	9,686,322	2,755,616	1,598,252	-
Economic development	3,330,000	-	5	-
Interest on debt and leases	26,436,198	-	268,885	-
	<u>1,029,078,746</u>	<u>72,250,898</u>	<u>75,547,948</u>	<u>38,942,152</u>
Business-type activities:				
Water and wastewater	94,416,480	61,805,702	-	38,538,873
Waste collection	38,995,723	36,152,665	-	-
Child care	2,361,711	2,427,787	-	-
	<u>135,773,914</u>	<u>100,386,154</u>	<u>-</u>	<u>38,538,873</u>
Total primary government	<u>1,164,852,660</u>	<u>172,637,052</u>	<u>75,547,948</u>	<u>77,481,025</u>
Component units:				
Board of Education	749,123,173	15,765,579	113,804,079	70,603,823
Community College	96,135,521	38,129,565	7,048,835	6,060,824
Library System	17,739,461	636,037	2,705,761	3,628,221
Economic Development Corp	4,123,404	1,042,078	1,790,119	-
Tipton Airport Authority	1,359,059	1,082,961	-	1,956,780
Workforce Development	2,436,391	-	2,582,299	-
Total component units	\$ <u>870,917,009</u>	\$ <u>56,656,220</u>	\$ <u>127,931,093</u>	\$ <u>82,249,648</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 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
\$ (496,248,792)	\$ -	\$ (496,248,792)	\$ -	\$ -	\$ -
(161,901,688)	-	(161,901,688)	-	-	-
(52,340,094)	-	(52,340,094)	-	-	-
(37,423,467)	-	(37,423,467)	-	-	-
(20,020,237)	-	(20,020,237)	-	-	-
(27,046,448)	-	(27,046,448)	-	-	-
(15,437,325)	-	(15,437,325)	-	-	-
2,910,065	-	2,910,065	-	-	-
(5,332,454)	-	(5,332,454)	-	-	-
(3,329,995)	-	(3,329,995)	-	-	-
(26,167,313)	-	(26,167,313)	-	-	-
<u>(842,337,748)</u>	<u>-</u>	<u>(842,337,748)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	5,928,095	5,928,095	-	-	-
-	(2,843,058)	(2,843,058)	-	-	-
-	66,076	66,076	-	-	-
-	<u>3,151,113</u>	<u>3,151,113</u>	-	-	-
(842,337,748)	3,151,113	(839,186,635)	-	-	-
-	-	-	(548,949,692)	-	-
-	-	-	-	(44,896,297)	-
-	-	-	-	-	(10,769,442)
-	-	-	-	-	(1,291,207)
-	-	-	-	-	1,680,682
-	-	-	-	-	<u>145,908</u>
-	-	-	(548,949,692)	(44,896,297)	(10,234,059)
412,001,280	-	412,001,280	-	-	-
308,215,401	-	308,215,401	-	-	-
6,613,645	-	6,613,645	-	-	820,823
116,713,326	-	116,713,326	-	-	-
31,249,156	-	31,249,156	-	-	-
-	-	-	575,640,303	49,711,574	13,362,039
-	-	-	-	1,523,429	-
4,437,329	4,920,451	9,357,780	1,543,953	657,558	66,835
336,090	7,042,120	7,378,210	1,547,013	392,469	160,425
<u>879,566,227</u>	<u>11,962,571</u>	<u>891,528,798</u>	<u>578,731,269</u>	<u>52,285,030</u>	<u>14,410,122</u>
37,228,479	15,113,684	52,342,163	29,781,577	7,388,733	4,176,063
<u>500,839,596</u>	<u>894,317,852</u>	<u>1,395,157,448</u>	<u>535,971,441</u>	<u>62,714,013</u>	<u>16,711,076</u>
\$ <u>538,068,075</u>	\$ <u>909,431,536</u>	\$ <u>1,447,499,611</u>	\$ <u>565,753,018</u>	\$ <u>70,102,746</u>	\$ <u>20,887,139</u>

Anne Arundel County, Maryland

Balance Sheet

Governmental Funds

June 30, 2005

	Major Funds			Nonmajor	Totals
	General	Impact Fees	General County Capital Projects	Governmental Funds	
ASSETS					
Cash and investments	\$ 105,101,816	\$ 51,520,862	\$ 52,067,886	\$ 24,522,245	\$ 233,212,809
Receivables					
Property taxes (net of \$1,246,961 allowance)	3,571,845	-	-	-	3,571,845
Local sales taxes	4,444,651	-	-	-	4,444,651
State shared revenues	25,108,730	-	-	-	25,108,730
Due from other governmental agencies (net of \$2,223,419 allowance)	5,802,200	-	12,663,154	107,615	18,572,969
Due from other funds	759,586	-	-	-	759,586
Local income tax	80,513,941	-	-	-	80,513,941
Other, net	4,523,821	1,110,779	743,325	987,527	7,365,452
Inventories	900,100	-	-	-	900,100
Other assets	-	-	2,219,282	-	2,219,282
Total assets	<u>230,726,690</u>	<u>52,631,641</u>	<u>67,693,647</u>	<u>25,617,387</u>	<u>376,669,365</u>
LIABILITIES					
Accrued liabilities	23,310,158	-	11,915,548	1,623,169	36,848,875
Due to other funds	4,761,364	-	-	31,560	4,792,924
Due to component units					
Board of Education	-	-	12,951,925	-	12,951,925
Community College	-	-	1,711,992	-	1,711,992
Library	1,657,421	-	-	-	1,657,421
Economic Development	-	-	-	172,085	172,085
Escrow and other deposits	188,287	-	-	2,909,592	3,097,879
Deferred revenue	58,105,568	-	7,823,346	33,204	65,962,118
Total liabilities	<u>88,022,798</u>	<u>-</u>	<u>34,402,811</u>	<u>4,769,610</u>	<u>127,195,219</u>
FUND BALANCES:					
Reserved for:					
Encumbrances	7,388,713	-	43,786,805	1,042,914	52,218,432
Revenue stabilization fund	35,634,133	-	-	-	35,634,133
Reserved for debt service	4,548,800	-	-	21,672	4,570,472
Reserved for other funds	121,743	-	-	-	121,743
Inventories	900,100	-	-	-	900,100
Unreserved:					
Designated for subsequent year's expenditures in:					
General fund	75,884,700	-	-	-	75,884,700
Special revenue funds	-	44,739,034	-	339,400	45,078,434
Capital projects funds	-	-	-	479,100	479,100
Debt service funds	-	-	-	709,800	709,800
Undesignated in:					
General fund	18,225,703	-	-	-	18,225,703
Special revenue funds	-	7,892,607	-	10,310,761	18,203,368
Capital projects funds	-	-	(10,495,969)	68,568	(10,427,401)
Debt service funds	-	-	-	7,875,562	7,875,562
Total fund balances	<u>142,703,892</u>	<u>52,631,641</u>	<u>33,290,836</u>	<u>20,847,777</u>	<u>249,474,146</u>
Total liabilities and fund balances	<u>\$ 230,726,690</u>	<u>\$ 52,631,641</u>	<u>\$ 67,693,647</u>	<u>\$ 25,617,387</u>	<u>\$ 376,669,365</u>

Anne Arundel County, Maryland

Reconciliation of Governmental Fund Balance to Governmental Net Assets

Governmental Funds

June 30, 2005

Total fund balance for governmental funds as shown on the previous page	\$ 249,474,146
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on governmental funds balance sheet.	867,212,905
Certain liabilities are not due and payable in the current period and, therefore, are not included on governmental funds balance sheet.	(647,547,412)
Accrued interest payable on debt is recorded in governmental activities.	(8,022,654)
Revenues not available for use in the current fiscal year have been deferred until future periods on the governmental funds balance sheet.	65,529,669
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.	23,648,190
Premiums received on certain bond issues have been deferred on the Statement of Net Assets.	(14,503,403)
Certain expenditures paid with current resources have been deferred to future periods on the Statement of Net Assets.	<u>2,276,634</u>
Total net assets for governmental activities as shown on Statement of Net Assets	<u>\$ 538,068,075</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, 2005

	Major Funds			Nonmajor	Totals
	General	Impact Fees	General County Capital Projects	Governmental Funds	
REVENUES					
General property taxes	\$ 400,944,486	\$ -	\$ -	\$ 10,543,823	\$ 411,488,309
Local income taxes	308,536,927	-	-	-	308,536,927
State shared taxes	30,308,838	-	-	-	30,308,838
Grants and aid	44,106,186	-	24,904,979	4,664,950	73,676,115
Recordation and transfer taxes	116,713,326	-	-	-	116,713,326
Local sales taxes	29,607,510	-	-	1,641,646	31,249,156
License and permit fees	15,400,144	-	-	-	15,400,144
Impact fees	-	11,217,435	-	-	11,217,435
Special community benefit taxes	-	-	-	4,640,447	4,640,447
Investment income	2,841,364	1,249,503	1,361,024	1,424,092	6,875,983
Other revenue	29,745,592	-	2,565,529	5,192,542	37,503,663
Total revenues	978,204,373	12,466,938	28,831,532	28,107,500	1,047,610,343
EXPENDITURES					
Current					
Education	440,726,906	-	65,501,994	-	506,228,900
Public safety	182,550,817	-	-	867,539	183,418,356
General government	65,607,996	-	-	381,708	65,989,704
Health and human services	63,260,609	-	-	4,908,424	68,169,033
Public works	25,448,187	708,523	-	963,942	27,120,652
Recreation and community services	26,775,804	-	-	4,544,654	31,320,458
Judicial	18,551,403	-	-	-	18,551,403
Code enforcement	10,600,396	-	-	-	10,600,396
Land use and development	8,848,042	-	-	824,066	9,672,108
Economic development	1,690,000	-	-	1,640,000	3,330,000
Capital outlay	2,265,088	-	95,554,600	383,629	98,203,317
Debt service					
Interest payments on debt	24,365,001	-	-	2,500,676	26,865,677
Principal payments on debt	76,538,511	-	-	1,110,580	77,649,091
Interest payments on leases	12,325	-	-	-	12,325
Principal payments on leases	53,496	-	-	-	53,496
Total expenditures	947,294,581	708,523	161,056,594	18,125,218	1,127,184,916
Revenues over (under) expenditures	30,909,792	11,758,415	(132,225,062)	9,982,282	(79,574,573)
OTHER FINANCING SOURCES (USES)					
Transfers in	8,671,287	-	71,447,296	130,000	80,248,583
Transfers out	(56,050,000)	(15,491,183)	(1,361,024)	(7,346,376)	(80,248,583)
General obligation bonds issued	56,000,000	-	-	-	56,000,000
Bond anticipation notes issued	-	-	34,500,000	-	34,500,000
Compass Pointe Bonds issued	-	-	24,530,000	-	24,530,000
Installment purchase contracts issued	-	-	295,000	-	295,000
Refunding bonds issued	50,538,271	-	-	-	50,538,271
Premiums from sale of bonds	3,417,648	-	-	-	3,417,648
Payments to escrow agent	(50,398,473)	-	-	-	(50,398,473)
Total other financing sources (uses)	12,178,733	(15,491,183)	129,411,272	(7,216,376)	118,882,446
Net change in fund balances	43,088,525	(3,732,768)	(2,813,790)	2,765,906	39,307,873
Fund balances, July 1	99,615,367	56,364,409	36,104,626	18,081,871	210,166,273
Fund balances, June 30	\$ 142,703,892	\$ 52,631,641	\$ 33,290,836	\$ 20,847,777	\$ 249,474,146

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

Reconciliation of Changes in Fund Balances to Changes in Net Assets

Governmental Funds

Year Ended June 30, 2005

Changes in fund balances as shown on Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds	\$ 39,307,873
<p>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:</p>	
Current year additions and donations of capital assets	71,895,966
Current year disposals of capital assets	(884,445)
Depreciation expense recorded in the Statement of Activities	(32,305,723)
<p>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:</p>	
New debt issued in current year (including refunding debt)	(133,110,519)
Principal payments on debt	97,774,627
Change in accrued interest payable	441,804
Gain on refunding	(1,205,000)
Amortization of prior year refunding gain/loss	(1,061,559)
<p>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:</p>	
Expense was deferred to future periods	1,276,610
Amortization of expenditures deferred in previous years	(578,618)
<p>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:</p>	
Deferred revenue	(3,417,648)
Amortization of amounts deferred	1,397,649
<p>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.</p>	
	(4,888,712)
<p>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.</p>	
	<u>2,586,174</u>
Changes in Net assets as shown in governmental activities on the Statement of Activities	<u>\$ 37,228,479</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 - Budget and Actual (Non-GAAP Basis)

General Fund

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Over (Under)
REVENUES				
General property taxes	\$ 396,276,000	\$ 396,276,000	\$ 400,944,486	\$ 4,668,486
Local income taxes	305,873,000	305,873,000	308,536,927	2,663,927
State shared taxes	28,848,000	28,848,000	30,476,373	1,628,373
Grants and aid	44,886,500	48,565,475	44,610,246	(3,955,229)
Recordation and transfer taxes	75,611,000	75,611,000	116,713,326	41,102,326
Local sales taxes	30,613,000	30,613,000	29,607,510	(1,005,490)
Licenses and permits	14,315,400	14,315,400	15,400,144	1,084,744
Investment income	1,753,000	1,753,000	3,593,495	1,840,495
Interfund recoveries	20,576,000	20,576,000	21,558,824	982,824
Other revenues	26,678,900	26,678,900	30,624,132	3,945,232
Total revenues	<u>945,430,800</u>	<u>949,109,775</u>	<u>1,002,065,463</u>	<u>52,955,688</u>
EXPENDITURES				
Current				
Education	440,665,500	440,665,500	440,356,198	(309,302)
Higher education	28,070,000	29,570,000	29,512,115	(57,885)
Public safety	185,509,300	188,240,675	186,172,614	(2,068,061)
General government	76,549,500	83,177,400	81,137,080	(2,040,320)
Health and human services	66,820,000	67,051,000	63,462,683	(3,588,317)
Public works	30,235,400	31,635,400	31,298,822	(336,578)
Recreation and community services	26,933,400	27,033,400	26,856,184	(177,216)
Judicial	18,790,400	18,914,000	18,387,193	(526,807)
Land use and development	9,191,400	9,279,200	8,848,890	(430,310)
Code enforcement	10,472,400	10,772,400	10,609,197	(163,203)
Economic development	1,690,000	1,690,000	1,690,000	-
Debt service	40,652,700	40,652,700	35,262,830	(5,389,870)
Pay go funding - capital projects	33,420,000	33,420,000	33,420,000	-
Total expenditures	<u>969,000,000</u>	<u>982,101,675</u>	<u>967,013,806</u>	<u>(15,087,869)</u>
Revenues over (under) expenditures	(23,569,200)	(32,991,900)	35,051,657	\$ <u>68,043,557</u>
Fund balances, budgetary, July 1	<u>67,220,429</u>	<u>67,220,429</u>	<u>67,220,429</u>	
Fund balances, budgetary, June 30	\$ <u>43,651,229</u>	\$ <u>34,228,529</u>	\$ <u>102,272,086</u>	
Fund balances - Unreserved				
Undesignated - GAAP basis			\$ 18,225,703	
Effect of revenue deferrals			4,006,601	
Allocation for self insurance fund deficit			4,033,339	
Establish Reserve for PST Landfill			121,743	
Undesignated - Non-GAAP basis			<u>26,387,386</u>	
Designated for subsequent years			75,884,700	
			\$ <u>102,272,086</u>	

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

Statement of Net Assets

Proprietary Funds

June 30, 2005

	Business-Type Activities - Enterprise Funds				Governmental
	Major Funds		Nonmajor Fund		Activities
	Water and Wastewater	Solid Waste	Child Care	Totals	Internal Service Funds
ASSETS					
Current Assets					
Cash and investments	\$ 11,273,554	\$ 12,752,882	\$ 972,638	\$ 24,999,074	\$ 48,242,256
Service billings receivable	17,199,981	1,174,982	4,567	18,379,530	1,163,078
Due from other funds	-	-	-	-	4,983,661
Inventories	789,523	89,987	-	879,510	681,200
Other	-	-	-	-	1,700,146
Restricted assets					
Cash and temporary investments	135,604,190	17,723,998	-	153,328,188	-
Receivables					
Due from other governmental agencies	685,908	-	-	685,908	-
Other, net	4,633,161	-	-	4,633,161	-
Total current assets	<u>170,186,317</u>	<u>31,741,849</u>	<u>977,205</u>	<u>202,905,371</u>	<u>56,770,341</u>
Noncurrent assets					
Restricted assets					
Deferred connection and assessment charges	60,042,012	-	-	60,042,012	-
Notes receivable	5,326,451	-	-	5,326,451	-
Capital assets	1,331,007,623	56,478,221	-	1,387,485,844	50,970,879
Less accumulated depreciation	<u>(358,370,978)</u>	<u>(28,873,525)</u>	<u>-</u>	<u>(387,244,503)</u>	<u>(32,961,190)</u>
Total capital assets, net of depreciation	<u>972,636,645</u>	<u>27,604,696</u>	<u>-</u>	<u>1,000,241,341</u>	<u>18,009,689</u>
Total assets	<u>1,208,191,425</u>	<u>59,346,545</u>	<u>977,205</u>	<u>1,268,515,175</u>	<u>74,780,030</u>
LIABILITIES					
Current liabilities					
Accrued liabilities	4,284,777	3,642,546	78,559	8,005,882	6,679,932
Current portion of long-term debt and obligations	19,903,198	3,271,545	18,113	23,192,856	13,178,307
Bond anticipation notes	6,000,000	1,000,000	-	7,000,000	-
Due to other funds	852,713	51,761	45,849	950,323	-
Escrow deposits	86,987	127,366	-	214,353	-
Liabilities related to restricted assets					
Accrued liabilities	14,654,563	750	-	14,655,313	-
Escrow deposits	858,974	-	-	858,974	-
Deferred revenue	5,680,424	-	-	5,680,424	-
Total current liabilities	<u>52,321,636</u>	<u>8,093,968</u>	<u>142,521</u>	<u>60,558,125</u>	<u>19,858,239</u>
Noncurrent liabilities					
Accrued liability for compensated absences	93,553	80,241	12,817	186,611	71,634
Unpaid insurance claims	-	-	-	-	30,707,820
Estimated landfill closure and postclosure	-	30,692,350	-	30,692,350	-
Long-term debt, net of deferred refunding loss	243,259,105	17,944,037	-	261,203,142	-
Deferred revenue	6,937,558	-	-	6,937,558	-
Total liabilities	<u>302,611,852</u>	<u>56,810,596</u>	<u>155,338</u>	<u>359,577,786</u>	<u>50,637,693</u>
NET ASSETS					
Invested in capital assets, net of related debt	718,113,611	12,589,653	-	730,703,264	18,009,689
Restricted for debt service	147,894,257	-	-	147,894,257	-
Restricted for capital improvements	23,636,854	524,895	-	24,161,749	-
Restricted for other purposes	-	979,956	-	979,956	-
Unrestricted	15,934,851	(11,558,555)	821,867	5,198,163	6,132,648
Total net assets	<u>\$ 905,579,573</u>	<u>\$ 2,535,949</u>	<u>\$ 821,867</u>	<u>\$ 908,937,389</u>	<u>\$ 24,142,337</u>

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

Net assets shown above \$ 908,937,389

A portion of the assets, liabilities, and current year activity within the internal service funds has been allocated to business-type activities. 494,147

Net assets shown on government wide statement of net assets \$ 909,431,536

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, 2005

	Business-Type Activities - Enterprise Funds				Governmental
	Major Funds		Nonmajor Fund	Totals	Internal
	Water and Wastewater	Solid Waste	Child Care		Service Funds
OPERATING REVENUES					
Charges for services	\$ 61,805,702	\$ 33,769,792	\$ 2,427,787	\$ 98,003,281	\$ 34,058,753
Landfill charges	-	2,382,873	-	2,382,873	-
Medical premiums	-	-	-	-	55,484,484
Other revenues	2,965,814	3,345,774	-	6,311,588	774,504
Total operating revenues	64,771,516	39,498,439	2,427,787	106,697,742	90,317,741
OPERATING EXPENSES					
Personal services	21,172,390	5,067,695	1,804,957	28,045,042	5,678,654
Contractual services	22,728,062	25,198,132	217,706	48,143,900	2,445,965
Supplies and materials	3,657,907	602,378	203,158	4,463,443	612,035
Business and travel	99,242	17,091	7,141	123,474	33,743
Cost of goods issued	-	-	-	-	3,903,469
Depreciation	27,868,909	2,789,244	-	30,658,153	4,320,850
Provision for claims and estimated losses	-	-	-	-	70,803,875
Landfill closure and postclosure costs	-	1,175,293	-	1,175,293	-
Other	7,417,000	2,700,001	129,769	10,246,770	760,000
Total operating expenses	82,943,510	37,549,834	2,362,731	122,856,075	88,558,591
Operating income (loss)	(18,171,994)	1,948,605	65,056	(16,158,333)	1,759,150
NONOPERATING REVENUES (EXPENSES)					
Investment income	2,051,677	876,770	-	2,928,447	891,333
Interest earned on long-term receivables	1,992,004	-	-	1,992,004	-
Other revenues	730,532	-	-	730,532	-
Interest expense	(8,428,124)	(1,080,110)	-	(9,508,234)	-
Other expenses	-	-	-	-	-
Loss on disposal of assets	(3,085,645)	(382,361)	-	(3,468,006)	(5,908)
Income (loss) before contributions	(24,911,550)	1,362,904	65,056	(23,483,590)	2,644,575
Capital contributions, fees, and grants	38,538,873	-	-	38,538,873	-
Change in net assets	13,627,323	1,362,904	65,056	15,055,283	2,644,575
Net assets/equity (as restated), July 1	891,952,250	1,173,045	756,811	893,882,106	21,497,762
Net assets/equity, June 30	\$ 905,579,573	\$ 2,535,949	\$ 821,867	\$ 908,937,389	\$ 24,142,337

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

Change in net assets shown above \$ 15,055,283

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.

58,401

Increase in net assets as shown on the government-wide statement of activities

\$ 15,113,684

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, 2005

	Business-Type Activities - Enterprise Funds				Governmental
	Major Funds		Nonmajor Fund	Totals	Internal
	Water and Wastewater	Solid Waste	Child Care		Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received for services	\$ 63,650,081	\$ 36,763,306	\$ 2,423,717	\$ 102,837,104	\$ 89,150,302
Cash received for expense reimbursement	-	-	-	-	283,161
Cash payments to suppliers for goods and services	(33,182,656)	(27,828,532)	(546,649)	(61,557,837)	(6,765,973)
Cash payments to employees for services	(21,082,807)	(5,028,616)	(1,779,384)	(27,890,807)	(5,646,429)
Cash payments for insurance claims	-	-	-	-	(65,275,450)
Cash payments for landfill closure costs	-	-	-	-	-
Other receipts (expenses)	-	3,345,774	-	3,345,774	749,504
Net cash provided by operating activities	9,384,618	7,251,932	97,684	16,734,234	12,495,115
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payments of long-term debt related to closure activities	-	(436,560)	-	(436,560)	-
Interest payments related to closure activities	-	(284,637)	-	(284,637)	-
Net cash used for noncapital financing activities	-	(721,197)	-	(721,197)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from sale of bonds and bond anticipation notes	30,500,000	2,000,000	-	32,500,000	-
Proceeds from grant funds	361,387	-	-	361,387	-
Proceeds from loan	12,102,724	-	-	12,102,724	-
Proceeds from developers' contributions	109,593	-	-	109,593	-
Refunds to developers	(158,296)	-	-	(158,296)	-
Cash received from assessments and connection charges	18,031,656	-	-	18,031,656	-
Environmental protection fees for capital assets	5,737,957	-	-	5,737,957	-
Payments of long-term debt	(18,538,242)	(2,604,402)	-	(21,142,644)	-
Payments of bond anticipation notes	(19,000,000)	(1,000,000)	-	(20,000,000)	-
Interest payments	(10,137,584)	(841,146)	-	(10,978,730)	-
Acquisition and construction of capital assets	(46,445,442)	(7,113,949)	-	(53,559,391)	(7,694,842)
Payments for debt issuance costs	(348,321)	-	-	(348,321)	-
Premium on sale of bonds	831,489	-	-	831,489	-
Payments received on note receivable	1,874,506	-	-	1,874,506	-
Proceeds from other capital contributions	(16)	-	-	(16)	-
Net cash used for capital and related financing activities	(25,078,589)	(9,559,497)	-	(34,638,086)	(7,694,842)

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds				Governmental
	Major Funds		Nonmajor Fund		Activities
	Water and Wastewater	Solid Waste	Child Care	Totals	Internal Service Funds
CASH FLOW FROM INVESTING ACTIVITIES:					
Purchase of investment securities	(76,974,662)	-	-	(76,974,662)	(94,497,630)
Sale of investment securities	80,980,243	-	-	80,980,243	83,010,898
Interest on investments	1,352,136	876,770	-	2,228,906	751,778
Net cash provided by (used for) investing activities	5,357,717	876,770	-	6,234,487	(10,734,954)
Net increase (decrease) in cash and cash equivalents	(10,336,254)	(2,151,992)	97,684	(12,390,562)	(5,934,681)
Cash and cash equivalents, July 1	73,772,199	32,628,872	874,954	107,276,025	19,182,037
Cash and cash equivalents, June 30	63,435,945	30,476,880	972,638	94,885,463	13,247,356
Investment in non-cash equivalents	83,441,799	-	-	83,441,799	34,994,900
Total cash and temporary investments	\$ 146,877,744	\$ 30,476,880	\$ 972,638	\$ 178,327,262	\$ 48,242,256

**RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES**

Operating income (loss)	\$ (18,171,994)	\$ 1,948,605	\$ 65,056	\$ (16,158,333)	\$ 1,759,150
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	27,868,909	2,789,244	-	30,658,153	4,320,850
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	(1,117,658)	610,141	(4,070)	(511,587)	(493,989)
Decrease (increase) in inventories	354,466	(16,824)	-	337,642	(101,789)
Decrease in deposit with provider	-	-	-	-	629,041
Increase in accrued liabilities	87,405	724,048	18,164	829,617	2,476,650
Increase in unpaid claims	-	-	-	-	3,889,475
Increase in landfill closure and postclosure costs	-	1,175,292	-	1,175,292	-
Increase in due to other funds	380,909	16,665	11,903	409,477	-
Increase (decrease) in escrow deposits	(3,776)	500	-	(3,276)	-
Increase (decrease) in accrued liability for compensated absences	(13,643)	4,261	6,631	(2,751)	15,727
Net cash provided by operating activities	\$ 9,384,618	\$ 7,251,932	\$ 97,684	\$ 16,734,234	\$ 12,495,115

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

In fiscal year 2005, facilities with an estimated market value of \$13,101,783 were contributed to the Enterprise funds by developers. These were primarily water and sewer lines placed in new developments.

In fiscal year 2005, amortization of refunding gains and losses resulted in a net expense of \$509,896 in the Water and Wastewater Fund, and \$9,818 in the Solid Waste Fund.

In fiscal year 2005, the net fair market value adjustment related to investments was a loss of \$246,512 in the Water and Wastewater Fund, and a loss of \$23,933 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, 2005

	Pension Trust Funds (As of December 31, 2004)	Agency Funds
ASSETS		
Investments, at fair value:		
Cash and temporary investments	\$ 132,632,498	\$ 22,658,299
U. S. Government obligations	38,310,339	-
Corporate obligations	107,396,221	-
Corporate obligation investment pools	63,203,329	-
International obligations	48,618,809	-
Common stocks	349,167,283	-
Common stock investment pools	78,513,486	-
International stock investment pools	198,662,304	-
Mortgages and mortgage related securities	33,045,121	-
Real estate investment pools	20,352,189	-
Insurance company general accounts	55,235,414	-
Absolute Return funds	30,985,381	-
Total investments	<u>1,156,122,374</u>	<u>22,658,299</u>
Collateral from securities lending transactions	<u>83,917,074</u>	<u>-</u>
Receivables:		
Employer contributions	2,706,019	-
Participant contributions	619,637	-
Accrued interest and dividends	4,224,321	-
Investment sales proceeds	56,929,154	-
Total receivables	<u>64,479,131</u>	<u>-</u>
Deposits on hand	<u>195,314</u>	<u>-</u>
Total assets	<u>1,304,713,893</u>	<u>22,658,299</u>
LIABILITIES		
Accounts payable	2,138,291	442,552
Escrow and other deposits	-	22,215,747
Investment commitments payable	74,487,559	-
Obligation for collateral received under securities lending transactions	<u>83,917,074</u>	<u>-</u>
Total liabilities	<u>160,542,924</u>	<u>22,658,299</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 1,144,170,969</u>	<u>\$ -</u>
(A schedule of funding progress for each plan is presented on page 67.)		

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 June 30, 2005

Pension
Trust Funds
(As of December 31, 2004)

ADDITIONS

Contributions:

Employer	\$ 29,524,314
Participant	<u>7,793,819</u>
Total contributions	<u>37,318,133</u>

Investment income:

Net appreciation in fair value of investments	83,602,403
Interest income	17,851,768
Dividend income	<u>5,060,615</u>
Total investment income	<u>106,514,786</u>

Less investment expense	<u>(5,248,806)</u>
Net income from investing activities	101,265,980

Securities lending activities:

Securities lending income	1,057,883
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Securities lending expenses:

Borrower rebates	900,555
Management fees	<u>47,234</u>
Securities lending expense	<u>947,789</u>
Securities lending net income	<u>110,094</u>

Total net investment income	<u>101,376,074</u>
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Total additions	<u>138,694,207</u>
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DEDUCTIONS

Participant benefit payments and refunds	37,342,018
Administrative expenses	<u>1,188,103</u>
Total deductions	<u>38,530,121</u>
Net increases	100,164,086
Net assets, beginning of year	<u>1,044,006,883</u>
Net assets, end of year	<u>\$ 1,144,170,969</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 and its Foundation 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 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 and fuel usage, and motor pool vehicles. Costs are recovered through fees to users for maintenance, fuel use, and vehicle lease charges.
- **Garage Replacement** – This fund accounts for the collection of replacement fees from participating funds within the Primary Government and Component Units. The fees are used to replace motor pool vehicles as needed. This activity was previously reported in the Central Garage and Transportation Fund.

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 in trust on behalf of the Special Assessment Districts or other agreements; 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 of the Primary government's 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 includes bank deposits in checking and savings accounts. Investments are external pools and fixed income issues which generally mature within one year. Investments may extend longer than one year to facilitate the specific purpose of a fund. Details on investment types and term are displayed in Note 3, "Cash and Investments".

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 investments. To facilitate the pooling, cash belonging to other funds is transferred to and from 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.

Investment income earned on investments is generally allocated to each fund based on its proportionate share of the average daily cash balance each month. However, investment income earned on the balances in certain special revenue funds and Agency 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.

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 only, 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	5 – 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. The statement also presents combined totals for the Internal Service Funds. These funds collect charges from other funds and component units for insurance, printing costs and the Primary Government's motor pool maintenance and replacement. 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, 2005 totaled \$52,218,432 in the governmental fund types, \$43,786,805 of which is for construction activity. The proprietary funds utilize encumbrance accounting for budgetary purposes. At June 30, 2005 the proprietary funds had encumbrances totaling \$56,027,600, of which \$49,908,182 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 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, 2005. The annual leave accrual is calculated using unused annual leave hours at June 30, 2005 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.

M 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.

N Beginning Net Assets – Capital assets and accumulated depreciation balances in governmental activities have been adjusted for open capital projects that are substantially complete and in use at the beginning of the fiscal year. Related asset balances were transferred from construction in progress to other capital asset categories and the net effect of accumulated depreciation and expensed items was \$13,107,587.

Capital assets and accumulated depreciation balances in the business-type activities have been adjusted to reflect the results of a detailed historical analysis of the Solid Waste Fund’s landfill assets. The net effect of the adjustment was a reduction in net capital assets and net assets of \$4,384,976.

O New Pronouncements – The Governmental Accounting Standards Board Statement 40 – Deposit and Investment Risk Disclosure became effective in fiscal year 2005. As a result these notes include major revisions to include disclosures as to custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The Primary Government has early implemented Statement 44 – Economic Condition Reporting: The Statistical Section. The Statistical Section of the Comprehensive Annual Financial Report has been revised to include the information required by this statement.

2 Budgetary Information

A Excess Expenditures over Appropriations and Fund Deficits – The County limits the spending of departments and funds by granting budgetary appropriation authority. These limits are established at the department level in the General Fund, separate funds are controlled at the fund level, and capital projects are controlled at the project level.

During the fiscal year certain departments and/or funds overspent legal budget appropriations. The Reforestation Special Revenue Fund overspent its appropriation authority by \$364,936. The Office of Land Use has instituted new procedures to more closely monitor appropriation levels. Additional appropriation authority will be requested as necessary.

At fiscal year end the Self Insurance Fund had a total deficit of \$4,761,364. 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 over expenditures - budgetary basis	\$ 35,051,657
Net effect of encumbrances	1,554,155
Changes in Revenue Stabilization Reserve	8,456,392
Timing differences in revenue recognition	(576,678)
Net effect of fiscal 2004 and 2005 Self Insurance Fund deficits allocation	89,313
Bond proceeds reserved for debt service	(1,447,372)
Net inventory change	(38,942)
Change in fund balance - modified accrual basis	<u>\$ 43,088,525</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 collected 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, real estate, and absolute return funds. The Retirement System lends its 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 loans.

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, 2004, the year-end for the Retirement System, had a weighted average maturity of 145 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 Credit Risk** – At June 30, 2005, the carrying amount of the Primary Government's bank deposits was (\$5,250,219), while bank balances were \$288,240. Available cash invested overnight in Repurchase agreements, as discussed above, was \$3,335,516. Bank balances of \$75,743 were fully secured by Federal Deposit insurance and the balance of \$212,497 represents uncollected bank deposits.

Cash balances of the Board of Education and the Community College component units are fully securitized by Federal Deposit Insurance and/or collateral held in the component unit's name at the Federal Reserve. The cash balances of the other nonmajor component units are insured or collateralized except \$946,945, which is neither insured nor collateralized.

Custodial credit risk is the risk that the Government will not be able to recover deposits, in the event of the failure of a depository financial institution or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Primary Government, and are held by either a counterparty or the counterparty's trust department or agent but not in the Government's name. Repurchase agreements for two brokers held by the custodian bank were under-collateralized by \$342,061 and \$1,308,366.

C **Concentration Risk** - Concentration risk is the risk of loss attributed to the magnitude of the Government's investment in a single issuer. As of June 30, 2005, Federal Home Loan Bank represented 13.3% of the Primary Government's investments. Exposure to all other issuers was less than 5.0% each excluding investment pools. The County's Investment Policy sets maximum concentration limits by asset type. There was no investment greater than 5% for the Board of Education or the Community College excluding pools. The Retirement System's Investment Policy Statement (IPS) sets maximum concentration limits by asset type and manager style. As of December 31, 2004 there was no exposure to a single issuer greater than 5.0% of the System's plan net assets excluding investment pools.

D **Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The fair market value of fixed income (debt) securities is affected by increases and declines in

Anne Arundel County, Maryland
Notes to the Basic Financial Statements

interest rates. These investments may also have embedded call features allowing the issuer to redeem part or all of the issue prior to maturity at a pre-set price. In addition, debt issues may have interest rates that vary according to a pre-determined external index (such as the London Inter-Bank Offered Rate) or a pre-determined step-up in the interest rate at a pre-determined date(s). The Retirement System's IPS sets limits on floating rates for mortgage backed securities and establishes limits on the average duration of some investment types.

The following table displays debt holdings by maturity for the Primary Government and the Component Units by term, investment type, and provides summary data for rate and callable features. Call feature and variable rate issues are also noted. Data for the Retirement System is displayed as of December 31, 2004 on page 50.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1 year</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>over 10</u>
<u>Primary Government</u>					
Repurchase agreements	\$ 284,632,994	\$ 284,009,869	\$ -	\$ -	\$ 623,125
U.S. Government securities	3,244,765	125,241	-	-	3,119,524
Agency/Instrumentalities *	97,757,534	87,824,096	9,933,438	-	-
Commercial paper	18,749,223	18,749,223	-	-	-
Money market pools	68,530,856	68,530,856	-	-	-
Tax exempt municipal bonds	14,774,928	2,761,550	12,013,378	-	-
	<u>\$ 487,690,300</u>	<u>\$ 462,000,835</u>	<u>\$ 21,946,816</u>	<u>\$ -</u>	<u>\$ 3,742,649</u>
<u>Board of Education</u>					
Repurchase agreements	\$ 1,887,947	\$ 1,887,947	\$ -	\$ -	\$ -
Money market pools	91,191,195	91,191,195	-	-	-
	<u>\$ 93,079,142</u>	<u>\$ 93,079,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Community College</u>					
Repurchase agreements	\$ 3,774,836	\$ 3,774,836	\$ -	\$ -	\$ -
U.S. Government securities	755,163	4,990	519,914	8,999	221,260
Agency/Instrumentalities	177,408	-	144,127	16,875	16,406
Money market pools	7,957,976	7,957,976	-	-	-
Bond mutual funds	461,735	461,735	-	-	-
Corporate bonds	419,426	-	178,877	144,718	95,831
International bonds	21,366	-	14,079	7,287	-
Guaranteed investment trusts	1,174,939	-	-	-	1,174,939
	<u>\$ 14,742,849</u>	<u>\$ 12,199,537</u>	<u>\$ 856,997</u>	<u>\$ 177,879</u>	<u>\$ 1,508,436</u>
<u>Other nonmajor component units</u>					
Repurchase agreements	\$ 442,023	\$ 442,023	\$ -	\$ -	\$ -
Agency/Instrumentalities *	535,212	-	535,212	-	-
Certificates of Deposit	410,609	59,609	351,000	-	-
Money market pools	534,521	534,521	-	-	-
Corporate bonds	322,882	149,247	173,635	-	-
	<u>\$ 2,245,247</u>	<u>\$ 1,185,400</u>	<u>\$ 1,059,847</u>	<u>\$ -</u>	<u>\$ -</u>

* Callable detail

	<u>Fair Value</u>	<u>\$ Call Value</u>	
Primary Government	\$ 45,326,250	\$ 45,500,000	Callable within one year.
Other non major component units	367,415	392,000	Callable within one year.

Variable rate holdings

	<u>\$ Par Value</u>	<u>Issuer</u>	<u>Maturity</u>	<u>Reset Schedule</u>
Primary Government	5,000,000	Fed Home Ln Mort	3/15/2006	Quarterly, 25 basis pts.
Other nonmajor component units	116,000	Fed Home Ln Mort	10/15/2008	Annually. Variable amts.
	11,000	Fed Home Ln Mort	9/15/2009	Annually. Variable amts.

The table on the following page displays the Retirement System's debt holdings by maturity term, investment type, and provides summary data for rate and callable features. All categories within this table, except U.S. Treasuries and foreign denominated bonds, include issues with floating rates. The total fair value of the floating rate issues was \$15 million as of December 31, 2004.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1 year</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>over 10</u>
Repurchase Agreements	\$ 19,700,000	\$ 19,700,000	\$ -	\$ -	\$ -
U.S. Treasuries	44,578,396	5,431,056	21,115,870	4,547,157	13,484,314
Agency/Instrumentalities *	35,104,036	14,281,958	515,042	-	20,307,037
Commercial Paper	270,000	270,000	-	-	-
Corporate Bonds **	89,022,018	1,872,950	23,897,688	55,940,118	7,311,262
Certificates of Deposit	10,500,010	10,500,010	-	-	-
Bond Mutual Funds	158,276,930	97,134,833	61,142,097	-	-
Collateralized Mrtg Obligations	8,573,051	-	500,402	-	8,072,649
Other Asset-Backed Securities	3,715,365	-	1,052,663	775,539	1,887,162
Foreign Denominated Bonds	45,877,075	-	23,449,136	9,063,337	13,364,603
Totals	\$ 415,616,881	\$ 149,190,807	\$ 131,672,898	\$ 70,326,151	\$ 64,427,027

* Two Federal National Mortgage Association issues maturing in 2019 totaling \$765,902 in current market value are callable in March and April 2006 for a total of \$770,000.

** Corporate issues are callable as follows:

	<u>Current Value</u>	<u>Callable Value</u>	<u>Date Range</u>
1 to 5 years:	\$ 3,875,605	\$ 3,776,135	May 2005 to Dec 2007
6 to 10 years:	34,198,178	33,054,770	June 2005 to Jan 2010
over 10 years:	258,310	260,000	Aug 2008, June 2013, Oct 2016
	<u>\$ 38,332,093</u>	<u>\$ 37,090,905</u>	

E Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Debt securities are rated by Nationally Recognized Statistical Rating Organizations to provide purchasers with an opinion of the capability and willingness of a borrower to re-pay its debt. The following table displays the County's debt holdings and quality ratings from Standard & Poor's and Moody's with the highest rating in each asset type listed first. Ratings for the Component Units and Retirement System are listed separately.

<u>Investment Type</u>	<u>S&P</u>	<u>Moody's</u>	<u>%</u>	<u>Investment Type</u>	<u>S&P</u>	<u>Moody's</u>	<u>%</u>
<u>Primary Government</u>							
Federal Home Loan Bank	AAA	Aaa	13.20	Tax Exempt Municipal	AAA	Aaa	2.48
Federal Home Loan Mortgage	AAA	Aaa	1.83	"	NR	Aaa	0.38
Federal National Mort Assoc.	AAA	Aaa	4.12	"	AAA	NR	0.19
Federal Farm Credit Bank	AAA	NR	1.03	Commercial paper	A-1	P-1	3.87
Money market pools	AAAm	Aaa	0.11	Repurchase agreement	NR	NR	<u>58.76</u>
"	AAAm	NR	14.03	"			<u>100.00</u>

Anne Arundel County, Maryland
Notes to the Basic Financial Statements

<u>Investment Type</u>	<u>S&P</u>	<u>Moody's</u>	<u>%</u>	<u>Investment Type</u>	<u>S&P</u>	<u>Moody's</u>	<u>%</u>
<u>Board of Education</u>							
Repurchase Agreement	NR	NR	2.03	Money Market pool	AAAm	NR	<u>97.97</u> 100.00
<u>Community College</u>							
Repurchase agreements	NR	NR	32.01	Corporate bonds	AA	AA	0.34
Money market pool	AAAm	NR	55.21	(continued)	A	BBB	0.16
Federal Home Loan Mortgage	AAA	Aaa	0.49	"	A	A	1.08
Federal National Mort. Assoc.	AAA	Aaa	0.77	"	A	AA	0.05
Guaranteed Investment Trust	NR	NR	8.38	"	BAA	BBB	0.87
International Bonds	BAA	BBB	0.10	"	BAA	BB	0.03
"	BAA	A	0.05	"	BAA	A	<u>0.10</u>
Corporate bonds	AAA	AAA	0.13				100.00
"	AA	A	0.23				
<u>Nonmajor component units</u>							
Federal Home Loan Bank	AAA	Aaa	12.75	Corporate bonds	AAA	Aaa	6.65
Federal Nat'l. Mtg Assoc.	AAA	Aaa	4.36	"	AA	Aa	7.73
Federal Home Loan Mtg Corp	AAA	Aaa	6.72	Money market pool	AAAm	NR	0.95
Certificates of Deposit	NR	NR	18.29	"	NR	NR	<u>22.86</u>
Repurchase agreements	NR	NR	19.69				100.00

The Retirement System's Investment Policy Statement (IPS) provides guidelines to all fixed income managers related to allowable quality ratings. Holdings as of December 31, 2004 are displayed below.

<u>Investment type</u>	<u>S&P</u>	<u>Moody's</u>	<u>%</u>	<u>Investment type</u>	<u>S&P</u>	<u>Moody's</u>	<u>%</u>
Federal Home Loan Bank	AAA	Aaa	0.41	Corporate Bonds	AAA	Aaa	0.37
Federal Home Loan Mortgage	AAA	Aaa	0.12	"	AA	Aa	0.29
Federal National Mortgage Assoc	AAA	Aaa	3.67	"	A	Aa	0.51
GNMA 1	AAA	Aaa	1.62	"	A	A	0.85
Collateralized Mort. Oblig.	AAA	Aaa	1.00	"	A	Baa	0.21
"	AAA	NR	0.61	"	BBB	A	0.33
"	CCC	Caa	0.02	"	BBB	Baa	1.87
"	NR	Aaa	0.14	"	BBB	Ba	0.42
"	NR	BA	0.03	"	BB	Baa	0.20
"	NR	Ca	0.02	"	BB	Ba	5.07
"	NR	NR	0.24	"	BB	B	1.14
Other Asset backed obligations	AAA	Aaa	0.51	"	B	Ba	1.19
"	B	Ba	0.08	"	B	B	6.23
"	NR	Aaa	0.06	"	B	Caa	0.87
"	NR	NR	0.07	"	CCC	B	0.01
Receivable backed obligations	AAA	Aaa	0.15	"	CCC	Caa	0.35
"	AA	Aaa	0.02	"	CCC	Ca	0.03
Foreign Govt Issued debt	AAA	Aaa	3.70	"	NR	Caa	1.22
"	AA	Aa	1.47	"	NR	Ca	0.15
"	AA	A	4.06	"	NR	NR	0.08
"	A	A	0.15	Commercial paper	A-3	P-2	0.06
"	BBB	Baa	0.81	Repurchase agreement	NR	NR	4.73
"	BB	Baa	0.45	Certificates of Deposit	A-1	Prime	1.56
"	BB	Ba	0.12	"	NR	NR	0.96
"	B	B	0.15	Guarant'd Invest Contract	NR	NR	27.95
"	NR	AA	0.34	Short Term Invest. Pool	NR	NR	<u>23.33</u> 100.00

F Foreign Currency Risk – This risk relates to the potential, unfavorable fluctuation of exchange rates compared with the U.S. Dollar. Neither the Primary Government nor its component units had exposure to foreign currency as of June 30, 2005. The Retirement System recognizes the value of global diversification and retains four managers for global and international equity and fixed income investments. Global and international managers may also purchase or sell currency on a spot basis and may enter into forward exchange contracts on currency provided that the use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of securities transactions.

The IPS provides guidance on maximum currency exposure allowed in each portfolio with a maximum of 39% in international/global permissible. The foreign equities, totaling \$198,662,304 in fair market value, are managed in a pooled fund basis and are not included in the following table.

The System’s fixed income foreign currency exposure as of December 31, 2004 is as follows:

<u>Currency</u>	<u>U.S. Dollar Value</u>	<u>% of Portfolio</u>
Canadian Dollar	\$ 894,339	0.08%
Danish Krone	156,423	0.01%
Euro	18,500,282	1.60%
Japanese Yen	16,882,793	1.46%
British Sterling	3,296,993	0.29%
Swedish Krona	225,440	0.02%
	<u>\$ 39,956,270</u>	<u>3.46%</u>

4 Receivables

A Property Taxes Receivable - The County’s property tax is levied each July 1st 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 30th or two installments due on September 30th and December 31st. Property taxes are due from all other taxpayers on September 30th. After these dates interest is charged each month on the unpaid balance. Property with delinquent taxes is sold at public auction each June.

B State Income Taxes Receivable – The State’s distribution of the County’s share of income taxes lags behind the County’s fiscal year. Management estimates the amount of receivables for taxes earned in the fiscal year by analyzing the historical trends of distribution patterns and current year income tax activity.

C 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, 2005 of the deferred charges is \$60,042,012.

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 \$5,326,451.

5 Capital Assets

The components of capital assets, changes in asset categories, and accumulated depreciation for the fiscal year ended June 30, 2005 are presented on the following pages.

Anne Arundel County, Maryland
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Category	Balance June, 30 2004	Increases	Decreases	Balance June 30, 2005
Governmental activities:				
<i>Capital assets not being depreciated (as restated):</i>				
Land and easements	\$ 152,128,829	\$ 8,400,878	\$ (100,000)	\$ 160,429,707
Historical property/works of art	4,095,225	71,240	-	4,166,465
Construction in progress	137,734,375	71,981,544	(55,274,616)	154,441,303
Total assets not depreciated	<u>293,958,429</u>	<u>80,453,662</u>	<u>(55,374,616)</u>	<u>319,037,475</u>
<i>Capital assets being depreciated (as restated):</i>				
Land improvements	82,469,732	3,860,352	-	86,330,084
Buildings	274,757,944	13,311,216	-	288,069,160
Roads and bridges	268,114,536	16,490,634	(2,925,194)	281,679,976
Sidewalks, curbs, and gutters	25,063,487	1,898,170	(110,944)	26,850,713
Storm drains and culverts	194,489,542	3,844,068	(380,298)	197,953,312
Automobiles and rolling stock	61,416,147	8,727,576	(3,891,645)	66,252,078
Furniture, fixtures, and equipment	36,154,896	6,254,059	(980,550)	41,428,405
Software	20,697,207	249,902	(1,076,089)	19,871,020
Total assets depreciated	<u>963,163,491</u>	<u>54,635,977</u>	<u>(9,364,720)</u>	<u>1,008,434,748</u>
<i>Less accumulated depreciation (as restated) for:</i>				
Land improvements	(36,122,529)	(2,910,644)	-	(39,033,173)
Buildings	(52,747,455)	(5,725,605)	-	(58,473,060)
Roads and bridges	(119,639,189)	(11,436,549)	2,324,638	(128,751,100)
Sidewalks, curbs, and gutters	(11,983,629)	(543,782)	66,566	(12,460,845)
Storm drains and culverts	(106,890,394)	(6,605,690)	270,627	(113,225,457)
Automobiles and rolling stock	(43,424,092)	(4,974,477)	3,752,981	(44,645,588)
Furniture, fixtures, and equipment	(26,986,187)	(3,172,237)	888,383	(29,270,041)
Software	(16,179,732)	(1,257,590)	1,046,957	(16,390,365)
Total accumulated depreciation	<u>(413,973,207)</u>	<u>(36,626,574)</u>	<u>8,350,152</u>	<u>(442,249,629)</u>
Total capital assets, being depreciated, net	<u>549,190,284</u>	<u>18,009,403</u>	<u>(1,014,568)</u>	<u>566,185,119</u>
Total governmental activities, net	<u>\$ 843,148,713</u>	<u>\$ 98,463,065</u>	<u>\$ (56,389,184)</u>	<u>\$ 885,222,594</u>
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land and easements	\$ 8,549,360	\$ -	\$ -	\$ 8,549,360
Construction in progress	119,605,402	52,681,341	(24,788,326)	147,498,417
Total assets not depreciated	<u>128,154,762</u>	<u>52,681,341</u>	<u>(24,788,326)</u>	<u>156,047,777</u>
<i>Capital assets being depreciated (as restated):</i>				
Buildings	20,222,210	583,859	-	20,806,069
Landfills	26,042,819	-	-	26,042,819
Water and sewer plants and lines	1,131,582,383	39,196,227	(5,203,447)	1,165,575,163
Automobiles and rolling stock	7,490,484	801,969	(851,804)	7,440,649
Furniture, fixtures, and equipment	11,218,120	973,062	(617,815)	11,573,367
Total assets depreciated	<u>1,196,556,016</u>	<u>41,555,117</u>	<u>(6,673,066)</u>	<u>1,231,438,067</u>
<i>Less accumulated depreciation (as restated) for:</i>				
Buildings	(5,143,835)	(379,440)	-	(5,523,275)
Landfills	(18,038,075)	(2,102,966)	-	(20,141,041)
Water and sewer plants and lines	(322,382,339)	(27,292,323)	2,540,651	(347,134,011)
Automobiles and rolling stock	(6,345,879)	(222,271)	851,805	(5,716,345)
Furniture, fixtures, and equipment	(8,679,493)	(661,153)	610,815	(8,729,831)
Total accumulated depreciation	<u>(360,589,621)</u>	<u>(30,658,153)</u>	<u>4,003,271</u>	<u>(387,244,503)</u>
Total capital assets, being depreciated, net	<u>835,966,395</u>	<u>10,896,964</u>	<u>(2,669,795)</u>	<u>844,193,564</u>
Total business-type activities, net	<u>\$ 964,121,157</u>	<u>\$ 63,578,305</u>	<u>\$ (27,458,121)</u>	<u>\$ 1,000,241,341</u>

Anne Arundel County, Maryland
Notes to the Basic Financial Statements

Category	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Board of Education:				
<i>Capital assets not being depreciated:</i>				
Land and improvements	\$ 44,964,098	\$ 16,272	\$ -	\$ 44,980,370
Construction in progress	74,990,940	64,081,257	(45,852,546)	93,219,651
Total assets not depreciated	<u>119,955,038</u>	<u>64,097,529</u>	<u>(45,852,546)</u>	<u>138,200,021</u>
<i>Capital assets being depreciated:</i>				
Buildings	717,932,667	33,331,100	-	751,263,767
Furniture, fixtures, and equipment	54,428,010	9,865,901	(685,755)	63,608,156
Total assets depreciated	<u>772,360,677</u>	<u>43,197,001</u>	<u>(685,755)</u>	<u>814,871,923</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(318,859,894)	(24,303,392)	-	(343,163,286)
Furniture, fixtures, and equipment	(31,212,891)	(4,652,674)	519,177	(35,346,388)
Total accumulated depreciation	<u>(350,072,785)</u>	<u>(28,956,066)</u>	<u>519,177</u>	<u>(378,509,674)</u>
Total capital assets, being depreciated, net	<u>422,287,892</u>	<u>14,240,935</u>	<u>(166,578)</u>	<u>436,362,249</u>
Total Board of Education, net	<u>\$ 542,242,930</u>	<u>\$ 78,338,464</u>	<u>\$ (46,019,124)</u>	<u>\$ 574,562,270</u>
Community College:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,377,654	\$ -	\$ -	\$ 2,377,654
Construction in progress	14,436,340	6,181,572	(20,238,147)	379,765
Total assets not depreciated	<u>16,813,994</u>	<u>6,181,572</u>	<u>(20,238,147)</u>	<u>2,757,419</u>
<i>Capital assets being depreciated:</i>				
Land improvements	3,936,119	-	-	3,936,119
Buildings and improvements	70,329,107	18,629,563	-	88,958,670
Furniture, fixtures, and equipment	17,277,668	1,747,806	(576,270)	18,449,204
Total assets depreciated	<u>91,542,894</u>	<u>20,377,369</u>	<u>(576,270)</u>	<u>111,343,993</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(2,758,955)	(172,039)	-	(2,930,994)
Buildings and improvements	(25,022,059)	(2,529,660)	-	(27,551,719)
Furniture, fixtures, and equipment	(11,996,954)	(2,029,521)	546,390	(13,480,085)
Total accumulated depreciation	<u>(39,777,968)</u>	<u>(4,731,220)</u>	<u>546,390</u>	<u>(43,962,798)</u>
Total capital assets, being depreciated, net	<u>51,764,926</u>	<u>15,646,149</u>	<u>(29,880)</u>	<u>67,381,195</u>
Total Community College, net	<u>\$ 68,578,920</u>	<u>\$ 21,827,721</u>	<u>\$ (20,268,027)</u>	<u>\$ 70,138,614</u>
Other non-major:				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 3,071,237	\$ 34,273	\$ (2,957,767)	\$ 147,743
<i>Capital assets being depreciated:</i>				
Airport improvements	2,127,990	4,879,575	-	7,007,565
Library collection	12,016,989	3,628,221	(1,953,707)	13,691,503
Automobiles and rolling stock	53,072	44,056	(38,541)	58,587
Furniture, fixtures, and equipment	1,968,917	481,269	(67,881)	2,382,305
Total assets depreciated	<u>16,166,968</u>	<u>9,033,121</u>	<u>(2,060,129)</u>	<u>23,139,960</u>
<i>Less accumulated depreciation for:</i>				
Airport improvements	(223,679)	(350,377)	-	(574,056)
Library collection	(4,158,483)	(926,676)	641,806	(4,443,353)
Automobiles and rolling stock	(47,879)	(8,811)	33,347	(23,343)
Furniture, fixtures, and equipment	(1,184,607)	(283,721)	54,039	(1,414,289)
Total accumulated depreciation	<u>(5,614,648)</u>	<u>(1,569,585)</u>	<u>729,192</u>	<u>(6,455,041)</u>
Total capital assets, being depreciated, net	<u>10,552,320</u>	<u>7,463,536</u>	<u>(1,330,937)</u>	<u>16,684,919</u>
Total other non-major, net	<u>\$ 13,623,557</u>	<u>\$ 7,497,809</u>	<u>\$ (4,288,704)</u>	<u>\$ 16,832,662</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 table below shows the depreciation expense for each functional category.

<i>Governmental activities:</i>		<i>Business-type activities:</i>	
Education	\$ 42,985	Water and wastewater	\$ 27,868,909
Public Safety	3,199,969	Waste collection	2,789,244
General government	8,721,824		\$ <u>30,658,153</u>
Health and human services	647,682	<i>Component units:</i>	
Public works	19,135,361	Board of Education	\$ 28,956,066
Recreation and community services	3,540,533	Community College	4,731,220
Judicial	1,293,029	Library System	1,092,397
Code enforcement	11,532	Economic Development Corp	109,001
Land use and development	33,659	Tipton Airport Authority	356,915
	\$ <u>36,626,574</u>	Workforce Development	11,272
			\$ <u>35,256,871</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, 2005:

<u>Fund With Receivable</u>	<u>Fund With Payable</u>	<u>Amount</u>
General Fund	Enterprise Funds	\$ 728,026
General Fund	Special Revenue Funds	31,560
Internal Service Funds	General Fund	4,761,364
Internal Service Funds	Enterprise Funds	222,297
		\$ <u>5,743,247</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 \$456,176. This represents the proprietary funds' share of the residual equity of the internal service funds of \$494,147 less the Self Insurance Fund's deficit allocation to proprietary funds of \$950,323.

Transfers between the Primary Government's funds totaled \$80,248,583 for fiscal year 2005. 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	\$ 55,920,000
	Nonmajor Governmental	130,000
<u>Impact Fees</u>	<u>General County Capital Projects</u>	<u>15,491,183</u>
<u>General County Capital Projects</u>	<u>General</u>	<u>1,361,024</u>
<u>Nonmajor Governmental</u>	<u>General</u>	<u>7,310,263</u>
	General County Capital Projects	36,113
		<u>\$ 80,248,583</u>

At June 30, 2005, 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 or on behalf of 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	\$ 12,951,925
Community College	Primary Government	1,711,992
Other Nonmajor	Primary Government	1,829,506
		<u>\$ 16,493,423</u>

Primary Government Expenditures

<u>Originating Entity</u>	<u>Recipient Entity</u>	<u>Amount</u>
Primary Government	Board of Education	\$ 499,797,368
Primary Government	Community College	35,572,939
Primary Government	Other Nonmajor	15,668,191
		<u>\$ 551,038,498</u>

During fiscal year 2005 Workforce Development Corporation, a non-major component unit, provided the Primary Government \$150,000 of funds for capital improvements to its office space. Since no improvements were incurred before June 30, 2005, Workforce Development has recorded this as an advance to the County. The Primary Government has recorded this as deferred revenue in the General County Capital Project Fund.

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 2005 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 December 15, 2017. The maturities of notes outstanding during fiscal year 2005 ranged from 6 to 188 days and interest rates ranged from 1.10% to 3.00%. The County plans to issue long-term debt in the Spring of 2006 to payoff bond anticipation notes outstanding at June 30, 2005. 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, 2005 are provided in the following table:

Year ended June 30,	General Obligation Bonds					
	Governmental		Business-type		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 45,771,862	\$ 25,595,797	\$ 22,257,988	\$ 12,772,951	\$ 68,029,850	\$ 38,368,748
2007	44,669,439	23,406,518	21,242,285	11,855,687	65,911,724	35,262,205
2008	42,930,940	21,290,859	20,262,527	10,913,993	63,193,467	32,204,852
2009	40,479,940	19,130,812	19,327,707	9,970,191	59,807,647	29,101,003
2010	37,890,066	17,171,116	15,986,710	9,094,616	53,876,776	26,265,732
2011-2015	156,986,287	59,761,024	72,806,801	35,046,528	229,793,088	94,807,552
2016-2020	104,166,605	27,335,488	51,545,504	20,036,920	155,712,109	47,372,408
2021-2025	54,908,284	7,725,812	34,719,360	10,615,670	89,627,644	18,341,482
2026-2030	6,970,000	609,450	20,351,510	4,093,311	27,321,510	4,702,761
2031-2035	-	-	7,187,861	635,743	7,187,861	635,743
	<u>\$ 534,773,423</u>	<u>\$ 202,026,876</u>	<u>\$ 285,688,253</u>	<u>\$ 125,035,610</u>	<u>\$ 820,461,676</u>	<u>\$ 327,062,486</u>

C Tax Increment and Other Debt - At June 30, 2005, there was \$55,520,000 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. Except for the Parole Town Center issue with \$6,945,000 outstanding, the County has pledged its full faith and credit for these bonds. During the fiscal year ended June 30, 2005, \$10,543,823 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
2006	\$ 725,000	\$ 2,691,191	2011-2015	9,215,000	11,458,649
2007	835,000	2,653,241	2016-2020	10,230,000	9,385,340
2008	875,000	2,612,666	2021-2025	15,315,000	6,222,961
2009	915,000	2,570,166	2026-2030	16,260,000	1,701,156
2010	1,150,000	2,522,457	Total	<u>\$ 55,520,000</u>	<u>\$ 41,817,827</u>

In addition, there were \$6,016,000 and \$4,385,000 of special tax district bonds related to the Farmington Village Project and the Villages of Dorchester outstanding at June 30, 2005, 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, 2005 of \$2,382,660. These loans were received from the State for highway improvements and waterway improvements. During fiscal year 2005 the County paid \$341,106 and \$3,073 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
2006	\$ 215,668	\$ -	2011-2015	800,546	-
2007	213,018	-	2016-2020	452,296	-
2008	213,018	-	2021-2025	112,584	-
2009	194,045	-	2026-2030	6,565	-
2010	174,920	-	Total	<u>\$ 2,382,660</u>	<u>\$ -</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 \$182,200 all of which are used for governmental activities. Mechanical equipment leased consists of golf carts used by the Department of Recreation and Parks. These equipment leases are five years in length and annual payments for all total about \$8,600. 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, 2005 and the future minimum lease obligations were as follows:

Year ended June 30,	Present Value of Minimum Lease Payments	Interest	Total Minimum Payments
2006	\$ 54,519	\$ 7,410	\$ 61,929
2007	57,105	3,744	60,849
2008	277	2	279
	<u>\$ 111,901</u>	<u>\$ 11,156</u>	<u>\$ 123,057</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 2005 were \$2,540,113. Minimum annual rental costs required by the leases are summarized below:

Year ending June 30,	Annual Rentals	Year ending June 30,	Annual Rentals
2006	\$ 2,288,968	2010	\$ 1,555,315
2007	2,290,598	2011-2015	1,656,962
2008	2,098,037	2016-2020	1,136,415
2009	2,023,033		<u>\$ 13,049,328</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, 2005 are presented below:

Year ended June 30,	Principal	Interest	Year ended June 30,	Principal	Interest
2006	\$ 17,000	\$ 494,795	2011-2015	\$ 85,000	\$ 2,440,162
2007	17,000	493,829	2016-2020	85,000	2,416,012
2008	17,000	492,863	2021-2025	85,000	2,391,862
2009	17,000	491,897	2026-2030	8,339,000	1,603,816
2010	17,000	490,931	Total	<u>\$ 8,679,000</u>	<u>\$ 11,316,167</u>

G Compass Pointe Golf Course – On June 30, 2005 the County issued \$24,530,000 of General Obligation bonds and used the proceeds to purchase the Compass Pointe Golf Course from the Maryland Economic Development Corporation, a quasi State agency. On June 30, 2005, \$21,636,527 of the proceeds was deposited into a trust account to refund the existing debt issued by the seller. The remaining proceeds and premium on the sale were deposited into the General County Capital Project Fund for certain capital improvements to the golf course, to pay costs related to the issue, and to reserve monies to pay the initial interest expense on the bond issue. In addition, balances in the seller's trust accounts at June 30 were set aside in a County agency fund and will be used to pay any remaining operation costs related to 2005 and prior golf course operations.

H 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
Governmental activities:				
Serial bonds	2006-2028	1.00% to 7.00%	\$ 984,655,750	\$ 534,773,423
Tax increment district bonds	2006-2029	2.00% to 7.375%	98,875,000	55,520,000
Installment purchase agreements	2006-2030	4.95% to 6.00%	8,720,177	8,679,000
Loans payable	2006-2025	0%	8,727,644	2,382,660
Total governmental activities			<u>1,100,978,571</u>	<u>601,355,083</u>
Business-type activities:				
Water and wastewater serial bonds	2005-2033	1.00% to 7.50%	594,985,355	264,646,676
Solid waste serial bonds	2005-2024	2.00% to 6.00%	50,274,250	21,041,577
Total business-type activities			<u>645,259,605</u>	<u>285,688,253</u>
			<u>\$ 1,746,238,176</u>	<u>\$ 887,043,336</u>

The County Charter authorizes the County Council to approve the issuance of general obligation bonds and to set limits on bonds issued through ordinance. Based on the effective ordinance, bonds (other than water and sewer) are limited at 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. In addition, general obligation water and sewer bonds are limited at 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, 2005 a review of the legal debt limitations reveals the following:

	(5.2%/13% Limitations)	(5.6%/14% Limitations)
Charter imposed limitation	\$ 2,590,636,679	\$ 2,569,305,507
Bonded debt outstanding		
Bond anticipation notes	35,500,000	6,000,000
Long-term serial bonds	555,815,000	264,646,676
Tax increment bonds	55,520,000	-
	<u>646,835,000</u>	<u>270,646,676</u>
Legal debt margin	<u>\$ 1,943,801,679</u>	<u>\$ 2,298,658,831</u>

As of June 30, 2005, the County had the authority to issue bonds in the amount of \$286,723,361, over and above bonds already issued, including \$159,626,883 of water and wastewater series bonds and \$5,391,272 of solid waste series bonds. This unused authority will be used to fund existing capital projects and those appropriated for fiscal year 2006 and to refund outstanding bond anticipation notes.

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, 2005 was \$16,090,000. Scheduled principal payments due on the bonds payable for future years ending June 30 are as follows:

Principal Payments	Year ending June 30,	Principal Payments
\$ 360,000	2009	\$ 400,000
370,000	2010	415,000
385,000	Thereafter	14,160,000
		<u>\$ 16,090,000</u>

J 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 on the following page:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
Bond anticipation notes	\$ 32,500,000	\$ 34,500,000	\$ 32,500,000	\$ 34,500,000	\$ 34,500,000
Bonds payable:					
General obligation bonds	499,547,461	126,155,000	90,929,038	534,773,423	45,771,862
Deferred refunding gain (loss)	(6,080,043)	1,205,000	(1,061,559)	(3,813,484)	(965,746)
Tax incremental and other debt	56,215,000	-	695,000	55,520,000	725,000
Total bonds payable	549,682,418	127,360,000	90,562,479	586,479,939	45,531,116
State loans	2,723,766	-	341,107	2,382,660	215,668
Capital leases	161,801	-	49,900	111,901	54,519
Installment purchase agreements	8,397,948	295,000	13,948	8,679,000	17,000
Unpaid insurance claims	39,705,957	70,803,875	66,914,399	43,595,433	12,887,613
Compensated absences	16,834,939	20,330,502	21,409,201	15,756,240	14,154,697
Total long-term	617,506,829	218,789,377	179,291,034	657,005,173	72,860,613
Total governmental activities	\$ 650,006,829	\$ 253,289,377	\$ 211,791,034	\$ 691,505,173	\$ 107,360,613
Business-type activities:					
Bond anticipation notes	\$ 20,000,000	\$ 7,000,000	\$ 20,000,000	\$ 7,000,000	\$ 7,000,000
Bonds payable:					
General obligation bonds	269,204,732	64,082,725	47,599,204	285,688,253	22,257,988
Less: deferred refunding loss	(2,644,355)	(460,000)	(519,714)	(2,584,641)	(357,518)
Total bonds payable	266,560,377	63,622,725	47,079,490	283,103,612	21,900,470
Compensated absences	1,481,746	1,465,835	1,468,584	1,478,997	1,292,386
Total long-term	268,042,123	65,088,560	48,548,074	284,582,609	23,192,856
Total business-type activities	\$ 288,042,123	\$ 72,088,560	\$ 68,548,074	\$ 291,582,609	\$ 30,192,856

K Advanced Refundings – In fiscal year 2005, the County defeased the callable portion of certain series of General Obligation 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 gain/(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 \$3,598,718 and decreased the aggregate debt service costs by \$4,559,339.

	Governmental	Business Type
Carrying value of refunded bonds	\$ 47,830,000	\$ 26,020,000
Reacquisition Price	50,398,473	27,642,326
	(2,568,473)	(1,622,326)
Net Premium on refunding bonds	3,773,473	1,162,326
Net Gain (Loss) on refunding	\$ 1,205,000	\$ (460,000)

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, 2005, the date of the latest actuarial valuation:

	Employees Plan	Police Plan	Fire Plan	Detention Plan
Retirees and beneficiaries receiving payments	911	427	270	81
Terminated plan members entitled to but not yet receiving payments	217	-	-	11
DROP	-	60	109	-
Active plan members	2,217	571	563	347
	<u>3,345</u>	<u>1,058</u>	<u>942</u>	<u>439</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. In 2004 the County implemented provisions of the County labor contracts that redefined participants in the Plan so that one group can be afforded different benefits. A new "20 and out" benefit was provided to uniformed Detention Officers and Deputy Sheriffs.

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 on the following page provides the actuarial assumptions, funding methods and contributions related to the fiscal year 2005 financial statements.

	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 (APC)	\$9,675,761	\$8,855,012	\$9,794,829	\$3,102,810
Contributions made	\$9,663,862	\$8,808,687	\$9,940,088	\$3,106,871
Actuarial valuation date	January 1, 2004	January 1, 2004	January 1, 2005	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,

	2001	2002	2003	2004	2005
<i>Employees Plan</i>					
Annual Pension Cost (APC)	\$ 2,898,335	\$ 4,592,060	\$ 5,731,325	\$ 8,342,504	\$ 9,675,761
Percentage of APC Contributed	100.0%	83.0%	114.7%	90.5%	99.9%
Net Pension Obligation	\$ -	\$ 760,179	\$ (844,435)	\$ 796,724	\$ 11,899
<i>Police Plan</i>					
Annual Pension Cost (APC)	\$ 4,633,411	\$ 6,512,433	\$ 7,724,769	\$ 8,733,903	\$ 8,855,012
Percentage of APC Contributed	100.0%	89.0%	100.5%	100.9%	99.5%
Net Pension Obligation	\$ -	\$ 714,947	\$ (34,575)	\$ (80,577)	\$ 46,325
<i>Fire Plan</i>					
Annual Pension Cost (APC)	\$ 3,677,602	\$ 5,864,022	\$ 7,473,847	\$ 8,508,851	\$ 9,794,829
Percentage of APC Contributed	100.0%	83.0%	100.4%	96.6%	101.5%
Net Pension Obligation	\$ -	\$ 1,025,411	\$ (32,993)	\$ 291,287	\$ (145,259)
<i>Detention Plan</i>					
Annual Pension Cost (APC)	\$ 2,012,848	\$ 2,539,796	\$ 2,882,271	\$ 3,113,653	\$ 3,102,810
Percentage of APC Contributed	100.0%	94.0%	100.1%	99.8%	100.1%
Net Pension Obligation	\$ -	\$ 140,993	\$ (3,237)	\$ 6,913	\$ (4,061)

The net pension obligations and assets shown in the table were not considered material and, therefore, no liability or asset was recorded. The shortfall for 2002 was paid later. The overpayment shown in 2003 was offset by reduced contributions in 2004 and some insignificant differences remain.

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, 2005, 2004, and 2003 equal the required contributions and are summarized below along with the State's contribution on behalf on the employees discussed above.

	Fiscal Year Ended June 30,		
	2005	2004	2003
County contributions:			
Primary Government	\$ 1,138,433	\$ 1,084,222	\$ 1,032,592
Board of Education	4,883,055	4,063,522	4,250,249
Community College	120,534	117,400	134,200
State contributions on behalf of:			
Board of Education	32,189,217	31,419,929	29,119,401
Community College	1,600,000	1,500,000	1,300,000
Library	728,882	685,797	687,026
Total	\$ <u>40,660,121</u>	\$ <u>38,870,870</u>	\$ <u>36,523,468</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 1,770 retirees and spouses receiving health benefits as of June 30, 2005.

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 3,400 retirees eligible for benefits at June 30, 2005.

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 179 College retirees eligible for benefits at June 30, 2005.

These costs are recognized when paid. Total costs incurred for these benefits for the year ended June 30, 2005 were as follows:

Entity	Amount
Primary Government	\$ 8,374,468
Board of Education	21,649,101
Community College	516,983
Other Nonmajor Component Units	351,490
	<u>\$ 30,892,042</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. This estimate includes reserves for non-incremental claims adjustment expense. 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, 2005 is undiscounted. Settlements have not exceeded coverages for each of the past three fiscal years. Changes in the balances of claims liabilities during fiscal years 2005 and 2004 were as follows:

	2005	2004
Liability balance, July 1	\$ 39,705,957	\$ 34,688,241
Current year claims and changes in estimates:		
Changes in estimates - prior periods	2,991,000	3,018,000
Changes in estimates - current year	67,812,875	62,589,972
Claims payments	<u>(66,914,399)</u>	<u>(60,590,256)</u>
Liability balance, June 30	<u>\$ 43,595,433</u>	<u>\$ 39,705,957</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 68.4% full and cell 9 has not yet opened. Cells 8 and 9 have useful lives to at least 2009 and 2030, respectively. The table that follows 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	\$ 54,458,937	\$ 18,163,719	\$ 72,622,656
Post closure	<u>26,842,631</u>	<u>5,759,738</u>	<u>32,602,369</u>
	81,301,568	23,923,457	105,225,025
Less:			
Amount recognized thru June 30, 2005	<u>46,320,569</u>	<u>23,923,457</u>	<u>70,244,026</u>
Costs remaining to be r	<u>\$ 34,980,999</u>	<u>\$ -</u>	<u>\$ 34,980,999</u>
Liability recorded at June 30, 2005:			
Closure	\$ 8,139,074	\$ -	\$ 8,139,074
Post closure	<u>16,793,538</u>	<u>5,759,738</u>	<u>22,553,276</u>
	<u>\$ 24,932,612</u>	<u>\$ 5,759,738</u>	<u>\$ 30,692,350</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. Closure reserves increased by a net \$836,561 and post closure reserves increased by a net \$338,731. These increases include changes to the estimates in the reserves, payments, and other adjustments.

The Primary Government has financial assurance requirements that require the reservation of funds to pay landfill liabilities. The financial assurance reservation totaled \$13,691,279 at June 30, 2005.

13 Contingent Liabilities

A *Impact Fees* – At June 30, 2005, 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, 2005, \$40,218,847 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 \$5,971,919 at June 30, 2005.

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 \$47.60 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, 2005, 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, 2005, 153 Industrial Revenue Bonds series had been issued. The aggregate principal amount payable for the nine series issued after July 1, 1996, was \$17,951,000. 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.

Anne Arundel County, Maryland

Required Supplementary Information

Year Ended June 30, 2005

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.

	(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
Employees Retirement Plan:						
January 1, 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%
2005	395,501,876	405,171,824	9,669,948	97.6%	103,105,736	9.4%
Police Service Retirement Plan:						
January 1, 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%
2005	337,113,153	346,154,153	9,041,000	97.4%	33,530,370	27.0%
Fire Service Retirement Plan						
January 1, 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%
2005	313,478,279	326,860,256	13,381,977	95.9%	34,871,614	38.4%
Pension Plan for Detention Officers and Personnel:						
January 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%
2005	52,200,204	60,272,753	8,072,549	86.6%	15,355,590	52.6%
State Retirement and Pension System of Maryland:						
January 1, 2003	32,323,263	34,131,284	1,808,021	94.7%	7,867,794	23.0%
2004	32,631,465	34,974,601	2,343,136	93.3%	8,134,419	29.0%
2005	33,484,657	36,325,704	2,841,047	92.2%	8,069,481	35.0%

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.

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