

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Financial Statements and Supplemental Schedules  
Together with Report of Independent Public Accountants**

**For the Year Ended June 30, 2014**



**SB & COMPANY, LLC**  
EXPERIENCE • QUALITY • CLIENT SERVICE

**JUNE 30, 2014**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

County Commissioners of Washington County  
Hagerstown, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County Commissioners of Washington County, Maryland (the County) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Washington County's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the basic financial statements of the Board of Education of Washington County (the board). Those basic financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinions***

In our opinion, based on our audit and the report of the other auditors, the basic 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 unit, each major fund, and the aggregate remaining fund information, of Washington County, Maryland, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in pension fund net pension liability and related ratios, schedule of employer contribution for the general employees fund and the Length of Service Award Program (LOSAP) fund, and schedule of funding progress for the Other Postemployment Benefit (OPEB) Trust, and the budget and actual schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying combining and individual fund statements, local management board schedule of revenue and expenditures regulatory basis and schedule of earned reinvestment are presented for purposes of additional analysis and are not a required part of the basic financial statements.



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The accompanying combining and individual fund statements and local management board schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining and individual fund statements and budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated November 12, 2014, on our consideration of the County's internal control over financial reporting and 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* in considering the County's internal control over financial reporting and compliance.

Hunt Valley, Maryland  
November 12 , 2014

Washington County Government's (the "County") discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the County's financial activity, (c) identify changes in the County's financial position (it's ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts please read it in conjunction with the County's financial statements presented herein.

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: **1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.** This report also contains **4) supplementary information** in addition to the basic financial statements themselves.

**1) Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private business. The government-wide financial statements include a *statement of net position* and a *statement of activities*.

- The *statement of net position* presents information on the County's entire assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) and activities from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

- The *governmental activities* of the County include education, general government, parks and recreation, public safety, courts, health and social services, and highway maintenance.
- The *business-type activities* of the County include airport, public golf course, public transit, solid waste, and water quality operations.

The government-wide financial statements include not only the County (known as the primary government), but also include the Washington County Board of Education as a legally separate component unit and is reported separately from financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 17-19 of this report.

**2) Fund Financial Statements**

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

2) ***Fund Financial Statements (continued)***

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

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

The County maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Capital Improvement, Community Partnership, Foreign Trade Zone (no reported activity), Inmate Welfare, Contraband, Agricultural Education, Gaming, Land Preservation, HEPMPO, and Hotel Rental Tax.

The County adopts an annual appropriated budget for all of its governmental and proprietary fund budgets.

The basic governmental fund financial statements can be found on pages 20-22 of this report.

- ***Proprietary Funds.*** When the County charges customers for a service it provides, whether to outside customers or to other units of government, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. Proprietary funds are comprised of two types: 1) *Enterprise funds* and 2) *Internal service funds*. The County uses enterprise funds to account for its airport, public golf course, public transit, solid waste, and water quality operations. Internal service funds are used to report an activity that provides supplies and services for the government's other programs and activities. The County does not utilize an internal service fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

- ***Fiduciary Funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is similar to proprietary funds.

The basic fiduciary fund financial statements can be found on pages 27-28 of this report.

3) ***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-83 of this report.

4) **Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees and includes budgetary comparison schedules for the general fund.

In addition to this MD&A, required supplementary information can be found on page 86-103 of this report.

**Financial Analysis on Government-Wide Financial Statements**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$587.9 million as of the close of the most recent fiscal year.

**Washington County, Maryland  
Net Position  
(Government-Wide)**

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2014	2013*	2014	2013*	2014	2013*	
<b>Current and other assets</b>	\$ 130,030,261	\$130,882,957	\$49,933,704	\$56,245,004	\$179,963,965	\$187,127,961	-4%
<b>Capital assets</b>	420,873,321	405,957,800	252,070,781	253,719,721	672,944,102	659,677,521	2%
<b>Total Assets</b>	550,903,582	536,840,757	302,004,485	309,964,725	852,908,067	846,805,482	1%
<b>Deferred Outflow of Resources</b>	2,178,222	3,493,279	636,584	-	2,814,806	3,493,279	-19%
<b>Current and other liabilities</b>	29,588,429	25,676,485	16,619,095	16,127,159	46,207,524	41,803,644	11%
<b>Long-term liabilities</b>	138,545,317	135,487,497	55,999,109	82,800,635	194,544,426	218,288,132	-11%
<b>Total Liabilities</b>	168,133,746	161,163,982	72,618,204	98,927,794	240,751,950	260,091,776	-7%
<b>Deferred Inflow of Resources</b>							-19%
<b>Service concession arrangements</b>	-	-	27,064,705	-	27,064,705	-	
<b>Net Investment in Capital Assets</b>	364,504,705	356,119,175	216,395,352	216,248,209	580,900,057	572,367,384	1%
<b>Restricted Net Position</b>	20,803,525	22,992,575	8,134,606	10,596,304	28,938,131	33,588,879	-14%
<b>Unrestricted Net Position</b>	(360,172)	58,304	(21,571,798)	(15,807,582)	(21,931,970)	(15,749,278)	39%
<b>Total Net Position</b>	\$ 384,948,058	\$379,170,054	#####	#####	\$587,906,218	\$590,206,985	0%

\* Restated for GASB 65

The largest portion of the County's net position reflects its investments in capital assets (e.g., land, roads, and bridges); less related outstanding debt used to acquire those assets in the amount of \$580.9 million. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the County's net position, \$28.9 million, represents resources that are subject to external restrictions on how they may be used. The remaining portion is unrestricted net assets of (\$21.9) million.

Unrestricted net assets in governmental activities have been reduced by \$51.4 million in long-term debt, resulting in unrestricted net assets of (\$.4) million. This long-term debt was incurred by the County's general fund for the purpose of capital asset acquisition for the Board of Education of \$48.8 million and Hagerstown Community College of \$2.6 million. The capital assets acquired with these bonds are not reflected in the County's primary government financial statements.

**Washington County, Maryland**  
**Change in Net Position**  
*(Government-Wide)*

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2014	2013	2014	2013	2014	2013
<b>Program revenues:</b>						
<i>Charges for Services</i>	\$ 5,352,465	\$ 5,615,647	\$ 18,532,250	\$ 18,552,789	\$ 23,884,715	\$ 24,168,436
<i>Operating Grants and Contributions</i>	6,323,715	6,011,876	1,366,588	1,403,835	7,690,303	7,415,711
<i>Capital Grants and Contributions</i>	3,386,431	12,336,007	2,169,921	1,650,270	5,556,352	13,986,277
<b>General Revenues:</b>						
<i>Property Taxes</i>	120,607,747	122,456,069	-	-	120,607,747	122,456,069
<i>Local Taxes</i>	79,723,459	71,627,828	-	-	79,723,459	71,627,828
<i>Other</i>	3,192,299	3,845,273	736,073	354,546	3,928,372	4,199,819
<b>Total Revenues</b>	218,586,116	221,892,700	22,804,832	21,961,440	241,390,948	243,854,140
<b>Program Expenses:</b>						
<i>General Government</i>	15,536,633	34,606,493	-	-	15,536,633	34,606,493
<i>Public Safety</i>	42,806,759	43,326,882	-	-	42,806,759	43,326,882
<i>Health</i>	2,339,270	2,339,270	-	-	2,339,270	2,339,270
<i>Social Services</i>	934,217	2,321,055	-	-	934,217	2,321,055
<i>Education</i>	114,765,247	115,006,552	-	-	114,765,247	115,006,552
<i>Parks and Recreation</i>	5,881,642	7,942,521	-	-	5,881,642	7,942,521
<i>Natural Resources</i>	2,599,487	2,843,581	-	-	2,599,487	2,843,581
<i>Community Promotion</i>	4,597,185	3,593,082	-	-	4,597,185	3,593,082
<i>Highways and Streets</i>	17,004,824	18,291,617	-	-	17,004,824	18,291,617
<i>Interest on long-term debt</i>	4,200,780	4,253,256	-	-	4,200,780	4,253,256
<b>Business-type Activities:</b>						
<i>Water Quality</i>	-	-	12,429,642	12,210,595	12,429,642	12,210,595
<i>Solid Waste</i>	-	-	7,909,660	7,794,582	7,909,660	7,794,582
<i>Public Transit</i>	-	-	2,877,101	2,912,675	2,877,101	2,912,675
<i>Airport</i>	-	-	7,933,117	7,661,276	7,933,117	7,661,276
<i>Golf Course</i>	-	-	1,160,303	1,199,661	1,160,303	1,199,661
<b>Total Expenses</b>	210,666,044	234,524,309	32,309,823	31,778,789	242,975,867	266,303,098
<b>Change in Net Position before transfers</b>	7,920,072	(12,631,609)	(9,504,991)	(9,817,349)	(1,584,919)	(22,448,958)
<b>Transfers</b>	(1,574,282)	(1,612,874)	1,574,282	1,612,874	-	-
<b>Change in Net Position</b>	6,345,790	(14,244,483)	(7,930,709)	(8,204,475)	(1,584,919)	(22,448,958)
<b>Net Position – beginning of year</b>	379,170,054	393,414,537	211,036,931	219,241,406	590,206,985	612,655,943
<b>Change in Accounting Principle</b>	(567,786)	-	(148,062)	-	(715,848)	-
<b>Net Position – beginning of year, as restated</b>	379,170,054	393,414,537	210,888,869	219,241,406	590,206,985	612,655,943
<b>Net Position – End of year</b>	\$ 384,948,058	\$ 379,170,054	\$ 202,958,160	\$ 211,036,931	\$ 588,622,066	\$ 590,206,985

The County's total net position decreased by \$1.6 million during fiscal year 2014; total net position as of June 30, 2014 was \$587.9 million representing a .4% decrease.

**Governmental Activities (government-wide) – Change in Net Position:**

Net position in governmental activities increased by \$6.3 million. Key factors in this increase are as follows:

- Property tax revenue came within \$1.5 million or 1.2% of 2014 projections. Real Estate tax exceeded budget by \$.3 million as the housing market continues to show recovery in areas such as average price, inventory, and foreclosure numbers. Personal property tax reflected an increase over projections by \$1 million or 8.6% due to prior year collections of \$.5 million and \$.5 million resulting from increased inventory and new business.
- Income Tax revenue exceeded budget by \$.1 million or .2% as a result of continued decreases in the unemployment rates and tax year 2013 reconciling distributions. The average unemployment rates were 10.65% in 2010; 10.38% in 2011; 8.94% in 2012; 8.39% in 2013; and 7.38% in 2014. The current unemployment rate as of August 2014 is 7.7%.
- Recordation Tax revenue fell short of budget by \$.3 million or 6.8%. Although the County's housing inventory decreased, average home prices showed a steady increase, large transaction activity was down. Fiscal year 2013 large commercial recordings accounted for approximately 15% of the tax collected as compared to 5% in 2014.
- Other revenues such as permits, licenses, non-use of fund balance and Highway revenue fell short of budget by \$1.7 million.
- Savings in grants of \$.1 million are reflective of unspent grant awards to be carried over to the next fiscal year. The unspent grant awards are offset by \$.1 unspent grant awards in expenditures.
- A Capital transfer of \$1.0 million was made to the Capital Projects fund to account for existing revenue shortfalls and or future project costs, thereby reducing the need for borrowing.
- Overall public safety expenditures reflect savings of \$.7 million resulting mainly from personnel cost savings, lower market prices in fuel products than anticipated, and favorable insurance awards during the County's bid process.
- Unallocated cost exceeded projections by \$.5 million mainly due to the issuance of an employee stipend that was not originally budgeted.
- Remaining cost centers accounted for \$.5 million in savings, mainly a result of personnel cost savings, lower market prices in fuel products than anticipated, and debt service savings.
- Various government-wide entries including 1) recording of depreciation expense was exceeded by capital outlay increasing net assets by \$14 million; 2) recording of debt proceeds greater than debt principal payments decreasing net assets by \$4.4 million; 3) compensated absences and post-retirement benefits exceeded the amount earned by \$.2 million; and 4) difference in revenues and expenditures recognized between governmental funds and the statement of activities increasing net assets by \$1.4 million. These activities are reported differently on the government-wide statements vs. the fund statements.
- Capital Improvement Projects decreased by \$3.9 million. Capital Improvement transactions are earmarked for specific capital related projects and its cash flow will vary depending on the construction schedule and grant reimbursements. Other governmental funds accounted for \$.4 decrease in fund balance activity.

**Business-type Activities (government-wide) – Change in Net Position:**

Business-type activities decreased the County's Net Position by \$7.9 million. Key elements of this decrease are as follows:

- ❑ Water Quality's net position decreased by \$1 million, for a total of \$119 million in net assets. The \$1 million net loss includes \$2.9 million in depreciation expense and anticipated the use of dedicated reserves in the Water Quality's long range financial plan for self sufficiency.
- ❑ Solid Waste's total net position decreased by \$2.5 million for a total of \$8.5 million, mainly related to depreciation expense of \$3.2 million. The 40 West landfill site was re-designed which changed the total life from 62 years to 120 years generating an additional 4 million cubic yards of available air space. This change in accounting estimate had no effect on the total estimated closure and post closure cost which are in compliance with State financial assurance requirements as of June 30, 2014. In addition the County is involved in a public/private partnership to convert landfill operations to a Waste-to-Energy facility. Permitting has already begun for this new process which is expected to convert at least 95% of the waste to energy sources.
- ❑ Airport's total net position is \$70 million, representing a \$3.8 million decrease. The net decrease is mainly the result of increased depreciation related to the runway acquisition of which a majority was funded with federal and state grants of \$6.4 million. Other non-major fund's net assets decreased by \$.6 million, for a total of \$5.5 million in net assets.

The County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and restrictions, and fiscal accountability.

**Governmental Funds:**

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

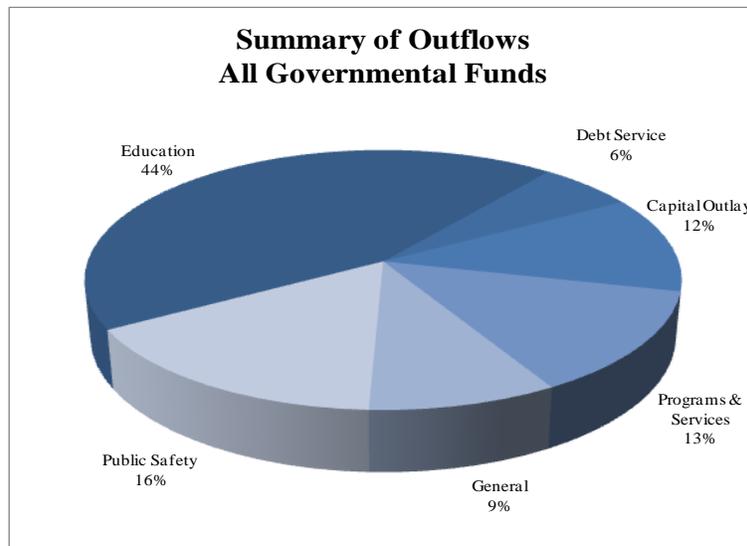
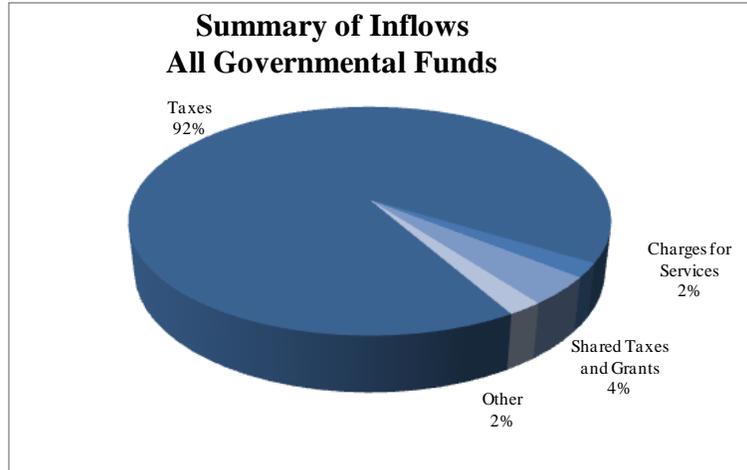
As of the end of the current fiscal year, the County's governmental funds reported combined fund balances of \$110.3 million, a decrease of \$4.9 million. Approximately \$37.7 million of this amount is designated for the general fund cash reserve and \$72.6 million is restricted or committed for construction projects and designated programs. In the combined governmental activities the County maintains eleven separate funds. Shown below are fund balances and net changes in fund balance for each.

**Washington County, Maryland**  
**Fund Balance and Net Changes in Fund Balance**  
*(Fund Basis)*

<i>Governmental Activities – Fund Statements</i>	<i>Fund Balance</i>			<i>Net Change in Fund Balance</i>		
	2014	2013	% Change	2014	2013	% Change
<i>General Fund</i>	\$ 38,190,469	\$ 38,840,220	-2%	\$ (649,751)	\$ 207,335	-413%
<i>Capital Improvement Fund</i>	71,142,687	75,073,598	-5%	(3,930,911)	3,077,812	-228%
<i>Community Grant Management</i>	(1,992)	1,426	-240%	(3,418)	(162,733)	98%
<i>Inmate Welfare Fund</i>	92,322	84,786	9%	7,536	(10,760)	170%
<i>Contraband Fund</i>	59,776	72,406	-17%	(12,630)	(209,715)	94%
<i>Agricultural Education Fund</i>	11,832	6,195	91%	5,637	(61,578)	109%
<i>Hotel Rental Tax Fund</i>	658,118	1,049,197	-37%	(391,079)	223,094	-275%
<i>Gaming Fund</i>	26,239	7,369	256%	18,870	1,644	1048%
<i>Land Preservation Fund</i>	126,432	95,618	32%	30,814	(160,800)	119%
<i>HEPMPO</i>	(44,464)	(27,437)	62%	(17,027)	(9,292)	-83%
<b>Total</b>	<b>\$ 110,261,419</b>	<b>\$ 115,203,378</b>	<b>-4%</b>	<b>\$ (4,941,959)</b>	<b>\$ 2,895,007</b>	<b>-271%</b>

***Governmental Funds:*** (continued)

The following reflects all inflows and outflows of the governmental funds in total for the fiscal year ending June 30, 2014.



- The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year total fund balance reached \$38.2 million. As a measure of the General Fund's liquidity, it may be useful to compare both committed fund balance and total fund balance to total fund expenditures. Committed fund balance represents \$37.7 million that is for cash reserve while \$.4 million is reserved for specific program funds.

The General Fund, fund balance decreased by approximately \$.7 million during the current fiscal year. Key factors related to this change are:

Major Revenue Factors:

- Property tax revenue came within \$1.5 million or 1.2% of 2014 projections. Real Estate tax exceeded budget by \$.3 million as the housing market continues to show recovery in areas such as average price, inventory, and foreclosure numbers. Personal property tax reflected an increase over projections by \$1 million or 8.6% due to prior year collections of \$.5 million and \$.5 million resulting from increased inventory and new business.

***Governmental Funds:*** (continued)

- Income Tax revenue exceeded budget by \$.1 million or .2% as a result of continued decreases in the unemployment rates and tax year 2013 reconciling distributions. The average unemployment rates were 10.65% in 2010; 10.38% in 2011; 8.94% in 2012; 8.39% in 2013; and 7.38% in 2014. The current unemployment rate as of August 2014 is 7.7%.
- Recordation Tax revenue fell short of budget by \$.3 million or 6.8%. Although the County's housing inventory decreased, average home prices showed a steady increase, large transaction activity was down. Fiscal year 2013 large commercial recordings accounted for approximately 15% of the tax collected as compared to 5% in 2014.
- Other revenues such as permits, licenses, non-use of fund balance and Highway revenue fell short of budget by \$1.7 million.
- Savings in grants of \$.1 million are reflective of unspent grant awards to be carried over to the next fiscal year. The unspent grant awards are offset by \$.1 unspent grant awards in expenditures.

Major Expenditure Factors:

- A Capital transfer of \$1.0 million was made to the Capital Projects fund to account for existing revenue shortfalls and or future project costs, thereby reducing the need for borrowing.
  - Overall public safety expenditures reflect savings of \$.7 million resulting mainly from personnel cost savings, lower market prices in fuel products than anticipated, and favorable insurance awards during the County's bid process.
  - Unallocated cost exceeded projections by \$.5 million mainly due to the issuance of an employee stipend that was not originally budgeted.
  - Remaining cost centers accounted for \$.5 million in savings, mainly a result of personnel cost savings, lower market prices in fuel products than anticipated, and debt service savings.
- The ***Capital Project Fund*** is used to account for major capital acquisition and construction of County operations. At the end of the current fiscal year the Capital Project Fund has a total fund balance of \$71.1 million all of which is designated for capital related projects. Major funding sources for projects are pay-go-funding, debt proceeds, fees and taxes, and grants. Fund balance decreased by \$3.9 million for the current fiscal year. The change in fund balance is the result of timing differences in projects with funding proceeds and project expenditures.
- The County's ***Community Partnership, Inmate Welfare, Contraband, Agricultural Education, Foreign Trade Zone, Hotel Rental Tax, Gaming, HEPMPO, and Land Preservation Funds*** combined have a fund balance of \$.9 million. The net decrease in fund balance during the current year was \$.4 million. These funds represent monies designated for specific programs and services.

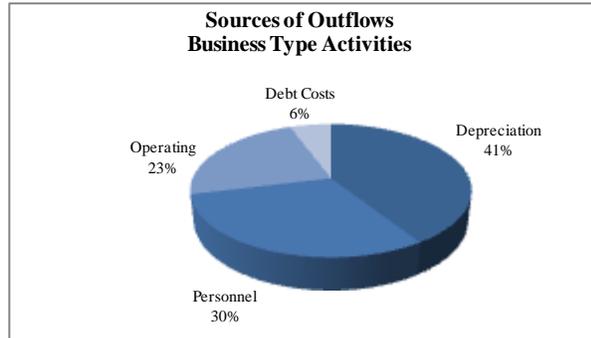
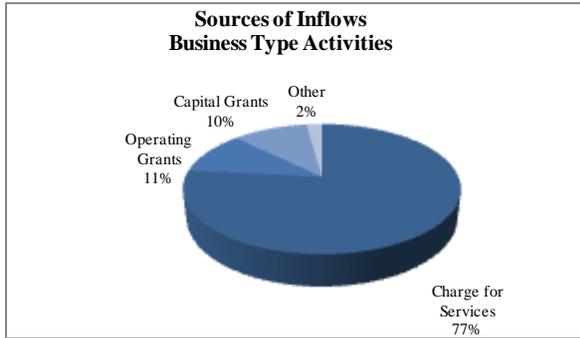
**Proprietary Funds:**

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position and net income (loss) were as follows:

**Washington County, Maryland  
 Net Position and Net Income (Loss)  
 (Fund Basis)**

<i>Business-type Activities – Fund Statements</i>	<i>Fund Balance</i>			<i>Net Change in Fund Balance</i>		
	2014	2013	% Change	2014	2013	% Change
<i>Water Quality</i>	\$ 119,067,040	\$ 120,184,543	-1%	\$ (1,117,503)	\$ (925,983)	-21%
<i>Solid Waste</i>	8,471,982	11,017,001	-23%	(2,545,019)	(2,326,333)	-9%
<i>Airport</i>	69,926,649	73,769,851	-5%	(3,843,202)	(4,494,171)	-14%
<i>Public Transit</i>	4,244,939	4,703,647	-10%	(458,708)	(260,829)	-76%
<i>BleckRock</i>	1,247,550	1,361,889	-8%	(114,339)	(197,159)	42%
<i>Total</i>	\$ 202,958,160	\$ 211,036,931	-4%	\$ (8,078,771)	\$ (8,204,475)	2%

The following reflects the inflows and outflows of the business-type activity funds for the fiscal year ending June 30, 2014.



Other factors concerning the finances of these funds have been addressed in the discussion of the County's business-type activities under "Financial Analysis on Government-Wide Financial Statements".

**Proprietary Funds:** (continued)

General Fund Budgetary Analysis – Government Fund Financial Statement Basis

Washington County, Maryland  
**General Fund Budgetary Analysis**  
**For the Year Ended June 30, 2014**  
(Government Fund Basis)

Category	Budgetary Amounts			Difference	
	Original	Final	Actual	Org. Budget vs. Final	Final Budget vs. Actual
<b>Revenues:</b>					
Property Tax	\$ 119,195,870	\$ 119,195,870	\$ 120,678,207	\$ -	\$ 1,482,337
Local Tax	74,500,000	74,500,000	74,316,353	-	(183,647)
Other Revenue	9,559,200	11,159,434	9,453,545	1,600,234	(1,705,889)
<b>Total Revenues</b>	<b>203,255,070</b>	<b>204,855,304</b>	<b>204,448,105</b>	<b>1,600,234</b>	<b>(407,199)</b>
<b>Expenses:</b>					
General Government	22,468,210	22,653,697	21,474,148	185,487	1,179,549
Public Safety	36,281,900	37,039,865	36,352,815	757,965	687,050
Health and Social Services	2,663,720	3,304,162	3,273,487	640,442	30,675
Education	103,418,590	103,418,590	103,418,590	-	-
Parks, Recreation, Natural Resources	5,966,100	5,967,240	5,840,277	1,140	126,963
Highways and streets	9,371,820	9,386,170	10,546,245	14,350	(1,160,075)
General Operations	433,370	418,370	493,375	(15,000)	(75,005)
Unallocated Employee Insurance	3,951,770	3,951,770	4,463,225	-	(511,455)
Intergovernmental	4,259,060	4,274,910	5,280,472	15,850	(1,005,562)
Debt Service	14,440,530	14,440,530	14,011,770	-	428,760
<b>Total Expenses</b>	<b>203,255,070</b>	<b>204,855,304</b>	<b>205,154,404</b>	<b>1,600,234</b>	<b>(299,100)</b>
<b>Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>56,548</b>	<b>-</b>	<b>56,548</b>
<b>Net Increase in Net Position - 06/30/14</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (649,751)</b>	<b>\$ -</b>	<b>\$ (649,751)</b>

**Original Budget vs. Final Budget:**

The net budgetary revenues change of \$1.6 million resulted mainly from grant transactions. Increases in grants reflected as revenue were received or expended during the fiscal year from additional state or federal grants of \$1.6 million.

**Final Budget vs. Actual Results:**

Revenue was under by \$.4 million and expenditures were over budget by \$.3 million yielding a \$.7 million net decrease. Property Tax experienced an increase of \$1.5 million over budget or 1.2%. Income Tax revenue exceeded budget by .2% or \$.1 million. Recordation Tax fell short of final budget by \$.3 million or 6.8%. Other revenues fell short by \$1.7 million, including the non-use of \$1.3 in an excess fund balance budget. Offsetting the revenue change were net savings of \$.7 million and an additional transfer to pay-go fund of \$1.0 million was made to the Capital Projects fund to account for existing revenue shortfalls and or future reserve amounts.

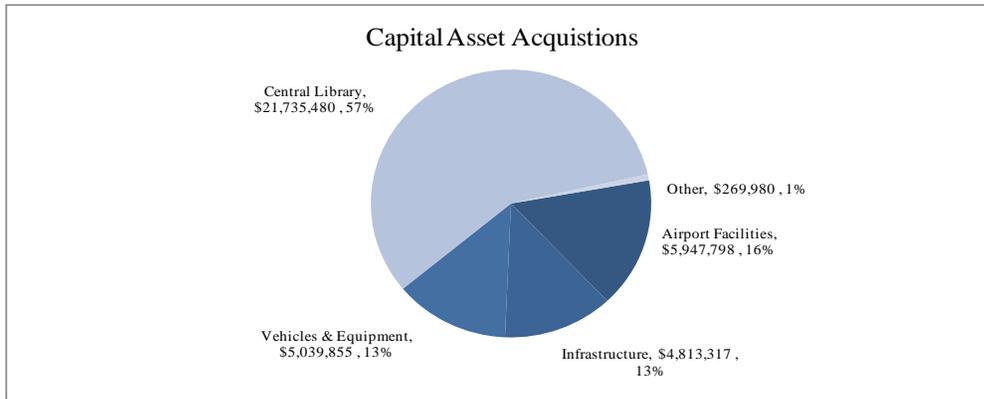
Capital Asset Administration – Government Wide Statements

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$652 million (net of depreciation). This investment in capital assets includes land, buildings, bridges, roads, equipment, and operational facilities.

Washington County, Maryland  
**Net Capital Assets**  
 (Government Fund Basis)

Description	Governmental Activities		Business-type Activities		Total		% Change
	2014	2013	2014	2013	2014	2013	
<i>Land and Land Improvement</i>	\$ 86,407,735	\$ 84,091,881	\$ 77,942,901	\$ 85,632,352	\$ 164,350,636	\$ 169,724,233	-3%
<i>Building and Improvements</i>	62,409,852	43,914,815	47,357,918	43,323,290	109,767,770	87,238,105	26%
<i>Facilities, Lines, and Mains</i>	-	-	84,559,965	85,019,092	84,559,965	85,019,092	-1%
<i>Vehicles</i>	3,311,597	1,788,271	2,165,288	1,833,238	5,476,885	3,621,509	51%
<i>Infrastructure</i>	236,566,488	248,620,219	-	-	236,566,488	248,620,219	-5%
<i>Machinery and Equipment</i>	2,564,018	2,688,875	3,604,560	3,256,184	6,168,578	5,945,059	4%
<i>Office/Computer Equipment</i>	14,974,838	17,779,479	661,880	907,726	15,636,718	18,687,205	-16%
<i>Treatment Plant</i>	-	-	29,901,781	30,781,364	29,901,781	30,781,364	-3%
<b>Total</b>	<b>\$ 406,234,528</b>	<b>\$ 398,883,540</b>	<b>\$ 246,194,293</b>	<b>\$ 250,753,246</b>	<b>\$ 652,428,821</b>	<b>\$ 649,636,786</b>	<b>0%</b>

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



Additional information on the County's capital assets can be found in note 5 on pages 48-51 of this report.

Debt Administration

At the end of the current fiscal year, the County had total outstanding debt, excluding capital leases, of \$184.3 million. This amount was comprised of debt backed by the full faith and credit of the County and user fees. The debt decreased by approximately \$14 million from net principal payments and increased by \$14 million in new borrowings. Funds borrowed were used for infrastructure projects of \$6.7 million and educational projects of \$7.3 million.

**Washington County, Maryland**  
**Outstanding Debt**  
*(Government – Wide)*

Description	Governmental Activities		Business-type Activities		Total		% Change
	2014	2013	2014	2013	2014	2013	
<i>General Obligation Bonds</i>	\$ 134,884,153	\$ 129,983,351	\$ 31,408,121	\$ 33,981,196	\$ 166,292,274	\$ 163,964,547	1%
<i>Maryland Water Quality Bonds</i>	5,176,743	5,462,564	12,802,416	14,865,799	17,979,159	20,328,363	-12%
<i>Total</i>	\$ 140,060,896	\$ 135,445,915	\$ 44,210,537	\$ 48,846,995	\$ 184,271,433	\$ 184,292,910	0%

The County's credit ratings for fiscal year 2014 are as follows: 1) Standard and Poor's rated AA+ with stable outlook, 2) Fitch rated AA with a positive outlook, and 3) Moody's Investors Service rated Aa2 with a positive outlook.

Under the Code of Public Local Law, the amount of general obligation debt the County may issue associated with water quality debt is limited to 10 percent of its total assessed valuation of all real estate in the County that is subject to taxation. The current estimated debt limitation for water quality is \$1.3 billion, which is significantly in excess of the County's current water quality general obligation debt.

Additional Information on the County's long-term debt can be found in note 8 on pages 54-58 of this report.

Economic Factors and Fiscal Year 2015

- ❑ Unemployment trends are showing a slow steady improvement. It is anticipated that the unemployment rate will take several years to recover due to permanent loss of certain industry jobs, re-entry/retraining of the current workforce, and new workforce entry.
- ❑ Water and sewer rates were increased for the 2015 budget year. The water and sewer revenue requirements were increased 2.9% and 3.5%, respectively. This revenue increase is based on financial information formulated annually from the County's cost of service model.
- ❑ With the decreasing trend in the Solid Waste stream, Washington County has entered into a public/private partnership that will promote the use and development of domestic energy. Phase I will include a refuse-derived facility while Phase II is to generate low-cost clean-burning diesel, gasoline, jet fuel, home heating fuel and nitrogen fertilizers. This innovative approach to municipal solid waste will allow Washington County to be ahead of the curve to comply with upcoming federal and state regulations and serve as an international benchmark in environmentally responsible waste management.

### Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Budget and Finance, 100 West Washington Street, Room 304, Hagerstown, Maryland 21740. Questions concerning the Washington County Board of Education should be directed to their offices at Commonwealth Avenue, Hagerstown, Maryland 21740.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Statement of Net Position As of June 30, 2014

	Primary Government			Component Unit	
	Governmental activities	Business-type activities	Total	Board of Education	Total
<b>ASSETS</b>					
Cash and short-term investments	\$ 4,205,529	\$ 33,744,178	\$ 37,949,707	\$ 23,432,521	\$ 61,382,228
Investments	118,302,564	-	118,302,564	16,955,539	135,258,103
Property taxes receivable, net of allowance	588,451	-	588,451	-	588,451
Accounts receivable, net of allowance	1,511,312	1,621,156	3,132,468	310,680	3,443,148
Interest receivable	193,844	-	193,844	-	193,844
Unbilled receivables	192,780	1,682,419	1,875,199	-	1,875,199
Due from other governmental agencies	13,428,072	1,793,387	15,221,459	6,762,008	21,983,467
Internal balances	(10,813,404)	10,813,404	-	-	-
Inventories	578,396	279,160	857,556	787,583	1,645,139
Other assets	230,091	-	230,091	998,266	1,228,357
Net other post employment benefits assets	1,213,123	-	1,213,123	4,718,849	5,931,972
Recoverable disbursements	256,386	-	256,386	-	256,386
Notes receivable	143,117	-	143,117	-	143,117
Projects under construction	14,638,793	5,876,488	20,515,281	20,978,265	41,493,546
Property, plant, and equipment, net	406,234,528	246,194,293	652,428,821	208,645,385	861,074,206
<b>TOTAL ASSETS</b>	<b>550,903,582</b>	<b>302,004,485</b>	<b>852,908,067</b>	<b>283,589,096</b>	<b>1,136,497,163</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Loss on refunding	2,178,222	636,584	2,814,806	-	2,814,806
<b>LIABILITIES</b>					
Current Liabilities:					
Current maturities of long-term obligations	10,147,505	4,416,525	14,564,030	-	14,564,030
Current maturities of capital lease obligations	160,782	11,182	171,964	664,872	836,836
Current maturities of installment purchase contracts	517,737	-	517,737	-	517,737
Accounts payable	8,017,975	2,103,632	10,121,607	5,624,964	15,746,571
Accrued expenses	951,522	434,128	1,385,650	15,703,434	17,089,084
Accrued interest	2,209,396	7,472,717	9,682,113	-	9,682,113
Unearned revenue	1,401,146	1,483,723	2,884,869	1,264,528	4,149,397
Compensated absences	1,864,390	382,446	2,246,836	221,950	2,468,786
Landfill closure and post-closure costs	-	246,860	246,860	-	246,860
Other liabilities	2,202,725	67,882	2,270,607	5	2,270,612
Liabilities for unpaid claims	2,115,251	-	2,115,251	-	2,115,251
Total current liabilities	29,588,429	16,619,095	46,207,524	23,479,753	69,687,277
Non Current Liabilities:					
Unearned revenue	-	635,810	635,810	-	635,810
Compensated absences	617,858	173,345	791,203	7,005,966	7,797,169
Post retirement benefits	7,316,729	-	7,316,729	-	7,316,729
Long-term obligations	129,913,391	39,794,012	169,707,403	-	169,707,403
Capital lease obligations	199,539	50,568	250,107	6,030,390	6,280,497
Installment purchase contracts	497,800	-	497,800	-	497,800
Landfill closure and post-closure costs	-	15,345,374	15,345,374	-	15,345,374
Total noncurrent liabilities	138,545,317	55,999,109	194,544,426	13,036,356	207,580,782
<b>TOTAL LIABILITIES</b>	<b>168,133,746</b>	<b>72,618,204</b>	<b>240,751,950</b>	<b>36,516,109</b>	<b>277,268,059</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Service concession arrangements	-	27,064,705	27,064,705	-	27,064,705
<b>Net Position</b>					
Net investment in Capital Assets	364,504,705	216,395,352	580,900,057	222,928,388	803,828,445
Restricted for:					
John Howard Trust	240,280	-	240,280	-	240,280
Capital projects	20,563,245	8,134,606	28,697,851	-	28,697,851
Unrestricted	(360,172)	(21,571,798)	(21,931,970)	24,144,599	2,212,629
<b>TOTAL NET POSITION</b>	<b>\$ 384,948,058</b>	<b>\$ 202,958,160</b>	<b>\$ 587,906,218</b>	<b>\$ 247,072,987</b>	<b>\$ 834,979,205</b>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Activities  
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 15,536,633	\$ 3,957,443	\$ 331,014	\$ 98,120
Public safety	42,806,759	1,394,812	1,643,485	233,904
Health	2,339,270	-	-	-
Social services	934,217	-	-	-
Education	114,765,247	-	-	470,181
Parks, recreation and culture	5,881,642	210	20,874	361,179
Natural resources	2,599,487	-	1,328,234	-
Community promotion	4,597,185	-	2,185,884	-
Highways and streets	17,004,824	-	814,224	2,223,047
Interest on long-term debt	4,200,780	-	-	-
Total governmental activities	<u>210,666,044</u>	<u>5,352,465</u>	<u>6,323,715</u>	<u>3,386,431</u>
Business-type activities				
Water quality	12,429,642	10,110,355	6,778	665,665
Solid waste	7,909,660	4,832,559	-	-
Public transit	2,877,101	445,072	1,315,431	179,079
Airport	7,933,117	2,319,770	44,379	1,310,277
Black rock golf course	1,160,303	824,494	-	14,900
Total business-type activities	<u>32,309,823</u>	<u>18,532,250</u>	<u>1,366,588</u>	<u>2,169,921</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 242,975,867</u>	<u>\$ 23,884,715</u>	<u>\$ 7,690,303</u>	<u>\$ 5,556,352</u>
Component unit:				
Board of Education	<u>\$ 318,944,080</u>	<u>\$ 13,425,058</u>	<u>\$ 56,287,854</u>	<u>\$ 1,532,619</u>

General revenue:  
Taxes  
Property taxes  
Local taxes  
Income on investments  
Reimbursed expenses  
Miscellaneous  
Unrestricted grants and contributions  
Gain (loss) on disposal of capital assets  
Transfers  
TOTAL GENERAL REVENUE

CHANGE IN NET POSITION  
NET POSITION- BEGINNING OF YEAR  
CHANGE IN ACCOUNTING PRINCIPLE  
NET POSITION- BEGINNING OF YEAR, AS RESTATED  
NET POSITION - END OF YEAR

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

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Statement of Activities  
For the Year Ended June 30, 2014**

<b>Net (Expense) Revenue and Changes in Net Position</b>				
<b>Primary Government</b>			<b>Component Unit</b>	
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Board of Education</b>	<b>Total</b>
\$ (11,150,056)	\$ -	\$ (11,150,056)	\$ -	\$ (11,150,056)
(39,534,558)	-	(39,534,558)	-	(39,534,558)
(2,339,270)	-	(2,339,270)	-	(2,339,270)
(934,217)	-	(934,217)	-	(934,217)
(114,295,066)	-	(114,295,066)	-	(114,295,066)
(5,499,379)	-	(5,499,379)	-	(5,499,379)
(1,271,253)	-	(1,271,253)	-	(1,271,253)
(2,411,301)	-	(2,411,301)	-	(2,411,301)
(13,967,553)	-	(13,967,553)	-	(13,967,553)
(4,200,780)	-	(4,200,780)	-	(4,200,780)
<u>(195,603,433)</u>	<u>-</u>	<u>(195,603,433)</u>	<u>-</u>	<u>(195,603,433)</u>
-	(1,646,844)	(1,646,844)	-	(1,646,844)
-	(3,077,101)	(3,077,101)	-	(3,077,101)
-	(937,519)	(937,519)	-	(937,519)
-	(4,258,691)	(4,258,691)	-	(4,258,691)
-	(320,909)	(320,909)	-	(320,909)
<u>-</u>	<u>(10,241,064)</u>	<u>(10,241,064)</u>	<u>-</u>	<u>(10,241,064)</u>
<u>(195,603,433)</u>	<u>(10,241,064)</u>	<u>(205,844,497)</u>	<u>-</u>	<u>(205,844,497)</u>
-	-	-	(247,698,549)	(247,698,549)
120,607,747	-	120,607,747	-	120,607,747
79,723,459	-	79,723,459	-	79,723,459
1,592,481	199,959	1,792,440	283,790	2,076,230
1,040,430	-	1,040,430	255,594,645	256,635,075
641,648	527,892	1,169,540	477,314	1,646,854
-	-	-	-	-
(82,260)	8,222	(74,038)	-	(74,038)
(1,574,282)	1,574,282	-	-	-
<u>201,949,223</u>	<u>2,310,355</u>	<u>204,259,578</u>	<u>256,355,749</u>	<u>460,615,327</u>
6,345,790	(7,930,709)	(1,584,919)	8,657,200	7,072,281
379,170,054	211,036,931	590,206,985	238,415,787	828,622,772
(567,786)	(148,062)	(715,848)	-	(715,848)
<u>378,602,268</u>	<u>210,888,869</u>	<u>589,491,137</u>	<u>238,415,787</u>	<u>827,906,924</u>
<u>\$ 384,948,058</u>	<u>\$ 202,958,160</u>	<u>\$ 587,906,218</u>	<u>\$ 247,072,987</u>	<u>\$ 834,979,205</u>

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

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Balance Sheet – Governmental Funds  
As of June 30, 2014**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Non-major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash	\$ 40,971	\$ -	\$ 4,164,558	\$ 4,205,529
Investments	118,065,564	237,000	-	118,302,564
Property taxes receivable, net of allowance	588,451	-	-	588,451
Accounts receivable, net of allowance	265,824	796,177	449,311	1,511,312
Interest receivable	193,844	-	-	193,844
Unbilled receivables	192,780	-	-	192,780
Due from other funds	-	72,692,131	-	72,692,131
Due from other governmental agencies	11,838,036	1,280,936	309,100	13,428,072
Recoverable disbursements	256,386	-	-	256,386
Notes receivable	83,117	-	60,000	143,117
Other assets	229,577	514	-	230,091
Inventories	578,396	-	-	578,396
<b>TOTAL ASSETS</b>	<b><u>\$ 132,332,946</u></b>	<b><u>\$ 75,006,758</u></b>	<b><u>\$ 4,982,969</u></b>	<b><u>\$ 212,322,673</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 1,621,862	\$ 3,864,036	\$ 2,532,077	\$ 8,017,975
Due to other funds	83,418,109	-	87,426	83,505,535
Accrued expenses	940,300	35	11,187	951,522
Other liabilities	1,895,975	-	306,750	2,202,725
Liabilities for unpaid claims	2,115,251	-	-	2,115,251
Unearned revenue	283,880	-	1,117,266	1,401,146
<b>TOTAL LIABILITIES</b>	<b><u>90,275,377</u></b>	<b><u>3,864,071</u></b>	<b><u>4,054,706</u></b>	<b><u>98,194,154</u></b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable Revenues	3,867,100	-	-	3,867,100
<b>FUND BALANCES:</b>				
Nonspendable	661,513	-	-	661,513
Restricted	366,902	20,803,525	973,413	22,143,840
Committed	37,702,103	50,339,162	-	88,041,265
Assigned	20,871	-	38,071	58,942
Unassigned	(560,920)	-	(83,221)	(644,141)
<b>TOTAL FUND BALANCES</b>	<b><u>38,190,469</u></b>	<b><u>71,142,687</u></b>	<b><u>928,263</u></b>	<b><u>110,261,419</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b><u>\$ 132,332,946</u></b>	<b><u>\$ 75,006,758</u></b>	<b><u>\$ 4,982,969</u></b>	<b><u>\$ 212,322,673</u></b>

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Position As of June 30, 2014

Fund balance of governmental funds	\$ 110,261,419
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets, net	406,234,528
Projects under construction	14,638,793
Other long-term assets that are not available to pay for current-period expenditures and, therefore, are deferred in the funds:	
Net other post employment benefits	1,213,123
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	
Unavailable revenue	3,867,100
Deferred outflow of resources, including loss on refunding are not financial resources and therefore are not reported in the funds	
	2,178,222
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
Long-term obligations	(140,060,896)
Installment purchase obligations	(1,015,537)
Capital lease obligations	(360,321)
Accrued interest payable-net of IRS subsidy	(2,209,396)
Compensated absences and post-retirement benefits	<u>(9,798,977)</u>
Net position of governmental activities	<u>\$ 384,948,058</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2014

	General Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds
<b>REVENUE</b>				
General property taxes	\$ 120,678,207	\$ -	\$ -	\$ 120,678,207
Other local taxes	74,316,353	1,872,249	2,559,603	78,748,205
Licenses and permits	1,187,285	-	1,966,776	3,154,061
Court costs and fines	292,510	-	-	292,510
Charges for services	451,814	-	338,975	790,789
Revenue from uses of property	945,977	-	26,475	972,452
Reimbursed expenses	1,036,358	-	4,072	1,040,430
Miscellaneous revenues	464,725	488,294	176,923	1,129,942
Shared taxes and grants	3,377,036	2,008,337	3,234,966	8,620,339
Highway	1,697,840	-	-	1,697,840
<b>Total Revenue</b>	<u>204,448,105</u>	<u>4,368,880</u>	<u>8,307,790</u>	<u>217,124,775</u>
<b>EXPENDITURES</b>				
Current:				
General government	21,474,148	-	-	21,474,148
Public safety	36,352,815	-	1,375,033	37,727,848
Health	2,339,270	-	-	2,339,270
Social services	934,217	-	-	934,217
Education	103,418,590	-	-	103,418,590
Parks, recreation and culture	5,271,404	-	196,543	5,467,947
Natural resources	568,873	-	2,030,265	2,599,138
Intergovernmental	38,543	-	-	38,543
General operations	4,956,600	-	556,925	5,513,525
Community promotion	-	-	4,592,568	4,592,568
Highways and streets	9,872,245	-	-	9,872,245
Debt Service	14,011,770	-	-	14,011,770
Capital Outlay:				
General government	-	1,330,901	-	1,330,901
Public safety	-	1,201,829	-	1,201,829
Highways and streets	-	13,297,620	-	13,297,620
Education	-	11,346,657	-	11,346,657
Parks and recreation	-	422,394	-	422,394
<b>Total Expenditures</b>	<u>199,238,475</u>	<u>27,599,401</u>	<u>8,751,334</u>	<u>235,589,210</u>
<b>Excess (Deficiency) Of Revenue Over Expenditures</b>	<u>5,209,630</u>	<u>(23,230,521)</u>	<u>(443,544)</u>	<u>(18,464,435)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	4,280,000	482,247	4,762,247
Transfers out	(5,915,929)	(20,600)	(400,000)	(6,336,529)
Proceeds of bond sale	-	15,040,210	-	15,040,210
Proceeds of capital leases	56,548	-	-	56,548
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(5,859,381)</u>	<u>19,299,610</u>	<u>82,247</u>	<u>13,522,476</u>
<b>NET CHANGES IN FUND BALANCE</b>	<u>(649,751)</u>	<u>(3,930,911)</u>	<u>(361,297)</u>	<u>(4,941,959)</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>38,840,220</u>	<u>75,073,598</u>	<u>1,289,560</u>	<u>115,203,378</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 38,190,469</u>	<u>\$ 71,142,687</u>	<u>\$ 928,263</u>	<u>\$ 110,261,419</u>

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

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2014**

Net changes in fund balances in governmental funds \$ (4,941,959)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay capitalized	\$ 35,199,235	
Depreciation	<u>(21,050,261)</u>	14,148,974

In the statement of activities, only the gain or loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold. (123,253)

Bond and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond, capital lease and installment purchase principal is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of Net Position. This is the amount by which proceeds exceeded repayments.

Debt and lease proceeds	\$(15,096,758)	
Payments of installment purchase principal	517,737	
Payments of lease principal	151,575	
Payments of debt principal	<u>10,020,624</u>	(4,406,822)

In the statement of activities, compensated absences and post-retirement benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used. This year, compensated absences and post-retirement benefits exceeded the amount earned. 220,469

Revenue and expenditures are reported in the statement of activities on the accrual basis and in the governmental funds when they provide or use current financial resources. This is the net difference of revenues and expenditures recognized between the governmental funds and statement of activities. 1,448,381

Change in net position of governmental activities \$ 6,345,790

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Net Position - Proprietary Funds  
For the Year Ended June 30, 2014

	Business Type Activities - Enterprise Funds				Total
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
<b>ASSETS</b>					
Current Assets:					
Cash and short-term investments	\$ 18,018,399	\$ 15,234,281	\$ 490,498	\$ 1,000	\$ 33,744,178
Accounts receivable, net	1,255,769	207,274	147,132	10,981	1,621,156
Unbilled receivables	1,404,403	271,737	5,727	552	1,682,419
Due from other funds	6,530,035	5,342,755	-	-	11,872,790
Due from other governmental agencies	27,633	-	769,849	995,905	1,793,387
Inventories	100,687	15,264	45,506	117,703	279,160
Total current assets	<u>27,336,926</u>	<u>21,071,311</u>	<u>1,458,712</u>	<u>1,126,141</u>	<u>50,993,090</u>
Noncurrent Assets:					
Projects under construction	5,247,216	622,772	6,500	-	5,876,488
Property, plant and equipment	175,868,912	63,060,985	150,361,030	11,816,953	401,107,880
Accumulated depreciation	(58,216,522)	(38,730,822)	(51,828,797)	(6,137,446)	(154,913,587)
Total noncurrent assets	<u>122,899,606</u>	<u>24,952,935</u>	<u>98,538,733</u>	<u>5,679,507</u>	<u>252,070,781</u>
<b>TOTAL ASSETS</b>	<u>150,236,532</u>	<u>46,024,246</u>	<u>99,997,445</u>	<u>6,805,648</u>	<u>303,063,871</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Loss on refundings	<u>341,242</u>	<u>258,877</u>	<u>36,465</u>	<u>-</u>	<u>636,584</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Current maturities of long-term obligations	2,749,113	1,427,412	240,000	-	4,416,525
Current maturities of capital lease obligations	11,182	-	-	-	11,182
Accounts payable	906,942	463,091	675,469	58,130	2,103,632
Accrued expenses	333,282	32,871	14,132	53,843	434,128
Accrued interest	7,146,576	305,543	20,598	-	7,472,717
Due to other funds	-	-	-	1,059,386	1,059,386
Unearned revenue	100,999	476,011	906,463	250	1,483,723
Compensated absences	213,772	65,442	26,993	76,239	382,446
Landfill closure and post-closure costs	-	246,860	-	-	246,860
Other liabilities	7,300	-	40,843	19,739	67,882
Total current liabilities	<u>11,469,166</u>	<u>3,017,230</u>	<u>1,924,498</u>	<u>1,267,587</u>	<u>17,678,481</u>
Non Current Liabilities:					
Unearned revenue	635,810	-	-	-	635,810
Compensated absences	87,833	26,852	13,088	45,572	173,345
Bonds and long-term debt	19,267,357	19,421,685	1,104,970	-	39,794,012
Capital lease obligations	50,568	-	-	-	50,568
Landfill closure and post-closure costs	-	15,345,374	-	-	15,345,374
Total noncurrent liabilities	<u>20,041,568</u>	<u>34,793,911</u>	<u>1,118,058</u>	<u>45,572</u>	<u>55,999,109</u>
<b>TOTAL LIABILITIES</b>	<u>31,510,734</u>	<u>37,811,141</u>	<u>3,042,556</u>	<u>1,313,159</u>	<u>73,677,590</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Service concession arrangements	<u>-</u>	<u>-</u>	<u>27,064,705</u>	<u>-</u>	<u>27,064,705</u>
<b>Net Position</b>					
Net investment in capital assets	108,521,263	4,892,839	97,301,743	5,679,507	216,395,352
Restricted - capital projects	7,576,003	558,603	-	-	8,134,606
Unrestricted	2,969,774	3,020,540	(27,375,094)	(187,018)	(21,571,798)
<b>TOTAL NET POSITION</b>	<u>\$ 119,067,040</u>	<u>\$ 8,471,982</u>	<u>\$ 69,926,649</u>	<u>\$ 5,492,489</u>	<u>\$ 202,958,160</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Funds  
For the Year Ended June 30, 2014

	Enterprise Funds				Totals
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
<b>OPERATING REVENUE</b>					
Charges for services	\$ 10,110,355	\$ 4,832,559	\$ 2,319,770	\$ 1,269,566	\$ 18,532,250
Miscellaneous	358,321	61,361	99,922	8,288	527,892
<b>TOTAL OPERATING REVENUE</b>	<u>10,468,676</u>	<u>4,893,920</u>	<u>2,419,692</u>	<u>1,277,854</u>	<u>19,060,142</u>
<b>OPERATING EXPENSES</b>					
Salaries and wages	3,561,278	1,205,429	499,435	1,601,430	6,867,572
Fringe benefits	1,730,927	450,945	203,817	564,692	2,950,381
Utilities	874,294	56,356	161,961	89,805	1,182,416
Insurance	120,065	26,500	53,908	40,255	240,728
Repairs and maintenance	329,023	36	88,532	245,142	662,733
Supplies	284,980	75,984	7,317	43,749	412,030
Cost of goods sold	-	-	-	105,378	105,378
Contracted services	296,675	1,897,963	177,119	130,966	2,502,723
Rentals and leases	22,398	2,110	4,884	113,154	142,546
Other operating	1,142,315	338,757	258,799	413,803	2,153,674
Uncollectible accounts	2,336	(1,591)	22,119	30	22,894
Controllable assets	56,502	9,698	22,496	2,128	90,824
Depreciation	2,905,772	3,240,916	6,406,528	686,872	13,240,088
<b>TOTAL OPERATING EXPENSES</b>	<u>11,326,565</u>	<u>7,303,103</u>	<u>7,906,915</u>	<u>4,037,404</u>	<u>30,573,987</u>
<b>OPERATING LOSS</b>	<u>(857,889)</u>	<u>(2,409,183)</u>	<u>(5,487,223)</u>	<u>(2,759,550)</u>	<u>(11,513,845)</u>
<b>OTHER INCOME (EXPENSE)</b>					
Interest expense	(1,103,077)	(606,557)	(26,202)	-	(1,735,836)
Interest income	189,513	1,850	8,562	34	199,959
Gain on disposal of assets	-	5,387	2,206	629	8,222
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(913,564)</u>	<u>(599,320)</u>	<u>(15,434)</u>	<u>663</u>	<u>(1,527,655)</u>
<b>LOSS BEFORE OPERATING TRANSFERS AND GRANTS</b>	<u>(1,771,453)</u>	<u>(3,008,503)</u>	<u>(5,502,657)</u>	<u>(2,758,887)</u>	<u>(13,041,500)</u>
<b>OPERATING TRANSFERS</b>	77,292	506,360	64,500	561,530	1,209,682
<b>GRANTS FOR OPERATING</b>	6,778	-	44,379	1,315,431	1,366,588
<b>NET LOSS BEFORE CAPITAL TRANSFERS AND GRANTS</b>	<u>(1,687,383)</u>	<u>(2,502,143)</u>	<u>(5,393,778)</u>	<u>(881,926)</u>	<u>(10,465,230)</u>
<b>CAPITAL TRANSFERS</b>	-	-	249,700	114,900	364,600
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	665,665	-	1,310,277	193,979	2,169,921
<b>NET CHANGES IN NET POSITION</b>	<u>(1,021,718)</u>	<u>(2,502,143)</u>	<u>(3,833,801)</u>	<u>(573,047)</u>	<u>(7,930,709)</u>
<b>NET POSITION - BEGINNING OF YEAR</b>	120,184,543	11,017,001	73,769,851	6,065,536	211,036,931
<b>CHANGE IN ACCOUNTING PRINCIPLE</b>	(95,785)	(42,876)	(9,401)	-	(148,062)
<b>NET POSITION - BEGINNING OF YEAR, AS RESTATED</b>	<u>120,088,758</u>	<u>10,974,125</u>	<u>73,760,450</u>	<u>6,065,536</u>	<u>210,888,869</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 119,067,040</u>	<u>\$ 8,471,982</u>	<u>\$ 69,926,649</u>	<u>\$ 5,492,489</u>	<u>\$ 202,958,160</u>

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

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Statement of Cash Flows – Proprietary Funds  
For Year Ended June 30, 2014**

	<b>Enterprise Funds</b>				
	<b>Water Quality Fund</b>	<b>Solid Waste Fund</b>	<b>Airport Fund</b>	<b>Non-major Funds</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>					
Receipts from customers	\$ 16,752,706	\$ 9,199,925	\$ 7,662,489	\$ 1,170,532	\$ 34,785,652
Payments to suppliers	(2,764,965)	(2,636,530)	(172,238)	(1,178,710)	(6,752,443)
Payments to employees	(5,324,589)	(1,664,832)	(702,212)	(2,183,355)	(9,874,988)
<b>Net Cash from Operating Activities</b>	<u>8,663,152</u>	<u>4,898,563</u>	<u>6,788,039</u>	<u>(2,191,533)</u>	<u>18,158,221</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Operating contributions	84,070	506,360	108,879	1,876,961	2,576,270
Increase (decrease) in due to/from other funds	28,774	-	(1,437,571)	159,006	(1,249,791)
<b>Net Cash from Noncapital Financing Activities</b>	<u>112,844</u>	<u>506,360</u>	<u>(1,328,692)</u>	<u>2,035,967</u>	<u>1,326,479</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Interest paid on notes and bond payable	(1,359,341)	(622,277)	(29,096)	34	(2,010,680)
Acquisition and construction of capital assets	(4,147,054)	(970,658)	(6,257,710)	(153,976)	(11,529,398)
Gain on the sale of assets	-	5,387	2,206	629	8,222
Contribution for capital acquisitions	665,665	-	1,559,977	308,879	2,534,521
Principal payments on notes and bonds payable	(2,776,546)	(1,464,432)	(252,887)	-	(4,493,865)
<b>Net Cash from Capital and Related Financing Activities</b>	<u>(7,617,276)</u>	<u>(3,051,980)</u>	<u>(4,977,510)</u>	<u>155,566</u>	<u>(15,491,200)</u>
<b>Cash Flows from Investing Activities</b>					
Interest on investments	189,514	1,850	8,561	-	199,925
<b>Net change in cash</b>	1,348,234	2,354,793	490,398	-	4,193,425
Cash, Beginning of Year	16,670,165	12,879,488	100	1,000	29,550,753
<b>Cash, End of Year</b>	<u>\$ 18,018,399</u>	<u>\$ 15,234,281</u>	<u>\$ 490,498</u>	<u>\$ 1,000</u>	<u>\$ 33,744,178</u>
<b>Non-Cash Operating Activities</b>					
Loss on refunding	\$ 341,242	\$ 258,877	\$ 36,465	\$ -	\$ 636,584
<b>Non-Cash Capital and Related Financing Activities</b>					
Capital lease	\$ 61,750	\$ -	\$ -	\$ -	\$ 61,750
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>					
Operating loss	\$ (857,889)	\$ (2,409,183)	\$ (5,487,223)	\$ (2,759,550)	\$ (11,513,845)
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	2,905,772	3,240,916	6,406,528	686,872	13,240,088
Changes in assets and liabilities:					
Accounts receivable	(130,497)	(12,937)	(29,043)	17,213	(155,264)
Unbilled receivables	(1,538)	(41,576)	(411)	858	(42,667)
Due to/from other government entities	6,407,905	4,417,445	1,113,463	(125,093)	11,813,720
Inventories	4,279	1,802	851	(16,267)	(9,335)
Accounts payable and other liabilities	359,344	(42,613)	624,046	21,114	961,891
Accrued expenses	(32,909)	(10,928)	(1,938)	(12,458)	(58,233)
Landfill closure	-	(189,906)	-	-	(189,906)
Unearned revenue	8,160	(56,927)	4,158,788	(300)	4,109,721
Compensated absences	525	2,470	2,978	(3,922)	2,051
<b>Net Cash from Operating Activities</b>	<u>\$ 8,663,152</u>	<u>\$ 4,898,563</u>	<u>\$ 6,788,039</u>	<u>\$ (2,191,533)</u>	<u>\$ 18,158,221</u>

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

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Statement of Net Position – Fiduciary Funds  
As of June 30, 2014**

	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 6,305,606	\$ 549,287	\$ 917,805	\$ 64,649	\$ 3,159,871
Investments, at fair value:					
US Government obligations	12,146,548	1,125,912	1,144,105	-	-
Municipal bonds	41,224	-	-	-	-
Corporate bonds and obligations	5,821,346	511,716	1,787,994	-	-
Fixed income securites	2,733,904	291,080	-	-	-
Corporate stock	25,966,499	2,199,491	828,521	-	-
Equity funds	32,812,886	2,775,748	9,583,371	63,442	-
Accounts receivable	143,003	13,071	23,977	-	-
Due from other funds	-	-	-	5	-
<b>TOTAL ASSETS</b>	<u>85,971,016</u>	<u>7,466,305</u>	<u>14,285,773</u>	<u>128,096</u>	<u>3,159,871</u>
<b>LIABILITIES</b>					
Accounts payable	-	-	-	-	71,150
Due to student groups	-	-	-	-	3,088,721
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,159,871</u>
<b>NET POSITION</b>					
Held in trust for pension and OPEB	85,971,016	7,466,305	14,285,773	-	-
Held in trust for scholarships	-	-	-	128,096	-
<b>NET POSITION</b>	<u>\$ 85,971,016</u>	<u>\$ 7,466,305</u>	<u>\$ 14,285,773</u>	<u>\$ 128,096</u>	<u>\$ -</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Changes in Net Position - Fiduciary Funds  
For Year Ended June 30, 2014

	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>
<b>ADDITIONS</b>				
Contributions:				
Employer	\$ 6,017,521	\$ 600,000	\$ 1,006,600	\$ -
Plan members	1,876,133	-	-	-
Gifts and contributions	-	-	-	35,396
Receipts of In-kind	-	15,232	32,693	-
<b>Total Contributions</b>	<u>7,893,654</u>	<u>615,232</u>	<u>1,039,293</u>	<u>35,396</u>
Investment Income:				
Realized and unrealized gains	10,979,877	913,435	3,163,381	-
Interest and dividends	1,123,860	97,807	315,293	10,145
Other income	713,527	62,783	24,896	-
<b>Total Investment Income</b>	<u>12,817,264</u>	<u>1,074,025</u>	<u>3,503,570</u>	<u>10,145</u>
<b>TOTAL ADDITIONS</b>	<u>20,710,918</u>	<u>1,689,257</u>	<u>4,542,863</u>	<u>45,541</u>
<b>DEDUCTIONS</b>				
Benefits	6,004,103	431,634	-	-
Scholarship expenses	-	-	-	38,787
Administrative expenses	238,016	27,429	1,448,752	-
<b>TOTAL DEDUCTIONS</b>	<u>6,242,119</u>	<u>459,063</u>	<u>1,448,752</u>	<u>38,787</u>
<b>CHANGES IN NET POSITION</b>	14,468,799	1,230,194	3,094,111	6,754
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>71,502,217</u>	<u>6,236,111</u>	<u>11,191,662</u>	<u>121,342</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 85,971,016</u>	<u>\$ 7,466,305</u>	<u>\$ 14,285,773</u>	<u>\$ 128,096</u>

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **The Financial Reporting Entity**

The primary government is the County Commissioners of Washington County, referred to herein as the County or the County Commissioners. The County is governed by an elected five-member board.

The accompanying financial statements are presented as of June 30, 2014 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the *GASB's Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

#### **Reporting Entity**

The accompanying financial statements comply with the provisions of the GASB Standards in that the financial statements include all organizations, activities, functions and component units for which the County (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the County's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the County.

Based on the foregoing, the County's financial reporting entity includes all funds, agencies, boards and commissions that are part of the primary government, and the component units discussed below.

**Blended Component Units** - The Washington County Public Golf Corporation (Black Rock Golf Course) is governed by a five-member board appointed by the County Commissioners. Although it is legally separate from the County, the Washington County Public Golf Corporation is reported as if it were part of the primary government because its sole purpose is to operate the golf course which is owned by the County. Black Rock Golf Course is reported as an enterprise fund.

**Discretely Presented Component Unit** - The component unit column in the government-wide financial statements include the financial data of the County's other component unit, the Board of Education of Washington County (the Board, Board of Education or School System.) The Board of Education is elected by the voters of Washington County. The Board of Education operates the public schools in the County. The Board may not issue debt or levy taxes. The County issues debt and levies taxes to provide capital and operating funds to the Board. The State of Maryland also provides significant capital and operating funds to the Board.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Reporting Entity (continued)

Complete financial statements of the discretely presented individual component unit can be obtained from its administrative office:

Washington County Board of Education  
10435 Downsville Pike  
Hagerstown, Maryland 21740

Related Organizations - The County Commissioners are also responsible for appointing the members of the boards of various other organizations, but the County's accountability for these organizations do not extend beyond making the appointments. Several of these other organizations are funded by Federal or state governments.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, income taxes, other local taxes, licenses, and interest associated with the current fiscal period are all recognized as revenue of the current fiscal period.

The County's pension plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The government reports the following major governmental funds:

The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities in the governmental funds. The Capital Projects Fund accounts for all capital improvements, which are financed by bond issues, government grants, and transfers from the General and Special Revenue Funds. Closed projects are transferred to the appropriate fund.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The government reports the following major proprietary funds:

The Water Quality Fund accounts for activities of the County's sewage treatment plants, sewage pumping stations and collection systems, and the water treatment plants and distribution systems.

The Solid Waste Fund is used to account for activities related to the safe disposal of solid waste, to meet all state, Federal, and county regulations and to provide for recycling.

The Airport Fund is used to account for activities at the Hagerstown Regional Airport that serves the air transportation and ancillary needs of the four state region.

Additionally, the government reports the following fiduciary funds:

The County's Pension Trust Fund is used to account for activities related to the Employees' Retirement Plan of Washington County.

The County's Volunteer Length of Service Award Program Trust Fund (LOSAP) is used to account for activities related to the eligible volunteers' retirement, disability, and death benefits.

The Private-Purpose Trust Fund is used to account for the assets donated to the Board of Education to finance memorial scholarships, which are limited to revenue earned.

The Other Postemployment Benefits Trust Fund (OPEB) is used to account for activities related to the other postemployment benefit plan of Washington County.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from producing and delivering goods and providing services and use of properties in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the enterprise funds are charges to customers for sales and services. The Water Quality Fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

#### Use of Estimates in the Preparation of Financial Statements

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

#### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of \$10,000 or greater for all funds except for the Black Rock Golf Course and Public Transit funds, which are \$5,000. All assets are recorded at historical cost or estimated historical cost, except for donated capital assets which are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or do not materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Capital Assets (continued)

Property, plant, equipment and infrastructure assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Land Improvements	15-50 years
Buildings and Improvements	10-40 years
Facilities	20-100 years
Vehicles	5-10 years
Infrastructure	10-100 years
Machinery and Equipment	5-20 years
Office Furniture and Equipment	5-10 years
Treatment Plants	25-100 years
Computer Equipment	5-10 years

#### Long-Term Obligations

In the government-wide financial statements and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary fund statements of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources (uses). Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as capital outlay expenditures in the Capital Projects Fund.

#### Investments

Investments are stated at fair value based on quoted market values. Under the terms of repurchase agreements the excess cash from checking accounts is invested in short-term investments. All deposits are insured by FDIC or a surety bond. Short-term investments in U.S. Treasury and agency obligations that have remaining maturities of 90 days or less, provided that the fair value of those investments is not significantly affected by impairment, are reported at amortized cost, which approximates market value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Investments** (continued)

Retirement plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

#### **Inventories**

Inventories of the General Fund, Special Revenue Funds and Enterprise Funds consist of expendable supplies held for consumption and items held for sale. These items are priced at cost using the first-in, first-out method, or average costing.

#### **Employee Benefit Programs**

The County's benefit program provides substantially all employees with group hospitalization, life insurance, disability income protection and retirement plans. The cost of the retirement plans is accounted for in the General and Special Revenue Funds and in the Enterprise Funds of the County.

There are two employee retirement plans for County employees. The County plans cover all full-time employees other than those employed prior to July 1, 1972, who elected to retain membership in the Maryland State Retirement System. The Board of Education Retirement Plan is the Maryland State Retirement System. The assets of the County plans are held by a trustee.

Retirement plan costs for members of the County Retirement Plan are determined annually on an actuarial basis. Pension costs charged to expense equal the annual required contributions, calculated in accordance with GASB Statement No. 27. The County follows the practice of funding pension costs accrued.

#### **Taxes and County Services**

The County and its separate funds do not pay Federal, state or local taxes except social security taxes. Except for certain limited reimbursements of administrative expenses and employee benefits, the General Fund is not reimbursed by the other funds for general staff services.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Real Estate and Personal Property Taxes

The County's property tax is levied each July 1<sup>st</sup>, at rates enacted by the Board of County Commissioners based on the total assessed value as determined by the Maryland State Department of Assessments and Taxation. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice and only after public hearings. A reassessment of all property is required to be completed every three years.

Property taxes are levied as of July 1<sup>st</sup>, and a discount of one-half percent is granted for property taxes paid by July 31<sup>st</sup>. Taxpayers also have the options of paying in full without interest by September 30<sup>th</sup>, or paying their tax bills semi-annually. Taxpayers electing the semi-annual method can pay the first installment without interest by September 30<sup>th</sup>. Beginning October 1<sup>st</sup>, interest is charged. The second semi-annual payment, including a service charge, is due by December 31<sup>st</sup>. Interest accrues at one percent monthly for delinquent property taxes.

Maryland law provides that unpaid real estate property taxes shall be a lien on the real property from the date the taxes become payable. If real estate property taxes remain unpaid, the collector shall sell the real properties at tax sale no later than two years from the date taxes are in arrears. The County estate tax sale is held annually on the first Tuesday in the month of June.

#### Rate of County Taxes:

Income tax	2.8% of Maryland taxable income (2013 and 2014 calendar years)
Recordation tax	\$3.80 per \$500
Trailer park	15% of gross rentals
Property taxes	\$0.948 per \$100 of assessable base

#### Cash Flows

For the purposes of the Statement of Cash Flows, the proprietary funds have defined cash equivalents as all highly liquid deposits and other investment instruments that have a maturity of three months or less.

#### Concentrations of Credit Risk

The County's receivables consist of amounts due from County residents for property and other taxes, utilities and miscellaneous services fees and amounts due from the federal and state governments for grants and shared taxes. The Water Quality department provides sewage and water services for residential, commercial and other entities in the Washington County, Maryland region. The department extends credit to its customers for sewer and water service charges.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Net Position and Fund Equity

The difference between fund assets and liabilities is “Net Position” on the government-wide and fiduciary fund statements and “Fund Balance” on governmental fund statements. Net Position are classified as “Net Investment in Capital Assets,” legally “Restricted” for a specific purpose or “Unrestricted” and available for appropriation for general purposes.

In the governmental fund financial statements, non-spendable and restricted fund balance represent amounts that are legally restricted by outside parties for use for a specific purpose or are otherwise not available for appropriation. Committed fund balance represents amounts that are reserved for a particular purpose by the County Commissioners of Washington County and would require action by the board to release the fund balance from its commitment. Assigned fund balance represents tentative management plans that are subject to change.

#### Implementation of New Accounting Principles

The County has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 66, entitled *Technical Corrections - 2012 – an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, entitled *Financial Reporting for Pension Plans*; and Statement No. 70, entitled *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The adoption of these standards did not have a material effect on the County’s financial statements.

In fiscal year ended June 30, 2014, the County implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to either (a) properly classify items that were previously reported as assets and liabilities as deferred outflows of resources and (b) recognize these items as outflows of resources (expenses) or inflows of resources (revenues). Bond issuance costs, which were previously deferred over the life of the existing debt, are now recognized as an expense. This is recorded as a prior period adjustment for the fiscal year ended June 30, 2013, due to the write off of previous bond issuance costs which were being amortized over the life of the bonds.

As of the year ended June 30, 2014, GASB issued Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The County is analyzing the effects of these pronouncements which are expected to be material, and plans to adopt them as applicable by their effective date.

GASB also issued Statement No. 69, entitled *Government Combinations and Disposals of Government Operations*. This Statement is anticipated to not have a material effect on the County’s financial statement upon implementation

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### **Budgetary Information**

The County's budget process is key to its long-range strategic plan. With the adoption phase ending in May, the entire budget process encompasses nine months in preparation time. Financial forecasts, economic trends, policy reviews, and citizen input are all part of this process and result in the development of the operating and capital budgets for the year. The following describes the budget process and procedures established by the County. Budgets are adopted using the same basis of accounting as that used for reporting purposes.

#### *Financial Capacity and Analysis Phase*

The County develops statistical analysis of major revenue sources through various resources available. The County prepares and annually updates a long-range (10 years) financial forecasting system which includes projections of revenue, expenditures, future costs, financing of capital improvements that are included in the Capital Improvement Budgets, Cost of Service Plans and the Operating Budget.

Revenue estimates are monitored to identify any potential trends, which would significantly impact the various revenue sources. The County reviews current construction trends, the number of building permits, mortgages rates, and other economic data that can impact revenue collections.

The County uses other financial modeling techniques that impact the long-term operations and rates for the Water Quality and Solid Waste Funds.

The County annually updates its financial ratio trends. Most of the financial trends include peer group median and historical data. Trend indicators are tracked for specific elements of the County's fiscal policies for evaluation.

Debt capacity is evaluated on an annual basis prior to the adoption of the Capital Improvement budget. The County examines statistical measures and compares them to other counties, rating agency standards, and Washington County's historical measures to determine debt affordability.

The economic and financial trend analysis is an integral part of the County's decision-making process that includes short and long-term forecasts. The County's current financial condition as well as future financial capacity, long-range plans, and future goals and visions are evaluated. During this phase forecasting assumptions, policy and reserve reviews, compensation adjustments, and inflation assumptions are made.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

#### **Budgetary Information** (continued)

##### *Budget Development Start*

The development of the budget starts with the on-line release of operational budgets and ten year capital improvement budget. The information distributed includes instructions on completing the budgets, due dates, and updated information on budgetary numbers, personnel positions, goals, and other pertinent information.

##### *Budget Development Phase*

Capital Improvement budget development begins in the winter after the development of the debt capacity and financial trend and economic trend analysis. The Capital Improvement Program (CIP) provides a comprehensive approach to planning and impacts all facets of County operations. The County Administrator, the Chief Financial Officer, the Planning Director, and the Director of Public Works comprise the Capital Improvements Program Committee (CIP Committee). From the time the CIP's initial annual review begins in October through its adoption in May of each fiscal year, there is constant interaction between departments, the CIP Committee, and the elected officials. This effort is characterized by cooperation and reflects a common goal of ensuring that the CIP meets the objectives of the County and remains affordable and achievable.

The CIP is reviewed in conjunction with the annual debt affordability analysis with revenue projections inclusive of rate analysis, in order to determine funding availability. A financial analysis of funding sources and project costs is conducted for all proposed capital improvement projects.

It is the CIP Committee's responsibility to review all requests that County departments and agencies submit. All projects are ranked based on established criteria for priority ranking. Considering current and future needs as developed in the ten-year capital plan, and available funding sources and the results of the priority ranking process, the CIP Committee determines which capital projects best meet established criteria for the current fiscal year Capital Improvement budget and the nine-year forecast. Operating impacts of current and proposed capital projects are also taken into consideration by staff when developing their Capital Improvement budget.

Operating budgets represent existing service levels and two years of prior historical information. Departments and agencies request funding for the upcoming fiscal year. Any increases in program and services require justification, as do, all capital outlay requests. These requests are summarized with projected funding shortfalls or overruns calculated.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

#### **Budgetary Information** (continued)

##### *Review and Modification Phase*

The County Administrator presents the Operating and Capital Improvement budgets to the County Commissioners. Preliminary recommendations are reviewed to ensure that preliminary budgets address the County's goals and fiscal management policies. The County Administrator and the Chief Financial Officer work with the Commissioners on the proposed budget documents for adoption.

##### *Adoption Phase*

Proposed budgets are voted on by the County Commissioners to take to a public hearing to communicate to the general public for all operating and capital funds. The public hearing is advertised in the local newspaper and on the County web site. A presentation and handouts are prepared for the public.

Public hearings are held on the proposed budgets and the current tax levy. Local law requires a balanced budget to be adopted by July 1.

##### *Start Up*

Department Managers are responsible for their budgets throughout the fiscal year. Expenditure percentages are calculated and compared to budget. Corrective action, if necessary, is taken if serious negative trends exist. Management and the County Commissioners have real-time budgeting reports available on-line as well as updates on major events and/or issues.

##### *Balanced Budget*

Under County code, the County Commissioners annual budget shall have a figure for the total of all appropriations and a figure for the total of all revenue available to pay the appropriations. The figure for total appropriations may not exceed the figure for total estimated revenue.

##### *Costing of Services*

In addition to accrual basis budgeting, several enterprise funds utilize a cost of service approach. Cost of service is a method of accounting, which identifies both the cost of the program and the portion of the cost that will be recovered through fees and charges. By using this financial technique, the County is able to assess the true cost of providing a service. Currently, water, sewer, and solid waste services use this approach to determine cost and rates.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

#### **Budgetary Information** (continued)

##### *Amendment to the Budget*

The County's operating budgets are adopted at the program and service level and the Capital Improvement budget is adopted at the project level. Transfers between programs or projects in excess of \$25,000 require County Commissioner's approval.

The Chief Financial Officer reviews the project status and revenue before any issuance of debt. Any modifications to a project and/or the total debt to be issued based upon this review is required to be approved by the County Commissioners either for an increase or decrease in total borrowing amount or for a change in the total borrowing source.

### 3. CASH AND SHORT-TERM INVESTMENTS

#### **County**

The County maintains a cash and investment pool that is available for use by all funds, and is displayed on the Statement of Net Position as "cash and short-term investments."

Statutes authorize the County to invest in United States government bonds, obligations of the Federal government or agencies, savings accounts in Maryland banks, repurchase agreements and the Maryland Local Government Investment Pool.

#### *Deposits*

As of June 30, 2014, the carrying amount of the County's deposits was \$37,949,707 and the bank balances were \$38,234,310. All deposits are carried at cost plus accrued interest. There were no significant violations of the collateralization requirements during the year ended June 30, 2014. The County's deposit policy specifies that all deposits must be entirely covered by Federal depository insurance, deposit surety bond, or by collateral in the form of pledged securities, according to state statute. In order to anticipate market changes and provide a level of security for all funds, the collateralization level is required to be at least 102% of market value of principal and accrued interest.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk. As of June 30, 2014, the County's bank balance of \$38,234,310 was exposed to custodial credit risk as \$250,000 of interest bearing accounts and \$250,000 of noninterest bearing accounts are insured by FDIC, \$15,000,000 is covered by a short term line of credit, and the remainder is collateralized through the Bank of New York Mellon.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 3. CASH AND SHORT-TERM INVESTMENTS (continued)

#### County (continued)

#### Investments

As of June 30, 2014, the County had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Investments held in County's name:					
U.S. government obligations, municipal and corporate bonds	\$ 117,902,564	\$ 80,163,907	\$ 37,738,657	\$ -	\$ -
Certificates of Deposit	400,000	-	400,000	-	-
Total investments held in County's name	118,302,564	80,163,907	38,138,657	-	-
Investments held by trustee of					
Pension plan:					
U.S. government obligations, municipal and corporate bonds	18,009,118	4,336,436	3,470,181	3,588,468	6,614,033
Fixed income securities	2,733,904	2,733,904	-	-	-
Corporate stocks	25,966,499	25,966,499	-	-	-
Equity funds	32,812,886	32,812,886	-	-	-
Money market funds	6,305,606	6,305,606	-	-	-
Interest and dividends receivable	143,003	143,003	-	-	-
Total Investments held by trustee of pension plan	85,971,016	72,298,334	3,470,181	3,588,468	6,614,033
Investments held by trustee of					
LOSAP plan:					
U.S. government obligations and corporate bonds	1,637,628	442,816	243,992	325,122	625,698
Corporate stocks	2,199,491	2,199,491	-	-	-
Fixed income funds	291,080	291,080	-	-	-
Equity funds	2,775,748	2,775,748	-	-	-
Money market funds	549,287	549,287	-	-	-
Interest and dividends receivable	13,071	13,071	-	-	-
Total Investments held by trustee of LOSAP plan	7,466,305	6,271,493	243,992	325,122	625,698
Investments held by trustee of					
OPEB plan:					
U.S. government obligations and corporate bonds	2,932,099	713,993	573,257	557,545	1,087,304
Corporate stocks	828,521	828,521	-	-	-
Equity funds	9,583,371	9,583,371	-	-	-
Money market funds	917,805	917,805	-	-	-
Interest and dividends receivable	23,977	23,977	-	-	-
Total Investments held by trustee of OPEB plan	14,285,773	12,067,667	573,257	557,545	1,087,304
Total investments	\$ 226,025,658	\$ 86,435,400	\$ 42,426,087	\$ 882,667	\$ 8,327,035

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 3. CASH AND SHORT-TERM INVESTMENTS (continued)

#### *Investments (continued)*

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from interest rates, the County's investment policy specifies that funds shall be invested at all times in keeping with the daily and seasonal pattern of the County's cash balances, as well as any other special factors or needs, in order to assure the availability of funds on a timely and liquid basis. Cash flow projections will be monitored and updated on an ongoing basis by the Budget and Finance Department and communicated regularly to the County Administrator. On a periodic basis, the County will determine, based on cash flow projections, what the appropriate average weighted maturity of the portfolio should be.

Unless matched to a specific cash flow, the County will not invest in securities maturing more than three years from the date of purchase. Reserve funds may be invested in securities exceeding three years if the maturities of such instruments precede or coincide with the expected needs for funds and only with the prior approval of the Budget and Finance Department.

The County's Pension Plan Investment Policy states that the assets are to be managed for total return, defined as dividend and interest income plus or minus capital gains and losses. Investments shall be diversified so as to minimize the risk of unacceptable losses. The portfolio is looked at as a whole rather than as individual securities. Investing for long term (preferably longer than 10 years) becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface.

The table below summarizes the target asset class weighting, along with the allowable ranges for each class.

<u>Investment Type</u>	<u>Range</u>	<u>Target</u>
Equities:		
Large-Cap U.S. Stocks	25-45%	35%
Small-Cap U.S. Stocks	0-15%	10%
International Stocks	5-20%	15%
REITS	0-10%	5%
Fixed Income:		
High Yield Bonds	0-15%	10%
Investment Grade Bonds	5-30%	23%
Money Market	0-10%	2%

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 3. CASH AND SHORT-TERM INVESTMENTS (continued)

*Investments* (continued)

Credit Risk: It is the County's investment policy to only invest in U.S. Government Treasury obligations, agencies and sponsored instrumentalities. Also the County's investment policy allows for investments in banks located in the State of Maryland (Certificates of Deposit) with the exception of Bankers Acceptances. Commercial banks must have a short-term rating of at least investment grade from the appropriate bank rating agencies. Bankers' Acceptances from domestic banks, which also include United States affiliates of large international banks, must have a rating of A1 from Standards and Poor's Corporation and P1 from Moody's Investor Services. As of June 30, 2014, the County's investments were 100% in U.S. Treasury and Agency obligations and certificates of deposit.

The County's Pension Plan Investment Policy allows for investing in the following investment types. Also, below is the benchmark used for rating each of the assets:

<b>Investment Type</b>	<b>Evaluation Benchmark</b>
Equities:	
Large-Cap U.S. Stocks	S&P 500
Small-Cap U.S. Stocks	Russell 2000
International Stocks	MSCI ACWI
REITS	NAREIT Equity
Fixed Income:	
High Yield Bonds	Barclays High Yield Credit Bond Index
Investment Grade Bonds	Barclays Aggregate Bond Index
Money Market	Citigroup 90 Day T-Bill Index

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2014, none of the County's investments are exposed to custodial credit risk because they are held in the County's name.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements  
June 30, 2014**

**3. CASH AND SHORT-TERM INVESTMENTS (continued)**

**Board of Education**

Cash:

Credit Risk: Maryland State Law prescribes that local government units, such as the School System, must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit insurance Corporation (FDIC) insurance levels with collateral whose market value is at least equal to the deposits. Any cash deposit exceeding the FDIC insurance level will require collateralization. Beginning January 1, 2013, FDIC coverage limits are applied to total noninterest-bearing accounts separately from interest-bearing accounts. Additionally, a compensating balance agreement exists with the Board’s primary financial institution. This non-interest bearing deposit is maintained in lieu of cash payments for standard bank services. The required average balance totaled \$250,000 at June 30, 2014.

Compliance is summarized as follows:

<u>June 30, 2014</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Responsibilities</u>	<u>Total</u>
Carrying amount of cash deposits	\$ 23,168,079	\$ 264,442	\$ 3,224,520	\$ 26,657,041
Bank balance of cash deposits	24,751,274	263,579	3,330,894	28,345,747
Amount covered by FDIC	498,736	220,981	1,050,643	1,770,360
Amount collateralized with securities held by an agent of the pledging financial institution in the School system’s name	24,252,538	42,598	2,280,251	26,575,387

Investments:

Credit Risk: Maryland statutes authorize the School System to invest in obligations of the United States government or agency obligations.

Interest Rate and Custodial Risk: Investments are made in Federal government securities primarily through repurchase agreements without risk of loss due to market conditions. The Board’s investments, which include uninsured and unregistered investments, are held by a bank’s trust department or agent in the School System’s name. The Board’s policy is generally to require delivery of the underlying collateral to a third party custodian.

Foreign Currency Risk: Maryland law does not permit the School System to have or hold any type of international investment vehicle.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements  
June 30, 2014**

**3. CASH AND SHORT-TERM INVESTMENTS (continued)**

**Board of Education (continued)**

Market Risk: The School System's investments are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

As of June 30, 2014, the School System had the following investments and maturities:

<u>June 30, 2014</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Responsibilit</u>	<u>Total</u>
Federal Home Loan Bank – 1.405% matures December 26, 2019 (net unamortized discount of \$927)	\$ 999,216	\$ -	\$ -	\$ 999,216
Federal Home Loan Mortgage Corp. - 1.125% matures March 27, 2018	2,500,000	-	-	2,500,000
Federal Home Loan Mortgage Corp. - 2.012% matures November 24, 2014 (net of unamortized premium of \$147,520)	5,457,851	-	-	5,457,851
Federal National Mortgage Association - 1.259% matures January 30, 2019 (net unamortized discount of \$1,861)	3,998,472	-	-	3,998,472
Federal National Loan Bank - Step Up/Variable matures December 28, 2020	1,000,000	-	-	1,000,000
Federal Home Loan Bank - 1.370% matures on October 24, 2019	3,000,000	-	-	3,000,000
Income Fund of America			63,442	63,442
	<u>\$ 16,955,539</u>	<u>\$ -</u>	<u>\$ 63,442</u>	<u>\$ 17,018,981</u>

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
	<u>June 30, 2014</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Agencies	\$ 16,955,539	\$ 5,457,851	\$ 6,498,472	\$ 4,999,216	\$ -
Income Fund	63,442	63,442	-	-	-
	<u>\$ 17,018,981</u>	<u>\$ 5,521,293</u>	<u>\$ 6,498,472</u>	<u>\$ 4,999,216</u>	<u>\$ -</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements  
June 30, 2014

4. RECEIVABLES

Receivables as of year-end for the government’s funds, including the applicable allowances for uncollectible accounts are as follows:

	Governmental Activities			
	General	Capital Projects	Non-Major	Total
Receivables:				
Taxes receivable	\$ 829,614	\$ -	\$ -	\$ 829,614
Accounts receivable	290,314	796,177	449,311	1,535,802
Gross receivables	1,119,928	796,177	449,311	2,365,416
Less: allowance for uncollectibles	265,653	-	-	265,653
<b>Net Total Receivables</b>	<b>\$ 854,275</b>	<b>\$ 796,177</b>	<b>\$ 449,311</b>	<b>\$ 2,099,763</b>

	Business-type Activities				
	Water Quality	Solid Waste	Airport	Non-major	Total
Accounts receivable	\$ 1,269,896	\$ 280,811	\$ 204,223	\$ 11,481	\$ 1,766,411
Less: allowance for uncollectibles	14,127	73,537	57,091	500	145,255
<b>Net Total Receivables</b>	<b>\$ 1,255,769</b>	<b>\$ 207,274</b>	<b>\$ 147,132</b>	<b>\$ 10,981</b>	<b>\$ 1,621,156</b>

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also record unearned revenue in connection with resources that have been received, but not yet earned. As of the end of the current fiscal year unearned revenue for delinquent property taxes receivable reported in the General Fund was \$220,595. Receivables do not include various taxes collected by the State of Maryland on behalf of the County, including income taxes. These amounts are included in Due From Other Governmental Agencies.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

#### Primary Government

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 77,847,295	\$ 1,826,552	\$ (114,666)	\$ 79,559,181
Capital assets, being depreciated:				
Land Improvements	11,082,178	901,321	-	11,983,499
Building and Improvements	68,916,669	20,378,378	-	89,295,047
Vehicles	12,442,978	2,000,753	(454,971)	13,988,760
Infrastructure	1,133,667,696	2,642,892	-	1,136,310,588
Machinery and Equipment	9,059,392	246,186	(95,515)	9,210,063
Office Furniture and Equipment	5,496,308	-	-	5,496,308
Computer Equipment	31,274,894	557,051	(152,503)	31,679,442
Total capital assets, being depreciated	<u>1,271,940,115</u>	<u>26,726,581</u>	<u>(702,989)</u>	<u>1,297,963,707</u>
<b>Total capital assets</b>	<u>1,349,787,410</u>	<u>28,553,133</u>	<u>(817,655)</u>	<u>1,377,522,888</u>
Accumulated depreciation for:				
Land Improvements	(4,837,592)	(297,353)	-	(5,134,945)
Building and Improvements	(25,001,854)	(1,883,341)	-	(26,885,195)
Vehicles	(10,654,707)	(469,551)	447,095	(10,677,163)
Infrastructure	(885,047,477)	(14,696,623)	-	(899,744,100)
Machinery and Equipment	(6,370,517)	(371,043)	95,515	(6,646,045)
Office Furniture and Equipment	(5,032,926)	(324,051)	-	(5,356,977)
Computer Equipment	(13,958,797)	(3,037,641)	152,503	(16,843,935)
Total Accumulated Depreciation	<u>(950,903,870)</u>	<u>(21,079,603)</u>	<u>695,113</u>	<u>(971,288,360)</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 398,883,540</u>	<u>\$ 7,473,530</u>	<u>\$ (122,542)</u>	<u>\$ 406,234,528</u>
<b>Projects Under Construction</b>	<u>\$ 7,074,260</u>	<u>\$ 16,252,743</u>	<u>\$ (8,688,210)</u>	<u>\$ 14,638,793</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements  
June 30, 2014

5. CAPITAL ASSETS (continued)

Business-type Activities

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2014</b>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 12,052,287	\$ -	\$ -	\$ 12,052,287
Capital assets, being depreciated:				
Land Improvements	136,499,096	250,107	(65,000)	136,684,203
Building and Improvements	57,894,138	6,006,420	(665,000)	63,235,558
Facilities	113,346,498	1,000,849	-	114,347,347
Vehicles	7,040,644	956,473	(24,517)	7,972,600
Machinery and Equipment	11,571,650	951,612	(113,020)	12,410,242
Office Furniture and Equipment	323,205	-	-	323,205
Computer Equipment	2,566,147	34,990	(21,020)	2,580,117
Treatment Plants	51,449,475	52,846	-	51,502,321
Total capital assets, being depreciated	<u>380,690,853</u>	<u>9,253,297</u>	<u>(888,557)</u>	<u>389,055,593</u>
<b>Total capital assets</b>	<u>392,743,140</u>	<u>9,253,297</u>	<u>(888,557)</u>	<u>401,107,880</u>
Accumulated depreciation for:				
Land Improvements	(62,919,031)	(7,931,972)	57,414	(70,793,589)
Building and Improvements	(14,570,848)	(1,434,250)	127,458	(15,877,640)
Facilities	(28,327,406)	(1,459,976)	-	(29,787,382)
Vehicles	(5,207,406)	(624,423)	24,517	(5,807,312)
Machinery and Equipment	(8,315,466)	(603,236)	113,020	(8,805,682)
Office Furniture and Equipment	(322,626)	(290)	-	(322,916)
Computer Equipment	(1,659,000)	(280,546)	21,020	(1,918,526)
Treatment Plants	(20,668,111)	(932,429)	-	(21,600,540)
Total Accumulated Depreciation	<u>(141,989,894)</u>	<u>(13,267,122)</u>	<u>343,429</u>	<u>(154,913,587)</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 250,753,246</u>	<u>\$ (4,013,825)</u>	<u>\$ (545,128)</u>	<u>\$ 246,194,293</u>
<b>Projects Under Construction</b>	<u>\$ 2,966,476</u>	<u>\$ 5,826,656</u>	<u>\$ (2,916,644)</u>	<u>\$ 5,876,488</u>

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements  
June 30, 2014**

**5. CAPITAL ASSETS (continued)**

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

**Governmental Activities:**

General Government	\$ 16,095,130
Public Safety	4,425,792
Recreation	283,503
Conservation of Natural Resources	-
Highway	245,836
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 21,050,261</b>

**Business-Type Activities:**

Transit Fund	\$ 618,740
Airport Fund	6,406,528
Golf Course Fund	68,132
Water Quality Fund	2,905,772
Solid Waste Fund	3,240,916
<b>Total Depreciation Expense – Business-Type Activities</b>	<b>\$ 13,240,088</b>

**Board of Education (Discretely presented component unit)**

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Government activities</b>				
Capital assets, not being depreciated:				
Land	\$ 7,189,997	\$ 1,502,990	\$ -	\$ 8,692,987
Facilities under construction	7,972,988	13,026,525	(21,248)	20,978,265
	<u>15,162,985</u>	<u>14,529,515</u>	<u>(21,248)</u>	<u>29,671,252</u>
Capital assets, being depreciated:				
Building and Improvements	292,676,600	7,831,253	(3,095,721)	297,412,132
Furniture and equipment	41,206,469	2,691,732	(327,705)	43,570,496
Equipment under capital leases	10,722,040	99,993	(1,078,164)	9,743,869
	<u>344,605,109</u>	<u>10,622,978</u>	<u>(4,501,590)</u>	<u>350,726,497</u>
Accumulated depreciation:				
Building and Improvements	(118,714,962)	(6,582,279)	2,200,606	(123,096,635)
Furniture and equipment	(23,771,948)	(3,509,862)	311,409	(26,970,401)
Buildings and equipment under capital lease	(2,653,237)	(533,483)	1,078,164	(2,108,556)
	<u>(145,140,147)</u>	<u>(10,625,624)</u>	<u>3,590,179</u>	<u>(152,175,592)</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 214,627,947</u>	<u>\$ 14,526,869</u>	<u>\$ (932,659)</u>	<u>\$ 228,222,157</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements  
June 30, 2014

5. CAPITAL ASSETS (continued)

Board of Education (continued)

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>
<b>Business-type activities</b>				
Capital assets, being depreciated:				
Furniture and equipment	\$ 4,377,816	\$ 300,165	\$ (78,190)	\$ 4,599,791
Accumulated depreciation				
Furniture and equipment	(3,063,108)	(206,090)	70,900	(3,198,298)
<b>Business-type activities capital assets, net</b>	<u>\$ 1,314,708</u>	<u>\$ 94,075</u>	<u>\$ (7,290)</u>	<u>\$ 1,401,493</u>

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

Governmental activities:	
Other instructional costs	\$ 2,059,849
Student transportation services	1,180,437
Operation of plant	168,726
Depreciation - unallocated	7,216,612
<b>Total governmental activities depreciation expense</b>	<u>\$ 10,625,624</u>
Business-type activities:	
<b>Food services</b>	<u>\$ 206,090</u>

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements**

**June 30, 2014**

**6. INTERFUND RECEIVABLES AND PAYABLES**

Outstanding balances between funds are reported as “due to/from other funds” and are the result of the County’s central cash management and disbursement system. Other activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are also referred to in the fund statements as “due to/from other funds.”

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Quality	General Fund	\$ 5,634,066
	Highway	265,223
	Golf Course	474,956
	Public Transit	107,707
	HEPMPO	48,084
Solid Waste	General Fund	4,609,690
	Highway	217,000
	Golf Course	388,600
	Public Transit	88,123
	HEPMPO	39,342
Capital Projects	General Fund	<u>72,692,131</u>
Total		<u>\$ 84,564,921</u>

Due to/from primary government and component unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Component unit - Board of Education	Primary government- capital projects	\$ 493,729

All interfund payables are without interest.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements  
June 30, 2014**

**7. INTERFUND TRANSACTIONS**

During the course of normal operations, the County has numerous transactions between funds. Usually these transfers are undertaken to enable the receiving funds to provide services that the government has determined to be in the best interest of the County. Interfund transactions are generally classified as follows:

Transfers are reported as “Other Financing Sources (Uses)” in the governmental funds and as “Operating Transfers” or “Capital Transfers” in the enterprise funds. A summary of transfers follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Capital Transfers In</u>	<u>Capital Transfers Out</u>
General Fund:				
Capital Projects	\$ -	\$ -	\$ -	\$ 4,224,000
Solid Waste	-	506,360	-	-
Public Transit	-	472,270	-	-
Water Quality	-	77,292	-	-
Community Grants Management	-	186,450	-	-
Agricultural Education Center	-	170,070	-	-
Golf Course	-	102,690	-	-
HEPMPO	-	8,345	-	-
Land Preservation	-	103,952	-	-
Airport	-	64,500	-	-
Capital Projects Fund:				
General Fund	-	-	3,880,000	-
Airport Fund	-	-	-	20,600
Hotel Rental Fund	-	-	400,000	-
Solid Waste:				
General Fund	506,360	-	-	-
Public Transit:				
General Fund	472,270	-	16,600	-
Capital Project Fund	-	-	-	-
HEPMPO	-	13,430	-	-
Water Quality:				
General Fund	77,292	-	-	-
Airport:				
General Fund	64,500	-	229,100	-
Capital Project Fund	-	-	20,600	-
Golf Course				
General Fund	102,690	-	98,300	-
Community Grants Management				
General Fund	186,450	-	-	-
Agricultural Education Center:				
General Fund	170,070	-	-	-
HEPMPO				
General Fund	8,345	-	-	-
Public Transit Fund	13,430	-	-	-
Hotel Rental				
Capital Project Fund	-	-	-	400,000
Land Preservation				
General Fund	103,952	-	-	-
<b>Total</b>	<u>\$ 1,705,359</u>	<u>\$ 1,705,359</u>	<u>\$ 4,644,600</u>	<u>\$ 4,644,600</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as 20-year serial bonds with different amounts of principal maturing each year. General obligation bonds and capital lease obligations currently outstanding are as follows:

	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Governmental Activities</i>						
Bonds payable:						
General obligation bonds	2.0-5.5%	\$ 126,321,627	\$ 14,000,000	\$ 9,734,803	\$ 130,586,824	\$ 9,859,159
Unamortized bond premium		3,661,724	1,040,210	404,605	4,297,329	-
Unamortized bond discount		-	-	-	-	-
Total bonds payable		<u>129,983,351</u>	<u>15,040,210</u>	<u>10,139,408</u>	<u>134,884,153</u>	<u>9,859,159</u>
Other loans payable						
Maryland Water Quality loans	1.0%	<u>5,462,564</u>	<u>-</u>	<u>285,821</u>	<u>5,176,743</u>	<u>288,346</u>
Total bonds and loans payable		<u>135,445,915</u>	<u>15,040,210</u>	<u>10,425,229</u>	<u>140,060,896</u>	<u>10,147,505</u>
Agricultural Land Preservation	3.0%	1,533,273	-	517,736	1,015,537	517,736
Capital lease obligations	2.1%	<u>455,348</u>	<u>56,548</u>	<u>151,575</u>	<u>360,321</u>	<u>160,782</u>
Governmental Activity						
Long-term Liabilities		<u>137,434,536</u>	<u>15,096,758</u>	<u>11,094,540</u>	<u>141,436,754</u>	<u>10,826,023</u>
<i>Business-type Activities</i>						
Bonds payable:						
General obligation bonds	2.0-5.9%	\$ 33,445,471	\$ -	\$ 2,499,602	\$ 30,945,869	\$ 2,466,046
Unamortized bond premium		554,502	-	78,098	476,404	-
Unamortized bond discount		(18,777)	-	(4,625)	(14,152)	-
Total bonds payable		<u>33,981,196</u>	<u>-</u>	<u>2,573,075</u>	<u>31,408,121</u>	<u>2,466,046</u>
Other loans payable:						
Maryland Water Quality loans	0.40-3.3%	<u>14,865,799</u>	<u>-</u>	<u>2,063,383</u>	<u>12,802,416</u>	<u>1,950,479</u>
Total bonds and loans payable		<u>48,846,995</u>	<u>-</u>	<u>4,636,458</u>	<u>44,210,537</u>	<u>4,416,525</u>
Capital lease obligations	4.90%	<u>-</u>	<u>76,000</u>	<u>14,250</u>	<u>61,750</u>	<u>11,182</u>
Business-type Activity						
Long-term Liabilities		<u>48,846,995</u>	<u>76,000</u>	<u>4,650,708</u>	<u>44,272,287</u>	<u>4,427,707</u>
<i>Total Combined Activities</i>						
Long-term Liabilities		<u>\$ 186,281,531</u>	<u>\$ 15,172,758</u>	<u>\$ 15,745,248</u>	<u>\$ 185,709,041</u>	<u>\$ 15,253,730</u>
<b>Board of Education</b>						
	4.5-12.0%	<u>\$ 7,230,968</u>	<u>\$ 99,994</u>	<u>\$ 635,700</u>	<u>\$ 6,695,262</u>	<u>\$ 664,872</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (continued)

Summary of remaining debt service requirements for the years ended June 30, are as follows:

Year ending June 30	Governmental Activities		Business-type Activities		Combined Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 10,147,505	\$ 4,462,510	\$ 4,416,525	\$ 1,996,513	\$ 14,564,030	\$ 6,459,023
2016	9,735,976	4,309,396	3,527,953	2,463,967	13,263,929	6,773,363
2017	9,703,015	3,989,086	3,372,692	2,440,346	13,075,707	6,429,432
2018	9,186,344	3,655,279	3,856,856	2,422,464	13,043,200	6,077,743
2019	8,530,772	3,335,062	4,408,974	2,383,549	12,939,746	5,718,611
2020-2024	40,462,573	12,071,684	13,646,696	4,298,230	54,109,269	16,369,914
2025-2029	32,021,087	5,567,819	7,519,884	1,209,544	39,540,971	6,777,363
2030-2034	14,981,295	1,314,439	2,998,705	162,754	17,980,000	1,477,193
2035	995,000	19,900	-	-	995,000	19,900
Total	<u>\$ 135,763,567</u>	<u>\$ 38,725,175</u>	<u>\$ 43,748,285</u>	<u>\$ 17,377,367</u>	<u>\$ 179,511,852</u>	<u>\$ 56,102,542</u>
Less:						
Unamortized discount	-		(14,152)		(14,152)	
Unamortized premium	4,297,329		476,404		4,773,733	
	<u>\$ 140,060,896</u>		<u>\$ 44,210,537</u>		<u>\$ 184,271,433</u>	

The County Commissioners have received bonding authority from the State Legislature to issue public facilities bonds for the purpose of financing various capital projects. As of June 30, 2014, the unused authorization was \$61,837,722.

### Conduit Debt

From time to time, the County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received in the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. In accordance with governmental accounting standards, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2014, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$63,959,601.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements**

**June 30, 2014**

**8. LONG-TERM AND CAPITAL LEASE OBLIGATIONS (continued)**

**Agricultural Land Preservation Installments**

The County has entered into installment contracts to purchase easements for agricultural land preservation purposes. Under the terms of the installment contracts, the County pays the property owner annual interest and principal payments over the ten year term of the contract. The primary source of revenue for repayment of the indebtedness is a portion of the transfer tax on all transfers of real property in the County. The annual requirements to amortize agricultural preservation installments outstanding as of June 30, 2014, are as follows:

<u>As of June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2015	\$ 517,736	\$ 30,466	\$ 548,202
2016	351,794	14,934	366,728
2017	146,006	4,380	150,386
	<u>\$ 1,015,536</u>	<u>\$ 49,780</u>	<u>\$ 1,065,316</u>

For the year ended June 30, 2014, total principal and interest incurred related to agricultural land preservation installments was \$517,736 and \$45,998, respectively.

**Capital Leases**

On January 15, 2012, the General Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$158,267 and expires January 15, 2016. On December 3, 2013, the General Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$671 through January 19, 2015, and annual lease payments of \$1,077 from February 19, 2015 through January 19, 2019. The future minimum lease payments under these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 168,350
2016	171,192
2017	12,925
2018	12,925
2019	7,538
Total minimum payments	372,930
Less: amounts representing interest	12,608
Present value of net minimum lease payments	<u>\$ 360,322</u>

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements  
June 30, 2014**

**8. LONG-TERM AND CAPITAL LEASE OBLIGATIONS (continued)**

**Capital Leases (continued)**

On January 14, 2014, the Water Quality Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$14,250 and expires January 14, 2019. The future minimum payments under this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 14,250
2016	14,250
2017	14,250
2018	14,250
2019	14,250
Total minimum payments	71,250
Less: amounts representing interest	9,500
Present value of net minimum lease payments	<u>\$ 61,750</u>

The following is an analysis of the capital assets acquired under capital leases as of June 30, 2014.

	<u>Capitalized Amount</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value June 30, 2014</u>
General Fund	\$ 1,337,873	\$ 296,768	\$ 1,041,105
Water Quality	76,000	6,333	69,667
Total	<u>\$ 1,413,873</u>	<u>\$ 303,101</u>	<u>\$ 1,110,772</u>

**Board of Education**

The Board of Education has various capital lease agreements for certain building data processing and communications equipment. Information for assets acquired from capital leases is not available. The future minimum payments under these agreements are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 664,872	\$ 318,207	\$ 983,079
2016	390,589	265,570	656,159
2017	409,040	247,119	656,159
2018	428,375	227,784	656,159
2019	444,843	207,534	652,377
2019-2023	2,445,825	721,518	3,167,343
2024-2028	1,911,718	147,055	2,058,773
	<u>\$ 6,695,262</u>	<u>\$ 2,134,787</u>	<u>\$ 8,830,049</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 8. LONG-TERM AND CAPITAL LEASE OBLIGATIONS (continued)

#### Capital Leases (continued)

In prior years, the County has partially defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for certain future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the partially defeased bonds are not included in the County's financial statements. As of June 30, 2014, \$12,555,000 of long-term obligations outstanding are considered defeased.

### 9. OPERATING LEASE AGREEMENTS

#### County

During fiscal year 2004, the County entered into a lease agreement whereby the lessee constructed a building and improvements on land owned at the Airport. The total cost of the building and improvements was capitalized as an asset in the Airport fund with an estimated useful life of 40 years. As of June 30, 2004, the building and improvements were estimated at \$2,500,000. During the year ended June 30, 2005, a revised cost was obtained reducing the value to \$2,000,000. The \$500,000 adjustment was recorded as a reduction to fixed assets and deferred inflow of resources in the June 30, 2005, financial statements. The terms of the original agreement which began June 30, 2004, allowed the lessee to use the property for a period of 25 years, with no additional payments due. During fiscal year 2006, this lease was amended with lease terms extended to 31 years and an additional building and improvements valued at \$1,800,000 were capitalized as an asset in the Airport fund with an estimated useful life of 40 years. During fiscal year 2009, a second amendment to the lease agreement allowed for additional building and improvements valued at \$400,000 and an extension of the lease through December 31, 2042. The addition was capitalized as an asset in the Airport fund with an estimated useful life of 40 years. Deferred inflow of resources in the amount of \$2,500,000 was recorded in the Airport fund at the inception of this lease but was adjusted down to \$2,000,000 during year ended 2005, and was to be recognized as rental income over the original 25 year term of the lease. Since the amendments extending the lease term and the additional capitalization of building and improvements, the remaining deferred inflow of resources of \$3,587,724 as of June 30, 2012, will be amortized over 33 years. The terms of the agreement as amended in fiscal year 2006, allow the lessee to use the property for a period of 31 years. The terms of the lease agreement require that the lessee pay the County annual rent of \$5,250 beginning May 1, 2006, with an annual increase of 4% each May 1st thereafter. The lease also requires that the County credit the lessee \$127,500 for the lessee's incurred costs in excavating the site for the addition. The agreement allows an option for the lessee to continue the lease past the 31 year term at a rental payment equal to the fair market rental value of the leased property at that time.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 9. OPERATING LEASE AGREEMENTS (continued)

#### County (continued)

During fiscal year 2004, the County entered into a lease agreement whereby the lessee began building improvements on land and buildings owned at the Airport. During fiscal year 2006, the improvements were completed for a total cost of \$1,165,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2006. The terms of the agreement which began June 30, 2006, allow the lessee to use the property for a period of 17 years, with no payments due during the initial five year term of the lease. In subsequent years, the lessee agreed to pay rent equal to the then-prevailing fair market rental value of the original 2,000 square feet of the leased property. Deferred inflow of resources in the amount of \$1,165,000 was recorded in the Airport fund at the inception of the lease. During fiscal year 2014, this lease was terminated and the buildings were demolished to allow for the construction of a new building. Fixed assets were retired and the remaining deferred inflow of resources was eliminated.

During fiscal year 2006, the County entered into a lease agreement whereby the lessee constructed a building and improvements on land owned at the Airport. The total cost of the building and improvements was \$3,100,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2006. The terms of the agreement which began June 30, 2006, allow the lessee to use the property for a period of 39 years (primary terms). The terms of the lease agreement require that the lessee pay the County annual rent of \$5,200 during the primary terms of the lease with an annual increase of 3% each year. The agreement allows an option for the lessee to continue the lease past the 39 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred inflow of resources in the amount of \$3,100,000 was recorded in the Airport fund at the inception of the lease.

During fiscal year 2007, the County entered into a lease agreement whereby the lessee constructed a building and improvements for \$5,500,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2007. The terms of the agreement, which began December 1, 2006, allow the lessee to use the property for a period of 39 years (primary terms). The terms of the lease agreement require that the lessee pay the County annual rent of \$15,750 during the primary terms of the lease with an annual increase of 4% each year. The agreement allows an option for the lessee to continue the lease past the 39 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred inflow of resources in the amount of \$5,500,000 was recorded in the Airport fund on June 30, 2007.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 9. OPERATING LEASE AGREEMENTS (continued)

#### County (continued)

During fiscal year 2010, the County entered into a lease agreement whereby the lessee constructed a building and improvements for \$3,000,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2010. The terms of the agreement, which began June 1, 2009, allow the lessee to use the property for a period of 39 years (primary terms). The terms of the lease agreement require that the lessee pay the County annual rent of \$13,208 during the primary terms of the lease with an annual increase of 4% each year. Deferred inflow of resources in the amount of \$3,000,000 was recorded in the Airport fund on June 30, 2010.

During fiscal year 2010, the County entered into a lease agreement whereby the lessee constructed a building and improvements for \$3,800,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2010. The terms of the agreement, which began November 1, 2009, allow the lessee to use the property for a period of 39 years (primary years). The terms of the lease agreement require that the lessee pay the County annual rent of \$17,000 during the primary terms of the lease with an annual increase of 4% each year. The lease also requires that the County credit the lessee \$250,000 for the lessee's incurred costs in site preparation and excavation costs. The agreement allows for an option for the lessee to continue the lease past the 39 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred inflow of resources in the amount of \$3,800,000 was recorded in the Airport fund as of June 30, 2010.

During fiscal year 2011, the County entered into a lease agreement whereby the lessee constructed a building and improvements for \$4,500,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2011. The terms of the agreement, which began July 1, 2010, allow the lessee to use the property for a period of 39 years (primary years). The terms of the lease agreement require that the lessee pay the County annual rent of \$15,985 during the primary terms of the lease with an annual increase of 4% each year. The agreement allow for an option for the lessee to continue the lease past the 39 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred inflow of resources in the amount of \$4,500,000 was recorded in the Airport fund as of June 30, 2011.

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2014

#### 9. OPERATING LEASE AGREEMENTS (continued)

##### County (continued)

During fiscal year 2013, the County entered into a lease agreement whereby the lessee constructed a building and improvements for \$2,000,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2013. The terms of the agreement, which began January 1, 2013, allow the lessee to use the property for a period of 30 years (initial term) with no payments due during the first five years of the initial term of the lease. The terms of the lease agreement require that the lessee pay the County annual rent of \$23,357 during the initial term of the lease with an annual increase of 2% each year. The agreement allows for an option for the lessee to continue the lease past the 30 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred inflow of resources in the amount of \$2,000,000 was recorded in the Airport fund as of June 30, 2013.

During fiscal year 2014, the County entered into a lease agreement whereby the lessee constructed a building and improvements for \$5,500,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2014. The terms of the agreement, which began November 1, 2013, allow the lessee to use the property for a period of 39 years (primary term). The terms of the lease agreement require that the lessee pay the County annual rent of \$13,881 during the primary term of the lease with an annual increase of 2% each year. The agreement allows an option for the lessee to continue the lease past the 39 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred inflow of resources in the amount of \$5,500,000 was recorded in the Airport fund on June 30, 2014.

During year ending June 30, 2014, rental income for the above leases of \$817,809 was recognized in the Airport Fund.

On January 1, 2006, the County entered into an agreement with Spirit Services, Inc. of Washington County to lease and operate the Conococheague Industrial Pretreatment Facility. Under the lease agreement, Spirit Services, Inc., has exclusive control and management of the pretreatment facility and assumes all responsibility for utility and maintenance expenses.

The term of the lease runs for a period of ninety-nine years with fixed monthly rent payments of \$28,800. During the year ended June 30, 2014, outsourcing revenue of \$345,600 was recognized in the Water Quality Fund.

On January 19, 2012, Black Rock Golf Course entered into a new lease for golf carts. The agreement called for lease payments of \$8,077 payable from April through November of each year. The lease term is for six years commencing on March 1, 2012. Total lease payments for the year ended June 30, 2014, were \$64,616.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 10. UNUSED VACATION AND SICK LEAVE

#### County

The County accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30 2014, and is capped at 25 days. The accrual of sick leave is based on payment upon retirement at a rate of \$10 per day for each unused sick leave day up to a total of 130 days. Total unpaid vacation and sick leave accrued as of June 30, 2014, was \$2,470,137 and \$567,901, respectively. Unused vacation and sick leave will be liquidated by the respective government and enterprise funds where the current employee costs are recorded.

#### Board of Education

The School System accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30. The accrual of sick leave is based on payment upon retirement at rates set forth in the various negotiated agreements. Sick leave is estimated to be earned once an employee has obtained 25 years of service or 55 years of age. Total unpaid vacation and sick leave accrued as of June 30, 2014, was \$7,227,916. Total employee related costs associated and accrued with these compensated absences amounted to \$513,642 as of June 30, 2014. For governmental funds, \$218,300 as of June 30, 2014, is considered payable with current sources and is included in accrued liabilities. The remaining amounts are estimated to be used in subsequent fiscal years and are maintained separately and represent a reconciling item between the fund and government-wide financial statement presentations.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 11. RETIREMENT PLANS

#### County Defined Benefit Pension Plan

##### *Plan Description*

The County Commissioners of Washington County Employees Retirement Plan (the Plan) is a single-employer defined benefit pension plan established by the County Commissioners effective July 1, 1972, and adopted by ordinance. The County Commissioners have the power and authority to establish and amend the benefit provisions of the Plan. The Plan provides retirement benefits to Plan members. Effective January 1, 1986, members are qualified to participate in the Plan if they are compensated on the basis of working at least 40 hours per week and 12 months in a calendar year. Participation classification is based on the employee's status as either "uniformed" or "non-uniformed". A uniformed employee may retire at the earlier of age 50 or 25 years of service. A non-uniformed employee may retire at the earlier of age 60 or 30 years of eligibility service. Vesting begins after 5 years of service. Retirement benefits for uniformed employees are calculated by a formula and provide approximately 50% of average pay after 25 years. Non-uniformed employees retirement benefits provide approximately 60% of average pay after 30 years of service.

Effective July 1, 2013 the Employee's Retirement Plan was amended. The amendment affected only non-uniformed employees. Non-uniformed employees were required to make an election to either remain under the former plan provisions or opt to participate under the new rules. For employees electing to remain under the former plan rules, a non-uniformed employee may retire at the earlier of age 60 or 30 years of eligibility service. Non-uniformed employees retirement benefits provide approximately 60% of average pay after 30 years of service. Non-uniformed employees may take early retirement with reduced benefits at 25 years of service.

Under the amended plan a non-uniformed employee may retire at the earlier of age 60 or 25 years of service. Retirement benefits would provide approximately 50% of average pay after 25 years. There is no longer an early retirement option.

Employees hired after September 1, 2013 are required to participate in the amended plan.

##### *Investments*

The County's Pension Plan Investment Policy states that the assets are to be managed for total return, defined as dividend and interest income plus or minus capital gains and losses. Investments shall be diversified so as to minimize the risk of unacceptable losses. The portfolio is looked at as a whole rather than as individual securities. Investing for long term (preferably longer than 10 years) becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements**

**June 30, 2014**

**11. RETIREMENT PLANS** (continued)

**County Defined Benefit Pension Plan** (continued)

*Investments* (continued)

The table below summarizes the target asset class weighting, along with the allowable ranges for each class.

<u>Investment Type</u>	<u>Range</u>	<u>Target</u>
Equities:		
Large-Cap U.S. Stocks	25-45%	35%
Small-Cap U.S. Stocks	0-15%	10%
International Stocks	5-20%	15%
REITS	0-10%	5%
Fixed Income:		
High Yield Bonds	0-15%	10%
Investment Grade Bonds	5-30%	23%
Money Market	0-10%	2%

*Funding Policy*

The contribution requirements of Plan members and the County are established and may be amended by the County Commissioners. Under the amended plan, all plan members are required to contribute 6%. Non-uniformed employees electing to remain under the old plan are required to contribute 5.5%.

All information that follows for the Plan is as of July 1, 2013, which is the latest actuarial report available.

*Membership of the Plan*

The membership consisted of the following as of July 1, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	256
Terminated Plan members entitled to but not yet receiving benefits	46
Active Plan members	<u>749</u>
Total	<u><u>1,051</u></u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 11. RETIREMENT PLANS (continued)

#### County Defined Benefit Pension Plan (continued)

##### *Actuarial Assumptions*

The long-term expected rate of return on pension plan investments was determined using a standard building block approach. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic assumed rates of return for each class included in the pension plans' general target asset allocation as of June 30, 2014 is as follows:

<u>Investment Type</u>	<u>% of Portfolio</u>	<u>Assumed Rate of Return</u>
Equities:	60%-70%	9%-11%
Fixed Income:	30%-40%	3%-5%

##### *Annual Pension Cost and Net Pension Obligation*

Annual required contribution	\$ 6,442,087
Interest on net pension obligation	554,984
Adjustment to annual required contribution	<u>(823,899)</u>
Annual pension cost	6,173,172
Contributions	<u>6,017,521</u>
Increase in net pension obligation	155,651
Net pension obligation, beginning of year	<u>7,161,078</u>
Net pension obligation, end of year	<u><u>\$ 7,316,729</u></u>

The total pension liability for the current year was determined as part of the July 1, 2013, actuarial valuation using the projected unit credit cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.0% per year. The actuary was using the 83 GAM sex distinct mortality tables. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined by the market value of investments. The unfunded actuarial accrued liability is being amortized at a level dollar over 25 years. The effect of an unfunded actuarial accrued liability (funding excess) is amortized immediately.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements  
June 30, 2014**

**11. RETIREMENT PLANS** (continued)

**County Defined Benefit Pension Plan** (continued)

*Trend Information*

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Excess)</u>
6/30/2014	\$ 6,173,172	97.48%	\$ 7,316,729
6/30/2013	5,767,123	70.79%	7,161,078
6/30/2012	4,976,758	51.64%	5,476,220

*Net Pension Liability*

The net pension liability is equal to the total pension liability minus the net position of the plan. The result as of June 30, 2014 is as follows:

Total pension liability	\$ 111,088,541
Net position	<u>(85,971,016)</u>
Net pension liability	<u>\$ 25,117,525</u>

Net position as a percentage of total pension liability is 77.4%.

*Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability of the plan, calculated using a discount rate of 7.75% as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	<u>1.0% decrease (6.75%)</u>	<u>Current rate 7.75%</u>	<u>1.0% increase (8.75%)</u>
Net pension liability	<u>\$ 38,197,232</u>	<u>\$ 25,117,525</u>	<u>\$ 14,050,337</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 11. RETIREMENT PLANS (continued)

#### Board of Education

The employees of the School System are covered by one of the following pension plans affiliated with the State Retirement and Pension System of Maryland, and agent multiple-employer public employee retirement systems administered by the Maryland State Retirement Agency:

- The Teachers' Retirement System of the State of Maryland,
- The Employees' Retirement System of the State of Maryland,
- The Pension System for Teachers of the State of Maryland, or
- The Pension System for Employees of the State of Maryland

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the "Pension System for Teachers of the State of Maryland" and the "Pension System for Employees of the State of Maryland". Prior to this date, all teachers and related positions were required to be members of the "Teachers' Retirement System of the State of Maryland", and educational support positions were members of the "Employees' Retirement System of the State of Maryland". All School System employees who were members of the "Retirement System" may remain in that System, or they may elect to join the "Pension System". All teachers hired within the State after December 31, 1979, must join the "Pension System for Teachers". The "Employees' Retirement System" and the "Pension System for Employees" cover those employees not covered by the teachers' plans. These employees are principally custodial, maintenance, and food service employees.

These pension plans may provide pension benefits and death and disability benefits. A member may retire with full benefits upon the earlier of attaining age 60 or accumulating 30 years of service from the Retirement System and at 62 with specified years of service or 30 years of service regardless of age from the Pension System. Benefits generally vest after 5 years of service for employees hired before July 1, 2011 and 10 years of service for those hired after that date. The pension plans were established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The State Retirement Agency issues a publicly available financial report that includes basic financial statements and required supplementary information for the pension plans. The report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 11. RETIREMENT PLANS (continued)

#### Board of Education (continued)

Both the “Retirement System” and the “Pension System” for teachers and educational support employees are jointly contributory. Under the “Retirement System”, employees contribute 4% - 7% of their total gross salary, and under the “Pension System”, employees contribute 7% their gross salary for the year. Effective, July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The pension plans funded ratio is 65.52%, which measures the actuarial value of plan assets as a percentage of actuarial accrued liability.

Washington County School System contributions totaling \$1,890,341 and \$1,666,989 or 10.0% and 8.99% of covered payroll for fiscal years 2014 and 2013, respectively; and contributions by the State of Maryland on behalf of the School System totaling \$17,080,357 and \$14,707,080 or 14.71% and 13.29% of covered payroll for fiscal years 2014 and 2013, respectively. All contributions were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed annually.

A five year trend of the School System’s annual pension cost is as follows:

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Total Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>APC</u> <u>Contributed by</u> <u>School System</u>	<u>APC</u> <u>Contributed by</u> <u>State</u>	<u>Percentage of</u> <u>APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2014	\$ 22,892,583	\$ 5,812,216	\$ 17,080,357	100%	\$ 10
2013	19,468,182	4,761,102	14,707,080	100%	-
2012	21,374,608	1,999,671	19,374,937	100%	-
2011	20,537,456	1,978,382	18,559,074	100%	-
2010	17,946,215	1,365,507	16,580,708	100%	-

The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by GASB No. 24.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2014

### 12. RISK MANAGEMENT

#### County

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County purchases commercial insurance for claims in excess of deductible amounts for all risks of loss, except for employee health and workers' compensation. Settlements have not exceeded insurance coverages during the past three fiscal years.

The County Commissioners have established a self-insurance plan for health benefits to its employees, retirees and to other governmental and non-profit agencies. Budgeted amounts are charged to each fund, and premiums are charged to retirees and other governmental and non-profit agencies for their share of the costs, which are intended to cover the estimated costs of claims and administrative expenses. Contributions from employees, retirees and other governmental non-profit agencies are offset against budget amounts charged in the related fund. Under this plan, the County's General Fund bears all risk of loss.

The County has established claims liabilities based on estimates of the ultimate cost of settling the claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The liability for estimated claims was determined to be \$1,060,759 which is reflected in the accompanying financial statements as of June 30, 2014. Changes in the claims liability were as follows:

	<b>Years Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Liability, beginning of year	\$ 1,097,002	\$ 988,731
Premiums collected and changes in estimates during the year	12,432,050	12,217,340
Claims and administrative costs paid	(12,468,293)	(12,109,069)
Liability, end of year	<u>\$ 1,060,759</u>	<u>\$ 1,097,002</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 12. RISK MANAGEMENT (continued)

#### County (continued)

The County uses a third party administrator to process and pay claims. The County has purchased a stop-loss insurance policy in which the insurance company covers individual claims once they exceed \$175,000. Under this policy, the County was liable for the first 125% of expected claims paid in the current fiscal year. Any claims in excess of this amount are to be paid by the insurance company under the stop-loss policy.

The County Commissioners have also established a self-insurance plan for Workers' Compensation claims whereby the County is liable for the first \$600,000 per occurrence. As required by the State of Maryland, \$175,000 in U.S. Treasury Notes is held by the State Workers' Compensation Commission and is included in investments on the balance sheet. The County extends coverage under this plan to the employees of other governmental and nonprofit agencies. These agencies are charged a "premium", however the County bears the risk of loss. The liability for estimated claims was determined to be \$1,054,492, which is reflected in the accompanying financial statements as of June 30, 2014. Changes in the claims liability were as follows:

	<b>Years Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Liability, beginning of year	\$ 918,591	\$ 1,231,494
Premiums collected and changes in estimates during the year	1,072,408	88,547
Claims and administrative costs paid	(936,507)	(401,450)
Liability, end of year	<u>\$ 1,054,492</u>	<u>\$ 918,591</u>

#### Board of Education

The School System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disaster. The School System is one of seventeen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Group Insurance Pool (the Pool), a public entity risk pool organized as a trust. The School System pays an annual premium to the Pool for its property, liability, and automobile coverage. Such premiums are actuarially calculated for the Pool as a whole based on loss data and are allocated to members based on student enrollment and number and type of vehicles as well as experience modification factors. The Pool is reinsured on a claims-made basis for legal liability covering claims aggregating \$3 million per district per year.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 12. RISK MANAGEMENT (continued)

#### Board of Education (continued)

Additionally, the School System is one of sixteen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Workers' Compensation Group Self-Insurance Fund (the Fund). This Fund was established to provide worker's compensation indemnity and medical benefits coverage for participating school boards. The Fund is operated under regulations promulgated by the State's Workers' Compensation Commission (COMAR 14.09.02). Each Fund participant pays an annual premium calculated on its payroll according to the standard classifications, with an experience modification applied. Although premiums billed to the Fund members are determined on an actuarial basis, ultimate liability for claims remains with the respective members and accordingly, the insurance risks are not transferred to the Fund. Six months following the end of the Fund's fiscal year, the Fund's trustees declare unneeded funds as surplus and distribute 50% of the declared surplus as dividends to the Fund members. This dividend distribution is made no sooner than one year after the close of that fiscal year. Members dedicate the remaining 50% of the surplus each year to a surplus fund until it reaches 100% net annual premium. The Fund carries an excess insurance policy providing specific excess and employer liability protection coverage, thus reducing the potential of assessment against Fund members. The Fund provides coverage for up to a maximum of \$475,000 for each worker's compensation claim.

Settled claims from these risks have not exceeded the planned coverage during any of the past three years.

The School System also offers a program of self-insured health, dental, and vision benefits to its employees and retirees. Charges are made to other Funds, employees and retirees for their respective share of the costs in amounts planned to match the estimated claims, the cost of insurance premiums for coverage in excess of self-insured amounts and the administrative costs in providing the program. Such costs are also offset by interest income earned from investing receipts until they are paid out in the form of claims or expenses. Administrative costs directly related to the program are borne by the Self-Insurance Fund.

In accordance with the Governmental Accounting Standards Board's Statement No. 10 "*Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*," charges to other funds must be accounted for as revenue by an internal service fund and expenditures/expenses by the other funds. The amounts of these charges were \$30,656,377 and \$30,296,955 for the years ended June 30, 2014 and 2013, respectively.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 12. RISK MANAGEMENT (continued)

#### Board of Education (continued)

The Self-Insurance Fund's accrued liabilities include an estimate of the amount to be paid for self-insured claims incurred prior to June 30, 2014 and 2013. This estimate is prepared based upon the School System's experience and other relevant facts. Changes in the Fund's claims liability amount were as follows:

	Years Ended June 30,	
	2014	2013
Liability, beginning of year	\$ 2,075,915	\$ 2,175,002
Claims and changes in estimates during the year	36,426,667	34,854,411
Claims paid and accrued	(36,337,230)	(34,953,498)
Liability, end of year	<u>\$ 2,165,352</u>	<u>\$ 2,075,915</u>

### 13. DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by a third party. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation plan assets are held in trust for the exclusive benefit of the plan participants. Therefore, the plan assets are not presented in the financial statements.

### 14. SEGMENT INFORMATION

The County has entered into loan agreements with the Maryland Water Quality Financing Administration. The loans are backed by the full faith and credit and taxing power of the County, however the source of payment of the principal and interest of the loans is the sewer user charges and pretreatment facility user charges. The user charges are accounted for in the Water Quality Fund. Summarized financial information for the Sewer and Pretreatment operations is presented below. The Water Quality Department operates the County's sewage treatment plants, sewage pumping stations, and collection systems and leases the pretreatment facility to a private company.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements  
June 30, 2014

14. SEGMENT INFORMATION (continued)

	<u>Sewer Department</u>	<u>Pretreatment Department</u>
<b>CONDENSED STATEMENT OF NET POSITION</b>		
<b>ASSETS</b>		
Current assets	\$ 17,794,905	\$ 2,801,260
Noncurrent assets	106,036,845	5,531,258
<b>Total Assets</b>	<u>123,831,750</u>	<u>8,332,518</u>
<b>LIABILITIES</b>		
Other current liabilities	7,932,986	1,838,591
Noncurrent liabilities	14,818,842	3,742,196
<b>Total Liabilities</b>	<u>22,751,828</u>	<u>5,580,787</u>
Net Position		
Net investment in capital assets	97,587,319	936,421
Unrestricted	(4,083,400)	1,815,310
Restricted - capital projects	7,576,003	-
<b>Total Net Position</b>	<u>\$ 101,079,922</u>	<u>\$ 2,751,731</u>
<b>CONDENSED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION</b>		
Operating revenue	\$ 8,650,821	\$ -
Lease income	-	347,436
Depreciation expense	(2,098,803)	(187,409)
Other operating expenses	(7,156,535)	(21,019)
<b>Operating income</b>	<u>(604,517)</u>	<u>139,008</u>
Non-operating revenue (expenses):		
Interest expense	(778,220)	(203,338)
Interest income	150,569	-
Utility administration charge	-	-
Operating transfers	-	-
Capital contributions	665,665	-
Change in Net Position	(566,503)	(64,330)
Net Position, beginning of year, as restated	101,646,425	2,816,061
<b>Net Position, End of Year</b>	<u>\$ 101,079,922</u>	<u>\$ 2,751,731</u>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided (used) by		
Operating activities	\$ 7,987,374	\$ 355,216
Noncapital financing activities	-	-
Capital and related financing activities	(2,334,041)	(692,301)
Investing activities	(3,648,160)	-
Net increase	2,005,173	(337,085)
Cash and cash equivalents, beginning of year	6,915,300	3,138,845
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 8,920,473</u>	<u>\$ 2,801,760</u>

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2014

#### 15. CLOSURE AND POST-CLOSURE CARE COST

State and Federal laws and regulations require the County to place a final cover on its landfills when they stop accepting waste. The County is also required to perform certain maintenance and monitoring functions at the site for up to thirty years after closure. Although closure and post-closure care costs will be paid only near the date or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as a liability based on landfill capacity used as of each balance sheet date.

The Hancock Landfill was closed in 1993. The remaining estimated costs associated with the closure and post-closure care costs of \$168,837 are reported as a liability in the Solid Waste Fund. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2014.

The Resh Landfill has reported a landfill post-closure care liability of \$5,348,981 in the Solid Waste Fund. The total capacity has been used. The Resh Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2014.

The Rubble Landfill began operating during August 1995. The estimated cost associated with post-closure care of \$2,202,400 is reported as a liability in the Solid Waste Fund at June 30, 2014. The Rubble Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2014.

The 40 West Landfill began operation in fiscal year 2001. The estimated life of this landfill is approximately 120 years as of June 30, 2014, it is estimated that approximately 15.2% of the capacity has been used. The estimated costs associated with closure and post-closure care of \$7,486,256 was reported as a liability in the Solid Waste Fund at June 30, 2014. The County will recognize \$47,055,727 of estimated cost associated with the closure and post-closure care as capacity is filled. During the fiscal year 2012 engineering re-designed the cells at 40 West Landfill. This change in estimate increased the airspace by 4 million cubic yards along with the life of the landfill by 62 years. This change in accounting estimate has no effect on the total estimated cost but will extend the landfill life from 58 years to 120 years.

The above estimates are based on estimated current costs to perform all closure and post-closure care. Actual costs may be higher due to inflation, deflation, changes in technology, or changes in applicable laws or regulations. The County is required by state and federal laws and regulations to meet certain closure and post-closure financial assurance requirements. The County has satisfied these requirements by demonstrating in information submitted by the Director of Finance that they meet the Local Government Financial Test as of June 30, 2014, as specified in 40CFR258.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (OPEB)

#### County

Plan Description: The County offers postretirement health care benefits to employees who retire from the County under normal or early retirement provisions of the pension plan. The health care benefits are provided until the retiree is eligible for Medicare. Retirees who exercise the one-time option for the health care benefits pay one-half of the estimated cost of the benefits. The County pays the remaining cost as part of its self-insurance program. Currently, forty-five retirees are receiving benefits and sixty-seven employees are retirement eligible. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported.

The County offered a special termination benefit to employees that retired between July 1, 1995 and September 30, 1995. Those employees are receiving health care benefits (managed care program) from the date of retirement until they are eligible for Medicare or turn 65. One former employee and their spouse are receiving this benefit.

Funding Policy: The County intends to fund any annual short-fall between OPEB annual required contribution and actual pay-go expense into a legally executed trust fund. The trust fund will be invested as a long-term pension trust, using an appropriately balanced portfolio of equities and debt instruments, to prudently maximize long-term investment returns.

Annual OPEB Cost and Net OPEB Obligation: The County's annual other postretirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB Obligation.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements**

**June 30, 2014**

**16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)**

**County (continued)**

Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,303,680
Interest on Net OPEB Obligation	(63,009)
Adjustment to Annual Required Contribution	51,193
Annual OPEB Cost (Expense)	<u>1,291,864</u>
Contributions Made or Accrued	<u>1,691,965</u>
Increase in Net Assets	(400,101)
Net OPEB Asset - Beginning of Year	<u>(813,022)</u>
Net OPEB Asset - End of Year	<u><u>\$ (1,213,123)</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years as of June 30, is as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB</b>	<b>Percentage of</b>	<b>Net OPEB Assets</b>
<b>June 30,</b>	<b>Cost</b>	<b>Annual OPEB</b>	
		<b>Cost Contributed</b>	
2014	\$ 1,291,864	130.97%	\$ (1,213,123)
2013	1,320,987	99.79%	(813,022)
2012	1,299,915	145.38%	(815,779)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

#### County (continued)

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation for the plan year ending June 30, 2014, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 7.8% initially, reduced by decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar charge on an open basis. The remaining amortization period as of July 1, 2013, was 24 years.

#### Board of Education

In addition to providing the pension benefits described above, the School System provides postemployment health care and life insurance benefits (OPEB) for retired employees, their spouses and dependents, and surviving spouses and dependents. On April 15, 2008, the Board created the Board of Education of Washington County (the Trust) in order to arrange for the establishment of a reserve to pay health and welfare benefits for future retirees. The Trust is affiliated with the Maryland Association of Boards of Education Pooled OPEB Investment Trust, an agent multiple-employer public employee retirement system established by the Maryland Association of Boards of Education (MABE). The Board reserves the right to establish and amend the provisions of the Trust with respect to participants, any benefit provided thereunder, or its participation therein, in whole or in part at any time, by resolution of its governing body and upon advance written notice to the Trustees. The Maryland Association of Boards of Education Pooled OPEB Investment Trust issues an annual financial report for the Trust. That report may be obtained by writing to Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401, or by calling 1-800-841-8197.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements**

**June 30, 2014**

**16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)**

**Board of Education (continued)**

A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension System. Retirees can continue the same medical coverage they had (including family coverage) as active employees. Retirees receive a subsidy for their postretirement medical insurance based on points (Age + Service). A minimum of 66 points (with 5 years of service) is required to receive a subsidy. The maximum subsidy of 85% is reached at 85 points (note that this is a blended subsidy percentage based on the subsidy for each plan and the current enrollment distribution). Retirees with less than 66 points are allowed access, but must pay 100% of the published rates.

Funding Policy

The School System is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed for the plan as of June 30, 2014, to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC). The annual OPEB cost (expense) including current claims of \$16,324,000, including current claims, was \$42,000 less than the ARC, due to adjustments related to amortization and interest on the net OPEB obligation. The School System made contributions to the plan during the year ended June 30, 2014 of \$12,398,377, resulting in a decrease of the net OPEB receivable of \$3,925,623. The balance of the net OPEB receivable at June 30, 2014 is \$4,718,849. The School System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 are as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB</b>	<b>Percentage of</b>	
<b>June 30,</b>	<b>Cost</b>	<b>Annual OPEB</b>	<b>Net OPEB Asset</b>
		<b>Cost Contributed</b>	
2014	\$ 16,324,000	75.95%	\$ (4,718,849)
2013	11,945,276	111.91%	(8,644,472)
2012	11,945,276	118.00%	(7,222,174)

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

#### Board of Education (continued)

##### Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status of the plan as of June 30, 2014, was as follows:

Actuarial accrued liability (AAL)	\$ 185,310,000
Actuarial value of plan assets	<u>36,803,823</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 148,506,177</u>
Funded ratio (actuarial value of plan assets/AAL)	19.86%

##### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.25% initially decreasing gradually to 3.6%. Both rates include a 2.8% inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014, was twenty-three years.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 17. CONTINGENCIES AND COMMITMENTS

#### County

In the normal course of operations, the County receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The County Commissioners and the Sheriff of Washington County are defendants in various legal proceedings as of June 30, 2014. There are also certain unasserted claims that could possibly be asserted. The Commissioners intend to defend all litigations against them. In the Commissioners' opinion, the liability, if any, in or arising from these litigations or any other legal proceedings in which the County is involved, will not have a material adverse effect on its financial condition.

The County is committed under various contracts for the construction or acquisition of fixed assets. These projects are generally budgeted in the Capital Projects Fund, and funding has been provided for their completion.

On June 23, 2014, the Board of County Commissioners of Washington County, Maryland entered into a \$4 million loan agreement with the Maryland Department of Business and Economic Development and Mack Trucks, Inc. The loan proceeds were made for eligible project costs and does not require repayment unless specific employment levels are not met. If such a condition occurs, repayments are guaranteed to DBED by the County. Mack Trucks, Inc. is contractually obligated to the County to reimburse any payments occurring as a result of the guarantee. As of June 30, 2014 there is no effect on amounts reported on the County's statement of net position or statement of activities as a result of this guarantee.

#### Board of Education

In the normal course of operations, the School System is subject to lawsuits and claims. In the opinion of management, the disposition of such lawsuits and claims will not have a material effect on the School System's financial position or results of operations.

As of June 30, 2014, the School System had entered into various school construction commitments, which are not reflected in the financial statements since they will be funded by the State of Maryland or County sources, totaling approximately \$13,616,497.

The School System leased space to park school buses. The lease ended June 30, 2014. Rental expenses for this lease amounted to \$10,800 for the year ended June 30, 2014.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements  
June 30, 2014**

**17. CONTINGENCIES AND COMMITMENTS (continued)**

**Board of Education (continued)**

The School System leases classroom space, cafeteria space, storage, and parking deck passes for the Barbara Ingram School for the Arts. These leases are renewable on an annual basis. The lease for the parking deck spaces does not have a set term. Total required minimum monthly payments for the year ending June 30, 2015 are approximately \$67,864. Rent expense for these leases amounted to \$91,284 for the year ended June 30, 2014.

The School System participates in a number of state and federally assisted grant programs, which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for the current year. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

**18. COMMITTED AND ASSIGNED FUND BALANCES**

Fund balances reflected in the governmental funds balance sheet as of June 30, 2014 are categorized as follows:

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Non-major Government al Funds</u>	<u>Total</u>
Non-Spendable				
Inventory	\$ 578,396	\$ -	\$ -	\$ 578,396
Long-term receivable	83,117	-	-	83,117
Restricted				
Programs and activities	178,308		973,413	1,151,721
Workers compensation	179,107		-	179,107
Highways and streets	9,487		-	9,487
Capital projects		20,803,525	-	20,803,525
Committed				
Contingencies	37,677,123	-	-	37,677,123
Programs and activities	24,980	-	-	24,980
Capital projects	-	50,339,162	-	50,339,162
Assigned				
Programs and activities	20,871	-	38,071	58,942
Unassigned	(560,920)	-	(83,221)	(644,141)
<b>Totals</b>	<u>\$38,190,469</u>	<u>\$71,142,687</u>	<u>\$ 928,263</u>	<u>\$110,261,419</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2014

### 19. RETIREMENT PLAN - FIRE AND RESCUE VOLUNTEERS

On September 26, 2000, the Board of County Commissioners approved the Volunteer Length of Service Award Program (LOSAP), a defined benefit plan for eligible volunteers of Washington County fire, rescue, emergency medical services or support organizations. LOSAP, which will be funded entirely by the County General Fund, provides benefit payments to volunteers who have completed certain eligibility and years of service requirements. An active volunteer who has attained age 62 and has been credited with a minimum of 25 years of active LOSAP Service is eligible to receive, until his or her death, a monthly benefit payment of \$200, or may elect an actuarially reduced benefit in the form of a joint survivor annuity.

An active volunteer, who has completed more than 25 years of Active LOSAP Service Credit, is eligible to receive, until his or her date of death, an additional monthly benefit payment of \$15 for each year of active LOSAP service credit in excess of 25 years, not to exceed a total monthly benefit payment of \$350. No LOSAP benefits were paid before January 1, 2007. Generally, a volunteer must be an active volunteer on or after January 1, 2007, to be eligible for any benefit under LOSAP. LOSAP also provides for death and disability benefits.

The 2013 calendar year census shows 800 volunteers receiving at least 50 points, which qualifies them for LOSAP credit. 141 retired volunteers and 8 spouses are participating in LOSAP. The County funds LOSAP in annual amounts determined by an actuary.

#### *Investments*

The table below summarizes the target asset class weighting, along with the allowable ranges for each class.

<u>Investment Type</u>	<u>Range</u>	<u>Target</u>
Equities:		
Large-Cap U.S. Stocks	25-45%	35%
Small-Cap U.S. Stocks	0-15%	10%
International Stocks	5-20%	15%
REITS	0-10%	5%
Fixed Income:		
High Yield Bonds	0-15%	10%
Investment Grade Bonds	5-30%	23%
Money Market	0-10%	2%

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Notes to the Financial Statements**

**June 30, 2014**

**19. RETIREMENT PLAN - FIRE AND RESCUE VOLUNTEERS**

The long-term expected rate of return on pension plan investments was determined using a standard building block approach. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic assumed rates of return for each class included in the pension plans' general target asset allocation as of June 30, 2014 is as follows:

<u>Investment Type</u>	<u>% of Portfolio</u>	<u>Assumed Rate of Return</u>
Equities:	60%-70%	9%-11%
Fixed Income:	30%-40%	3%-5%

*Net pension liability*

The net pension liability is equal to the total pension liability minus the net position of the plan. The result as of June 30, 2014 is as follows:

Total pension liability	\$ 12,058,035
Net position	<u>(7,466,305)</u>
Net pension liability	<u>\$ 4,591,730</u>

Net position as a percentage of total pension liability is 61.92%.

*Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability of the plan, calculated using a discount rate of 7.75% as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	<u>1.0% decrease (6.75%)</u>	<u>Current rate 7.75%</u>	<u>1.0% increase (8.75%)</u>
Net pension liability	<u>\$ 6,312,124</u>	<u>\$ 4,591,730</u>	<u>\$ 3,080,837</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Schedule of Funding Progress  
June 2014**

**Other Postemployment Benefit (OPEB) Trust**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b-a)/c]</b>
7/1/2009	\$ 1,501,721	\$ 18,333,616	\$ 16,831,895	8.19%	\$ 33,576,069	50.13%
7/1/2012	9,122,297	16,720,742	7,598,445	54.56%	34,478,486	22.04%
7/1/2013	11,216,550	18,745,334	7,528,784	59.84%	35,288,757	21.33%

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Schedule of Changes in Pension Fund Net Pension Liability and Related Ratios June 30, 2014

	<b>General Employees Pension Fund</b>	<b>Fire and Rescue Volunteers Pension Fund</b>
<b>Service Cost:</b> Retirement benefits Administration	\$ 6,922,217	\$ 147,049
Interest	7,708,164	872,518
Benefit payments, including refunds of member contributions, death, & terminations	<u>(6,004,033)</u>	<u>(431,634)</u>
<b>Net changes in total pension liability</b>	8,626,348	587,933
Total pension liability - beginning	<u>102,462,193</u>	<u>11,470,102</u>
Total pension liability - ending (a)	<u><u>\$ 111,088,541</u></u>	<u><u>\$ 12,058,035</u></u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 6,017,521	\$ 600,000
Contributions - member	1,876,133	-
Net investment income	12,817,264	1,074,025
Receipts of In-kind	-	15,232
Benefit payments, including refunds of member contributions	(6,004,103)	(431,634)
Administrative expense	<u>(238,016)</u>	<u>(27,429)</u>
<b>Net changes in plan fiduciary net position</b>	14,468,799	1,230,194
Plan fiduciary net positions - beginning	<u>71,502,217</u>	<u>6,236,111</u>
Plan fiduciary net positions - ending (b)	<u><u>\$ 85,971,016</u></u>	<u><u>\$ 7,466,305</u></u>
<b>County's net pension - liability - ending (a) - (b)</b>	\$ 25,117,525	\$ 4,591,730
Plan fiduciary net position as a percentage of total pension liability	77.39%	61.92%
Covered employee payroll	\$ 35,288,757	NA
Net liability as a percentage of covered payroll	71.18%	NA
Annual money-weighted rate of return, net of investment expense	17.59%	16.78%

Notes to schedule:

This information is not available for previous years

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Schedule of General Employees Pension Fund Employer Contributions June 30, 2014

	<u>2014</u>
Actuarially determined contribution	\$ 6,442,087
Contributions in relation to the actuarially determined contributions	<u>6,017,521</u>
Contributions deficiency (excess)	<u>\$ 424,566</u>
Covered employee payroll	\$ 35,288,757
Contributions as a percentage of covered employee payroll	17.05%

### Notes to schedule

#### Valuation Date

Actuarially determined contributions rates are calculated as of July 1, 2013,  
12 months prior to the end of the fiscal year in which contributions are reported

#### Methods and assumptions used to determin contribution rates:

Investment return	7.75%
Mortality	83 GAM sex distinct
Turnover	T4
Salary Scale	4.0% increases per year
Retirement age of DROP Election	10% each year from two years following early retirement date to two years following normal retirement date, 50% two years following year first eligible for normal retirement date, 25% each of next 4 years, 100% 7 years after normal retirement date.
Valuation of Assets	Market value as reported by the plan administrator, adjusted by a fraction of the investment (gains)/losses for the plan years preceding the current valuation year. Actuarial value can not exceed 120% of actual market value or be less than 80%.

#### Notes to schedule:

This information is not availale for previous years.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Schedule of Volunteer Length of Service Award Fund Employer Contributions June 30, 2014

	<u>2014</u>
Actuarially determined contribution	\$ 585,843
Contributions in relation to the actuarially determined contributions	<u>600,000</u>
Contributions deficiency (excess)	<u>\$ (14,157)</u>
Covered employee payroll	NA
Contributions as a percentage of covered employee payroll	NA

### Notes to schedule

#### Valuation Date

Actuarially determined contributions rates are calculated as of July 1, 2013,  
12 months prior to the end of the fiscal year in which contributions are reported

#### Methods and assumptions used to determine contribution rates:

Investment return	7.75%
Mortality	83 GAM sex distinct
Turnover	T5 Table
Salary Scale	4.0% increases per year
Retirement age	Normal retirement age or attained age, if later
Expenses	Included in the normal cost calculation
Valuation of Assets	Market value as reported by the plan administrator

#### Notes to schedule:

This information is not available for previous years.

## **COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

### **Combining Statements of Financial Schedules**

**June 30, 2014**

#### **Non-Major Governmental Funds**

The Community Grant Management is a special revenue fund used to account for all activities conducted by this department of the County. The Community Partnership's core function is to coordinate services and identify needs of the children, youth and families of Washington County.

The Inmate Welfare Fund is a special revenue fund used to account for commissary activities at the Washington County Detention Center and other inmate related revenue and expenses.

The Contraband Fund is a special revenue fund used for the deposit and temporary holding of seized U.S. Currency related to Narcotics Investigations. These monies are held in escrow pending civil or criminal court proceedings or abandonment. Released funds are used for law enforcement related expenses within Washington County at the discretion of the Board of Directors for the Washington County Narcotics Task Force.

The Agricultural Education Center Fund is a special revenue fund used to account for all transactions of the Agricultural Education Center (Center). The purpose of this Center is to promote agricultural pursuits in Washington County and to educate the general public and members of the agricultural community in all areas regarding agriculture in the County.

The Hotel Rental Tax Fund is a special revenue fund for accounting of taxes collected on transient charges paid to a hotel or motel located in the County, and for the distribution of the tax revenue to the Hagerstown/Washington County Convention and Visitors Bureau, municipalities and for special projects for the County.

The Gaming Fund is a special revenue fund for accounting of permits and licensing fees, for tip jar and bingo gaming activity. The Gaming Fund distributes funds to the various fire and rescue companies and charitable organizations in the County.

The Land Preservation Fund is a special revenue fund established to account for State and County programs related to preserving agriculture land in the County. A portion of the County's transfer tax is used to purchase permanent easements through an installment purchase program and a portion of the transfer tax is remitted to the State for the purchase of easements and transferable development rights.

The Hagerstown/Eastern Panhandle Metropolitan Planning Organization (HEPMPO) Fund is a special revenue fund used to account for transportation planning activities. The objective of the organization is to ensure that a continuing, cooperative, and comprehensive approach for short and long range transportation planning is established and maintained for the metropolitan area.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Combining Statements of Financial Schedules  
June 30, 2014**

**Non-Major Proprietary Funds** (continued)

The Public Transit Fund accounts for the activities of the public bus transportation system.

The Golf Course Fund accounts for activities at the Black Rock Golf Course including an 18 hole golf course, a full service pro shop, and a public restaurant.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Balance Sheet – Non-Major Governmental Funds  
As of June 30, 2014

	Community Grant Management	Inmate Welfare	Contraband	Agricultural Education Center	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non-major Funds
<b>ASSETS</b>									
Cash	\$ 1,140,367	\$ 131,784	\$ 130,510	\$ 30,328	\$ 963,398	\$ 1,406,701	\$ 361,470	\$ -	\$ 4,164,558
Accounts receivable	3,612	-	-	-	211,988	69,174	162,567	1,970	449,311
Due from other governmental agencies	257,605	-	-	-	-	-	-	51,495	309,100
Notes receivable	-	-	-	-	60,000	-	-	-	60,000
<b>TOTAL ASSETS</b>	<u>\$ 1,401,584</u>	<u>\$ 131,784</u>	<u>\$ 130,510</u>	<u>\$ 30,328</u>	<u>\$ 1,235,386</u>	<u>\$ 1,475,875</u>	<u>\$ 524,037</u>	<u>\$ 53,465</u>	<u>\$ 4,982,969</u>
<b>LIABILITIES, AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts payable	\$ 315,399	39,072	\$ -	\$ 17,737	\$ 577,268	\$ 1,414,509	\$ 158,474	\$ 9,618	\$ 2,532,077
Due to other funds	-	-	-	-	-	-	-	87,426	87,426
Accrued expenses	4,011	390	-	759	-	2,027	3,115	885	11,187
Other liabilities	-	-	70,734	-	-	-	236,016	-	306,750
Unearned revenue	1,084,166	-	-	-	-	33,100	-	-	1,117,266
<b>TOTAL LIABILITIES</b>	<u>1,403,576</u>	<u>39,462</u>	<u>70,734</u>	<u>18,496</u>	<u>577,268</u>	<u>1,449,636</u>	<u>397,605</u>	<u>97,929</u>	<u>4,054,706</u>
<b>FUND BALANCES</b>									
Restricted	-	92,322	59,776	-	658,118	-	163,197	-	973,413
Committed	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	11,832	-	26,239	-	-	38,071
Unassigned	(1,992)	-	-	-	-	-	(36,765)	(44,464)	(83,221)
<b>TOTAL FUND BALANCES</b>	<u>(1,992)</u>	<u>92,322</u>	<u>59,776</u>	<u>11,832</u>	<u>658,118</u>	<u>26,239</u>	<u>126,432</u>	<u>(44,464)</u>	<u>928,263</u>
<b>TOTAL LIABILITIES, AND FUND BALANCES</b>	<u>\$ 1,401,584</u>	<u>\$ 131,784</u>	<u>\$ 130,510</u>	<u>\$ 30,328</u>	<u>\$ 1,235,386</u>	<u>\$ 1,475,875</u>	<u>\$ 524,037</u>	<u>\$ 53,465</u>	<u>\$ 4,982,969</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds  
For the Year Ended June 30, 2014

	Community Grant Management	Inmate Welfare	Contraband	Agricultural Education Center	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non- major Funds
<b>REVENUE</b>									
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,930,710	\$ -	\$ 628,893	\$ -	\$ 2,559,603
Licenses and permits	-	-	-	-	-	1,966,776	-	-	1,966,776
Charges for services	-	338,975	-	-	-	-	-	-	338,975
Revenue from uses of property	-	-	-	26,475	-	-	-	-	26,475
Reimbursed expenses	-	-	-	4,072	-	-	-	-	4,072
Miscellaneous revenues	-	101,757	24,014	1,563	-	100	-	49,489	176,923
Shared taxes and grants	1,575,718	-	-	-	-	-	1,328,234	331,014	3,234,966
<b>TOTAL REVENUE</b>	<u>1,575,718</u>	<u>440,732</u>	<u>24,014</u>	<u>32,110</u>	<u>1,930,710</u>	<u>1,966,876</u>	<u>1,957,127</u>	<u>380,503</u>	<u>8,307,790</u>
<b>EXPENDITURES</b>									
Public safety	-	433,196	36,644	-	-	905,193	-	-	1,375,033
Parks, recreation and culture	-	-	-	196,543	-	-	-	-	196,543
Land preservation	-	-	-	-	-	-	2,030,265	-	2,030,265
General operations	-	-	-	-	-	137,620	-	419,305	556,925
Community promotion	1,765,586	-	-	-	1,921,789	905,193	-	-	4,592,568
<b>TOTAL EXPENDITURES</b>	<u>1,765,586</u>	<u>433,196</u>	<u>36,644</u>	<u>196,543</u>	<u>1,921,789</u>	<u>1,948,006</u>	<u>2,030,265</u>	<u>419,305</u>	<u>8,751,334</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<u>(189,868)</u>	<u>7,536</u>	<u>(12,630)</u>	<u>(164,433)</u>	<u>8,921</u>	<u>18,870</u>	<u>(73,138)</u>	<u>(38,802)</u>	<u>(443,544)</u>
<b>OTHER FINANCING SOURCES</b>									
Transfers in	186,450	-	-	170,070	-	-	103,952	21,775	482,247
Transfers out	-	-	-	-	(400,000)	-	-	-	(400,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>186,450</u>	<u>-</u>	<u>-</u>	<u>170,070</u>	<u>(400,000)</u>	<u>-</u>	<u>103,952</u>	<u>21,775</u>	<u>82,247</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>(3,418)</u>	<u>7,536</u>	<u>(12,630)</u>	<u>5,637</u>	<u>(391,079)</u>	<u>18,870</u>	<u>30,814</u>	<u>(17,027)</u>	<u>(361,297)</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>1,426</u>	<u>84,786</u>	<u>72,406</u>	<u>6,195</u>	<u>1,049,197</u>	<u>7,369</u>	<u>95,618</u>	<u>(27,437)</u>	<u>1,289,560</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ (1,992)</u>	<u>\$ 92,322</u>	<u>\$ 59,776</u>	<u>\$ 11,832</u>	<u>\$ 658,118</u>	<u>\$ 26,239</u>	<u>\$ 126,432</u>	<u>\$ (44,464)</u>	<u>\$ 928,263</u>

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Combining Statement of Net Position – Non-Major Proprietary Funds  
As of June 30, 2014**

	<b>Public Transit Fund</b>	<b>Golf Course Fund</b>	<b>Total Non-Major Funds</b>
<b>ASSETS</b>			
Current Assets:			
Cash and short-term investments	\$ 200	\$ 800	\$ 1,000
Accounts receivable	101	10,880	10,981
Unbilled receivables	552	-	552
Due from other governmental agencies	995,905	-	995,905
Inventories	74,392	43,311	117,703
Total current assets	<u>1,071,150</u>	<u>54,991</u>	<u>1,126,141</u>
Noncurrent Assets:			
Property plant and equipment	7,218,038	4,598,915	11,816,953
Accumulated depreciation	(3,710,679)	(2,426,767)	(6,137,446)
Total noncurrent assets	<u>3,507,359</u>	<u>2,172,148</u>	<u>5,679,507</u>
<b>TOTAL ASSETS</b>	<u>4,578,509</u>	<u>2,227,139</u>	<u>6,805,648</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	34,018	24,112	58,130
Accrued expenses	30,407	23,436	53,843
Due to other funds	195,830	863,556	1,059,386
Unearned revenue	-	250	250
Compensated absences	49,058	27,181	76,239
Other liabilities	-	19,739	19,739
Total current liabilities	<u>309,313</u>	<u>958,274</u>	<u>1,267,587</u>
Non Current Liabilities:			
Compensated absences	24,257	21,315	45,572
<b>TOTAL LIABILITIES</b>	<u>333,570</u>	<u>979,589</u>	<u>1,313,159</u>
<b>NET POSITION</b>			
Net invested in capital assets	3,507,359	2,172,148	5,679,507
Unrestricted	737,580	(924,598)	(187,018)
<b>TOTAL NET POSITION</b>	<u>\$ 4,244,939</u>	<u>\$ 1,247,550</u>	<u>\$ 5,492,489</u>

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Combining Statement of Revenue, Expenses and Changes in Fund Net Assets – Non-Major Proprietary Funds  
For the Year Ended June 30, 2014**

	<b>Public Transit Fund</b>	<b>Golf Course Fund</b>	<b>Total Non-Major Funds</b>
<b>OPERATING REVENUE</b>			
Charges for services	\$ 445,072	\$ 824,494	\$ 1,269,566
Miscellaneous	3,337	4,951	8,288
<b>TOTAL OPERATING REVENUE</b>	<u>448,409</u>	<u>829,445</u>	<u>1,277,854</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	1,136,128	465,302	1,601,430
Fringe benefits	389,524	175,168	564,692
Utilities	29,750	60,055	89,805
Insurance	30,855	9,400	40,255
Repairs and maintenance	178,442	66,700	245,142
Supplies	39,736	4,013	43,749
Cost of goods sold	-	105,378	105,378
Contracted services	126,928	4,038	130,966
Rentals and leases	48,538	64,616	113,154
Other operating	276,302	137,501	413,803
Uncollectible accounts	30	-	30
Controllable assets	2,128	-	2,128
Depreciation	618,740	68,132	686,872
<b>TOTAL OPERATING EXPENSES</b>	<u>2,877,101</u>	<u>1,160,303</u>	<u>4,037,404</u>
<b>OPERATING LOSS</b>	<u>(2,428,692)</u>	<u>(330,858)</u>	<u>(2,759,550)</u>
<b>OTHER INCOME</b>			
Interest expense	34	-	34
Gain on disposal of assets	-	629	629
<b>TOTAL OTHER INCOME</b>	<u>34</u>	<u>629</u>	<u>663</u>
<b>LOSS BEFORE OPERATING TRANSFERS AND GRANTS</b>	(2,428,658)	(330,229)	(2,758,887)
<b>OPERATING TRANSFERS</b>	458,840	102,690	561,530
<b>GRANTS FOR OPERATIONS</b>	<u>1,315,431</u>	<u>-</u>	<u>1,315,431</u>
<b>LOSS BEFORE CAPITAL TRANSFERS AND GRANTS</b>	(654,387)	(227,539)	(881,926)
<b>CAPITAL TRANSFERS</b>	16,600	98,300	114,900
<b>GRANTS FOR CAPITAL PROJECTS</b>	<u>179,079</u>	<u>14,900</u>	<u>193,979</u>
<b>CHANGES IN NET POSITION</b>	(458,708)	(114,339)	(573,047)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>4,703,647</u>	<u>1,361,889</u>	<u>6,065,536</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 4,244,939</u>	<u>\$ 1,247,550</u>	<u>\$ 5,492,489</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statement of Cash Flows – Non-Major Proprietary Funds  
For Year Ended June 30, 2014

	<b>Public Transit Fund</b>	<b>Golf Course Fund</b>	<b>Total Non-Major Funds</b>
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 324,557	\$ 845,975	\$ 1,170,532
Payments to suppliers	(741,988)	(436,722)	(1,178,710)
Payments to employees	(1,532,978)	(650,377)	(2,183,355)
<b>Net Cash from Operating Activities</b>	<u>(1,950,409)</u>	<u>(241,124)</u>	<u>(2,191,533)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Operating contributions	1,774,271	102,690	1,876,961
Increase (decrease) in due to/from other funds	42,294	116,712	159,006
<b>Net Cash from Noncapital Financing Activities</b>	<u>1,816,565</u>	<u>219,402</u>	<u>2,035,967</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Interest paid on notes and bond payable	34	-	34
Acquisition and construction of capital assets	(61,869)	(92,107)	(153,976)
Gain on the sale of assets	-	629	629
Contribution for capital acquisitions	195,679	113,200	308,879
<b>Net Cash from Capital and Related Financing Activities</b>	<u>133,844</u>	<u>21,722</u>	<u>155,566</u>
Net change in cash	-	-	-
Cash, beginning of year	200	800	1,000
<b>Cash, End of Year</b>	<u>\$ 200</u>	<u>\$ 800</u>	<u>\$ 1,000</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (2,428,692)	\$ (330,858)	\$ (2,759,550)
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	618,740	68,132	686,872
Changes in assets and liabilities:			
Accounts receivable	383	16,830	17,213
Unbilled receivables	858	-	858
Due to/from other government entities	(125,093)	-	(125,093)
Inventories	(23,780)	7,513	(16,267)
Accounts payable and other liabilities	14,501	6,613	21,114
Accrued expenses	(5,812)	(6,646)	(12,458)
Unearned revenue	-	(300)	(300)
Compensated absences	(1,514)	(2,408)	(3,922)
<b>Net Cash from Operating Activities</b>	<u>\$ (1,950,409)</u>	<u>\$ (241,124)</u>	<u>\$ (2,191,533)</u>

## **BUDGET AND ACTUAL SCHEDULE**

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual  
**General Fund**  
**For the Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUE</b>				
Property Taxes				
Real property tax	\$ 107,702,080	\$ 107,702,080	\$ 107,976,719	\$ 274,639
Personal property tax	12,405,580	12,405,580	13,472,902	1,067,322
Property tax interest income	480,000	480,000	430,983	(49,017)
Other property tax	740,860	740,860	742,507	1,647
State administrative fees	(542,030)	(542,030)	(518,533)	23,497
Property tax discounts and credits	(1,590,620)	(1,590,620)	(1,426,371)	164,249
<b>Total Property Taxes</b>	<u>119,195,870</u>	<u>119,195,870</u>	<u>120,678,207</u>	<u>1,482,337</u>
Other Local Taxes				
Income tax	68,730,000	68,730,000	68,864,506	134,506
Admissions and amusement tax	300,000	300,000	291,605	(8,395)
Recordation tax	5,000,000	5,000,000	4,657,341	(342,659)
Trailer tax	470,000	470,000	502,901	32,901
<b>Total Other Local Taxes</b>	<u>74,500,000</u>	<u>74,500,000</u>	<u>74,316,353</u>	<u>(183,647)</u>
Other Revenues				
Licenses and permits	1,193,100	1,193,100	1,187,285	(5,815)
Court costs and fines	290,700	290,700	292,510	1,810
Charges for services	423,330	423,330	451,814	28,484
Revenues from use of property	1,144,840	1,144,840	945,977	(198,863)
Reimbursed expenses	991,410	991,410	1,036,358	44,948
Miscellaneous revenues	1,618,830	1,740,015	464,725	(1,275,290)
Grant and shared revenues	1,831,190	3,295,889	3,377,036	81,147
Highway revenues	2,065,800	2,080,150	1,697,840	(382,310)
<b>Total Other Revenues</b>	<u>9,559,200</u>	<u>11,159,434</u>	<u>9,453,545</u>	<u>(1,705,889)</u>
<b>TOTAL REVENUE</b>	<u>203,255,070</u>	<u>204,855,304</u>	<u>204,448,105</u>	<u>(407,199)</u>
<b>EXPENDITURES</b>				
<b>General Government</b>				
Legislative				
County Commissioners	198,000	198,000	194,693	3,307
County Clerk	87,270	87,270	84,348	2,922
County Administrator	249,220	335,600	333,167	2,433
Public Relations	453,270	366,890	326,904	39,986
Purchasing	435,640	435,640	432,630	3,010
<b>Total Legislative</b>	<u>1,423,400</u>	<u>1,423,400</u>	<u>1,371,742</u>	<u>51,658</u>

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual  
General Fund  
For the Year Ended June 30, 2014**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Judicial				
Circuit Court	\$ 1,326,400	\$ 1,326,400	\$ 1,295,817	\$ 30,583
Orphan's Court	29,820	29,820	28,013	1,807
State's Attorney	2,595,590	2,573,275	2,510,034	63,241
Sheriff - Judicial	2,044,880	2,044,880	2,005,268	39,612
Sheriff - Process Servers	121,230	121,230	117,020	4,210
Grants	25,870	231,182	220,062	11,120
Total Judicial	6,143,790	6,326,787	6,176,214	150,573
Election Board	847,340	847,340	736,780	110,560
Financial Administration				
Budget and Finance	1,258,070	1,258,070	1,248,091	9,979
Independent Auditing	80,000	80,000	58,000	22,000
Treasurer	447,900	447,900	423,343	24,557
Information Technologies	1,780,840	1,780,840	1,764,969	15,871
Total Financial Administration	3,566,810	3,566,810	3,494,403	72,407
County Attorney	590,930	590,930	544,311	46,619
Human Resources	597,640	597,640	597,529	111
Planning and Zoning				
Planning and Zoning	606,250	606,250	544,434	61,816
Board of Zoning Appeals	53,440	53,440	48,107	5,333
Total Planning and Zoning	659,690	659,690	592,541	67,149
Public Works				
Department of Public Works	592,010	584,995	290,602	294,393
Public Works - Plan Review and Permitting	1,572,740	1,572,740	1,489,799	82,941
Public Works - Engineering and Construction	2,582,350	2,591,855	2,766,044	(174,189)
Total Public Works	4,747,100	4,749,590	4,546,445	203,145
County Owned Buildings				
Martin Luther King Center	117,320	117,320	92,238	25,082
Administrative Building	256,700	256,700	181,893	74,807
Administrative Building II	96,460	96,460	59,552	36,908
Court House	549,520	549,520	508,455	41,065
County Office Building	217,490	217,490	174,158	43,332
Administration Annex	59,220	59,220	51,935	7,285
Central Services	198,340	198,340	236,139	(37,799)
Rental Properties	2,000	2,000	1,653	347
Library Maintenance	35,500	35,500	24,071	11,429
Dwyer Center	31,390	31,390	25,207	6,183
Public Facilities Annex	82,060	82,060	60,511	21,549
Total County Owned Buildings	1,646,000	1,646,000	1,415,812	230,188

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual  
**General Fund**  
**For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget -
				Positive (Negative)
Community Promotion				
Contributions to Non-profits	\$ 1,685,770	\$ 1,685,770	\$ 1,572,648	\$ 113,122
Economic Development Commission	559,740	559,740	425,723	134,017
Total Community Promotion	2,245,510	2,245,510	1,998,371	247,139
<b>Total General Government</b>	22,468,210	22,653,697	21,474,148	1,179,549
<b>Public Safety</b>				
Sheriff Departments				
Patrol	8,562,140	8,602,610	8,370,908	231,702
Sheriff Auxillary	-	-	16,510	(16,510)
Narcotics Task Force	582,370	650,927	580,729	70,198
Grants	-	139,452	187,418	(47,966)
Total Sheriff Departments	9,144,510	9,392,989	9,155,565	237,424
Fire and Rescue Services				
Volunteer Fire and Rescue - County Grants	6,471,150	6,449,150	6,378,549	70,601
Air Unit	27,040	32,590	34,517	(1,927)
Special Operations	358,920	356,420	359,837	(3,417)
Total Fire and Rescue Services	6,857,110	6,838,160	6,772,903	65,257
Corrections				
Detention Center	12,116,280	12,116,280	11,813,073	303,207
Central Booking	779,460	779,460	737,242	42,218
Total Corrections	12,895,740	12,895,740	12,550,315	345,425
Other Public Safety				
911 - Communications	3,784,780	3,822,004	3,769,269	52,735
Wireless Communciations	1,269,700	1,293,520	1,297,962	(4,442)
Emergency Management	112,140	112,140	163,490	(51,350)
Fire and Rescue Operations	1,027,270	1,049,270	1,142,437	(93,167)
Medical Examiner	15,000	15,000	16,620	(1,620)
Civil Air Patrol	3,600	3,600	3,600	-
Animal Control	1,172,050	1,172,050	1,172,763	(713)
Grants	-	445,392	307,891	137,501
Other Public Safety	7,384,540	7,912,976	7,874,032	38,944
<b>Total Public Safety</b>	36,281,900	37,039,865	36,352,815	687,050

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual  
 General Fund  
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>Health</b>	\$ 2,339,270	\$ 2,339,270	\$ 2,339,270	\$ -
<b>Social Services</b>				
Total Contributions to Other Agencies	324,450	324,450	324,050	400
Grants	-	640,442	610,167	30,275
<b>Total Social Services</b>	324,450	964,892	934,217	30,675
<b>Education</b>	103,418,590	103,418,590	103,418,590	-
<b>Parks, Recreation, and Culture</b>				
Total Contributions to Other Agencies	2,752,330	2,752,330	2,752,330	-
Parks Department	1,738,780	1,738,780	1,658,779	80,001
Martin L. Snook Park Pool	130,190	130,190	112,013	18,177
Fitness and Recreation	788,780	789,920	748,282	41,638
<b>Total Parks, Recreation, and Culture</b>	5,410,080	5,411,220	5,271,404	139,816
<b>Conservation of Natural Resources</b>				
Weed Control	169,670	169,670	184,888	(15,218)
Agricultural Extension Service	210,990	210,990	210,990	-
Cooperative Extension	38,730	38,730	38,730	-
Soil Conservation Service	126,630	126,630	126,630	-
Gypsy Moth Program	10,000	10,000	7,635	2,365
<b>Total Conservation of Natural Resources</b>	556,020	556,020	568,873	(12,853)
<b>Highway</b>	9,371,820	9,386,170	10,546,245	(1,160,075)
<b>General Operations</b>	433,370	418,370	493,375	(75,005)
<b>Unallocated Employee Insurance and Benefits</b>	3,951,770	3,951,770	4,463,225	(511,455)

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual  
 General Fund  
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Intergovernmental</b>				
Golf Course operating transfer	\$ 102,690	\$ 102,690	\$ 102,690	\$ -
HEPMPO operating transfer	8,360	9,210	8,345	865
Land Preservation operating transfer	90,810	90,810	103,952	(13,142)
Water Quality operating transfer	84,000	84,000	77,292	6,708
Public Transit operating transfer	472,270	472,270	472,270	-
Airport operating transfer	64,500	64,500	64,500	-
Capital Projects operating transfer	2,550,000	2,550,000	3,550,000	(1,000,000)
Solid Waste operating transfer	491,360	506,360	506,360	-
Grants Management operating transfer	186,450	186,450	186,450	-
Agricultural Education Center operating transfer	170,070	170,070	170,070	-
Municipality in lieu of bank shares	38,550	38,550	38,543	7
<b>Total Intergovernmental</b>	<u>4,259,060</u>	<u>4,274,910</u>	<u>5,280,472</u>	<u>(1,005,562)</u>
<b>Debt Service</b>	<u>14,440,530</u>	<u>14,440,530</u>	<u>14,011,770</u>	<u>428,760</u>
<b>TOTAL EXPENDITURES</b>	<u>203,255,070</u>	<u>204,855,304</u>	<u>205,154,404</u>	<u>(299,100)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (706,299)</u>	<u>\$ (706,299)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital lease			56,548	56,548
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			<u>\$ 56,548</u>	<u>\$ 56,548</u>
<b>NET CHANGES IN FUND BALANCE</b>			(649,751)	
<b>FUND BALANCE - BEGINNING</b>			<u>38,840,220</u>	
<b>FUND BALANCE - ENDING</b>			<u>\$ 38,190,469</u>	

## **OTHER SCHEDULES**

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Local Management Board - Schedule of Revenue and Expenditures - Regulatory Basis For the Year Ended June 30, 2014

### REVENUE

Community Partnership Agreement (CPA)	
Governor's Office for Children	\$ 706,675
Non- Community Partnership Agreement (Non-CPA)	
General Fund	186,450
Md State Department of Education	498,414
Dept of Housing and Community Development	370,626
Total Non-Community Partnership Agreement Revenue	<u>1,055,490</u>

### TOTAL REVENUE

1,762,165

### EXPENDITURES

Community Partnership Agreement (CPA)	
Administrative :	
Salaries	48,841
Benefit costs	16,159
Total CPA administrative expenditures	<u>65,000</u>

#### Programs:

Rural Out of School Time Initiative	122,500
Juvenile Delinquency Prevention & Diversion	174,625
Tomorrow's Leaders	44,181
GOC-School Based Mental Health	25,000
Positive Youth Development Coordination	44,650
Post-Secondary Education & Training Coordination	60,545
Family Centered Support Services	35,700
Regional Family Navigation Program	134,474
Total CPA program expenditures	<u>641,675</u>

#### Non-Community Partnership Agreement (CPA)

##### Administrative:

Salaries	38,938
Benefit costs	31,158
Advertising	53
Community service awards	1,867
Food and Supplies	75
Small office equipment	268
Office supplies	2,107
Other Miscellaneous	49
Personal milage	409
Postage	16
Travel Expenses	227
Entertainment/business expense	177
Contracted/purchased services	177
Hardware/software	1,585
Training	25
Copy machine rental	744
Telephone expenses	620
Total non-CPA administrative expenditures	<u>78,495</u>

##### Programs:

Teen Pregnancy Prevention	111,377
MSDE - Healthy Families	498,414
Dept of Housing and Community Development	370,625
Total non-CPA program expenditures	<u>980,416</u>

### TOTAL EXPENDITURES

1,765,586

### EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES

\$ (3,421)

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

**Local Management Board - Schedule of Earned Reinvestment  
For the Year Ended June 30, 2014**

<b>BALANCE AS OF JULY 1, 2013</b>	\$	1,426
<b>REVENUE</b>		
Interest Earned		<u>3</u>
<b>BALANCE AS OF JUNE 30, 2014</b>	\$	<u><u>1,429</u></u>

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

County Commissioners of Washington County  
Hagerstown, Maryland

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County Commissioners of Washington County, Maryland (the County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 12, 2014. Our report includes a reference to other auditors who audited the financial statements of the Board of Education of Washington County, as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunt Valley, Maryland  
November 12, 2014



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL  
CONTROL OVER COMPLIANCE AND ON SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

County Commissioners of Washington County  
Hagerstown, Maryland

**Report on Compliance for Each Major Federal Program**

We have audited the County Commissioners of Washington County, Maryland's (the County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control over Compliance**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the 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 the County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated November 12, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hunt Valley, Maryland  
November 12, 2014

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor or Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>DIRECT EXPENDITURES OF FEDERAL AWARDS:</u></b>			
<b><u>Department of Transportation</u></b>			
Airport Improvement Program-Arff Truck Procurement Final Reimb	20.106	AIP-3-24-0019-050	\$ 517,313
Airport Improvement Program-Runway 9-27-Phase 10 Final Reimb	20.106	AIP-3-24-0019-049	684,210
Airport Improvement Program-Runway 9-27-Phase 10 - Winters Property	20.106	AIP-3-24-0019-049	58,265
Airport Improvement Program-Runway 9-27-Phase 10 - Airport Properties Llc Pia	20.106	AIP-3-24-0019-049	<u>257,525</u>
<b>Total Department of Transportation</b>			<u>1,517,313</u>
<b><u>Department of Interior</u></b>			
Civil War Preservation Trust - Schwartz Property (Closed)	15.928	P13AP00219	<u>158,065</u>
<b><u>Department of Justice</u></b>			
State Criminal Alien Assistance Program Wc Detention Center Award "One Time Pymt"	16.606	2013-AP-BX-1405	13,113
Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0405	6,309
Byrne Memorial Justice Assistance Grant Program "Mobile Data Terminals"	16.738	BJAG-2010-0020	24,210
Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0339	9,877
Byrne Memorial Justice Assistance Grant Program "Lets" School Resource Officer Training	16.738	BJAG-2010-0008	1,340
Byrne Memorial Justice Assistance Grant Program "Lets" Simunitions Scenario Training	16.738	BJAG-2010-0006	<u>610</u>
<b>Total Department of Justice</b>			<u>55,459</u>
<b><u>Appalachian Regional Commission</u></b>			
USDA-Arc: Hrg Regional Airport Marketing Plan	10.766	MD-17452-302-12	2,472
Appalachian Regional Commission-Broadband Impact Study	23.002	MD-17223	<u>14,325</u>
<b>Total Appalachian Regional Commission</b>			<u>16,797</u>
<b>TOTAL DIRECT FEDERAL EXPENDITURES</b>			<u>1,747,634</u>
<b><u>INDIRECT EXPENDITURES OF FEDERAL AWARDS:</u></b>			
<b><u>Department of Health and Human Services</u></b>			
<b>Passed through Maryland Department of Human Resources</b>			
Child Support Enforcement Administration	93.563	CSEA-CRA-13-041	41,122
Child Support Enforcement Administration	93.563	CSEA-CRA-14-041	<u>134,099</u>
<b>Total Department of Health and Human Services</b>			<u>175,221</u>
<b><u>Department of Housing and Urban Development</u></b>			
<b>Passed through Maryland Department of Housing and Community Development</b>			
Emergency Solutions Grants Program FY2011A ** Cac, Casa, Reach, St Johns Shelter*	14.231	12ESG22-2011A	3,875
Emergency Solutions Grants Program FY2012 ** Cac, Casa, Reach, St Johns Shelter*	14.231	12ESG22-2012	45,104
Emergency Solutions Supplemental Grants Programs FY2012 ** Cac, Casa, Reach*	14.231	12ESG22-2011B	3,236
Emergency Solutions Grants Program FY2013 ** Cac, Casa, Reach, St Johns Shelter*	14.231	14ESG22-2013	17,573
CDBG-Md Neighborhood Conservation Initiative	14.228	MD-NCL4 NSP 3	196,403
CDBG-Md Community Development Block Grant	14.228	MD-14-CD-31	10,000
CDBG-Md Community Development Block Grant	14.228	MD-14-ED-71	<u>-</u>
<b>Total Department of Housing and Urban Development</b>			<u>276,191</u>

The accompanying notes are an integral part of this schedule.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor or Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>Department of Transportation</u></b>			
<b>Passed through Maryland Department of Transportation</b>			
Federal Transit Metropolitan Planning Grant Hepmpo Resolution 2013-12	20.505	FY2014 UPWP	\$ 294,234
Federal Transit Formula Grant "Jobs"	20.507	WA125307O2014	53,026
Federal Transit Formula Grant "Ada-Para-Transit"	20.507	WA125307O2014	101,460
Federal Transit Formula Grant "Small Urban Public Transportation"	20.507	WA125307O2013	11,753
Federal Transit Formula Grant "Small Urban Public Transportation"	20.507	WA125307O2014	613,545
Federal Transit Formula Grant FY06 "Wctc Capital Maintenance"	20.507	WA125307O2012	5,045
Federal Transit Formula Grant FY13 "Wctc - Mobile Data Computers"	20.507	WA125307C2013	27,992
Federal Transit Formula Grant FY14 "Wctc - Adp Hardward Laptop"	20.507	WA125307O2014	1,703
Federal Transit Formula Grant FY09 "Wctc Facilities Rehab"	20.507	MD-90-0118	13,055
Federal Transit Formula Grant FY13 "Wctc Capital Maintenance" (Closed)	20.507	WA125307C2013	50,201
Federal Transit Formula Grant FY14 "Wctc Capital Maintenance"	20.507	WA125307C2014	61,185
			1,233,199
<b>Passed through Maryland Emergency Management Agency</b>			
Lepc Interagency Hazardous Materials Public Sector FY13 Planning Grant	20.703	HMEP FFY13 PLANNING	7,200
Lepc Interagency Hazardous Materials Public Sector FY14 Planning Grant	20.703	HMEP FFY14 PLANNING	90
Lepc Interagency Hazardous Materials Public Sector FY13 Training Grant	20.703	HMEP FFY13 TRAINING	9,680
Lepc Interagency Hazardous Materials Public Sector FY14 Training Grant	20.703	HMEP FFY14 TRAINING	2,560
			19,530
<b>Total Department of Transportation</b>			1,252,729
<b><u>Department of Health and Human Services</u></b>			
<b>Passed Through Maryland Institute for Emergency Medical Services System</b>			
MEIMSS Bio-Terrorism Preparedness FY2013	93.889	BT11-003	12,659
<b><u>Department of Homeland Security</u></b>			
<b>Passed Through Maryland Emergency Management Agency</b>			
Law Enforcement Officer Reimbursement (Tsa-Airport)	97.090	HSTS0213HSLR805	10,270
Law Enforcement Officer Reimbursement (Tsa-Airport)	97.090	HSTS0213HSLR805	17,270
Homeland Security Grant Program- FY2013 "Empg"	97.042	EWM-2013-EP-00003-S01	98,496
Homeland Security Grant Program-FY2011 Citizen Emer Response Training "Cert"	97.053	2011-SS-00044-S01	4,792
Homeland Security Grant Program- FY2013 Planner Position "SHSGP"	97.067	EWM-2013-SS-0002	23,339
Homeland Security Grant Program- FY2011 Planner Position "SHSGP"	97.073	2010-SS-TO-00044-S01-SHS	23,345
Homeland Security Grant Program- FY2012 Planner Position "SHSGP"	97.073	2012-SS-TO-00044-S01-SHS	91,518
<b>Total Department of Homeland Security</b>			269,030
<b><u>Department of Environment</u></b>			
Wash Co Little Antietam Creek At Greensburg Rd Stream Bank Restoration Project	66.46	U00P3400610	229,556

The accompanying notes are an integral part of this schedule.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor or Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>Department of Commerce</u></b>			
<b>Passed Through the Maryland State Highway Administration</b>			
Eastern Blvd Widening Phase II & Grade Separation	20.205	WA374ZM1	\$ 100,405
Marble Quarry Rd Bridge #2 W6083	11.300	WA213M21	593,149
Coffman Farms Rd Bridge W6371	11.300	WA417ZM1	41,405
Economic Development Grants For Public Works - Burhans Boulevard Bridge	20.205	WA427ZM1	692
Economic Development Grants For Public Works - "Marble Quarry Road Bridge 2"	20.205	WA213ZM1	1,525
Economic Development Grants For Public Works - "Crystal Falls Over Beaver Creek"	20.205	WA394ZM1	880
Economic Development Grants For Public Works - Coffman Farms/Old Forge Rd	20.205	WA417ZM1	1,863
Economic Development Grants For Public Works - Old Forge Rd	20.205	WA417ZM1	1,863
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	WA385ZM1	1,352
Economic Development Grants For Public Works - Garis Shop Over Antietam	20.205	WA384ZM1	1,478
Economic Development Grants For Public Works - Poffenberger Rd Bridge	20.205	WA395ZM1	283
Economic Development Grants For Public Works - Poffenberger Rd Bridge	20.205	WA396ZM1	283
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	WA395ZM1	<u>535</u>
<b>Total Department of Commerce</b>			<u>745,713</u>
<b>Department Of Agriculture</b>			
Md Food Bank "Tefap"	10.569	OGM/FNS-12-022	<u>\$ 20,000</u>
<b>TOTAL INDIRECT EXPENDITURES OF FEDERAL AWARDS</b>			<u>2,981,099</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 4,728,733</u>

\* These grants are provided to subrecipients

The accompanying notes are an integral part of this schedule.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

## Notes to Schedule of Expenditures of Federal Awards

June 30, 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Washington County (the County) are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133 (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. The programs on the Schedule of Expenditures of Federal Awards represent all Federal award programs and other grants within fiscal year 2014 cash or non-cash expenditures activities. For our single audit testing, we tested Federal award programs below with 2014 cash and non-cash expenditures in excess of \$300,000 to ensure coverage of at least 25% of Federally granted funds. Our actual coverage was 45.5%.

<b>Major Programs</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
Airport Improvement Program-Arff Truck Procurement Final Reimb	20.106	\$ 517,313
Airport Improvement Program-Runway 9-27-Phase 10 - Final Reimb	20.106	684,210
Airport Improvement Program-Runway 9-27-Phase 10 - Winters Property	20.106	58,265
Airport Improvement Program-Runway 9-27-Phase 10 - Airport Properties LLC Pia	20.106	257,525
Marble Quarry Rd Bridge #2 W6083	11.300	593,149
Coffman Farms Rd Bridge W6371	11.300	41,405
		\$ 2,151,867

### 2. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards has been accounted for on the accrual basis of accounting.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

**Section I - Summary of Independent Public Accountants' Results**

**Financial Statements**

Type of Independent Public Accountants' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Noncompliance material to the financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Type of Independent Public Accountants' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

**Identification of Major Programs:**

Major Programs	Federal CFDA Number	Federal Expenditures
Airport Improvement Program-Arff Truck Procurement Final Reimb	20.106	\$ 517,313
Airport Improvement Program-Runway 9-27-Phase 10 - Final Reimb	20.106	684,210
Airport Improvement Program-Runway 9-27-Phase 10 - Winters Property	20.106	58,265
Airport Improvement Program-Runway 9-27-Phase 10 - Airport Properties LLC Pia	20.106	257,525
Marble Quarry Rd Bridge #2 W6083	11.300	593,149
Coffman Farms Rd Bridge W6371	11.300	41,405
		\$ 2,151,867

Threshold for distinguishing between Type A and B programs	\$ 300,000
Did the County qualify as a low risk auditee?	Yes

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

**Section II - Financial Statement Findings**

None Noted.

**Section III - Federal Award Findings**

None Noted.

**COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND**

**Schedule of Prior Year Findings  
For the Year Ended June 30, 2014**

There are no prior year findings to disclose.

**Baltimore Office**

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