

Anne Arundel County, Maryland

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

County Executive

Janet S. Owens

County Council

C. Edward Middlebrooks, Chairman
Ronald C. Dillon, Jr., Vice-Chairman
Pamela G. Beidle
Bill D. Burlison
Cathleen M. Vitale
Barbara D. Samorajczyk
Edward R. Reilly

Prepared by: Office of Finance - William R. Brown, Jr., Controller

**Anne Arundel County, Maryland
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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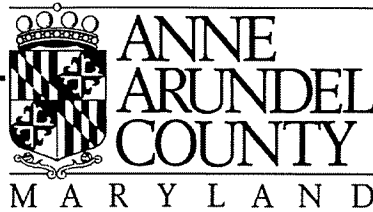
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December 10, 2004

The Honorable County Executive,
The Honorable Members of the County Council and
Citizens of Anne Arundel County, Maryland

I am pleased to submit to you the Comprehensive Annual Financial Report of the County for the fiscal year ended June 30, 2004. The purpose of this report is to provide you and the taxpayers of Anne Arundel County with sufficient information to evaluate the County's financial performance during fiscal year 2004.

This report was prepared by the Office of Finance of Anne Arundel County. The basic financial statements have been audited by the County's independent auditors, Clifton Gunderson LLP, in conjunction with the County Auditor. Opinions from Clifton Gunderson LLP and the County Auditor are included in the report.

The responsibility for the accuracy and fairness of the presentation, including all disclosures, rests with the County. We believe the data as presented to be accurate in all material respects and to reflect fairly the financial position and results of operations for the various funds.

About Anne Arundel County

Anne Arundel County was named for England's Lady Anne of Arundell, beloved wife of Cecil Calvert, second Baron Baltimore. Married at 13 and the mother of many, her intellect was legend, and her love of the arts strong. The expedition to St. Mary's in Maryland was planned in her sitting room in Tisbury, England. History records that both she and Cecil Calvert longed to voyage to the New World, although neither made it. Her son Charles, the third Lord Baltimore, and Cecil's younger brother Leonard Calvert, who later became Maryland's first proprietary governor, were the first family members to step on Maryland soil. Anne of Arundell died at the age of 34. Her husband had engraved on her tombstone, "Farewell, you most lovely of earthly beauties." The following year, in 1650, the General Assembly of the Maryland Colony named this county in her honor.

The County is located thirteen miles east of Washington, D. C. with Baltimore City and Baltimore County as its northern boundary and the Chesapeake Bay as its entire eastern boundary. The State's capital, Annapolis, is an incorporated municipality located within the County.

Government

Under a home rule charter, the County's executive functions are vested in the elected County Executive, who is the chief executive officer of the County and is generally responsible for the proper and efficient administration of the affairs of the County. The County Council, which consists of seven members, is the County's

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legislative body. The Council members are elected by election district and the County Executive is elected at-large to serve four-year terms; the County Council members and the County Executive are limited to two consecutive four-year terms.

The County provides the full range of basic services as articulated in its Charter. These services include Public Safety (Police, Fire and Detention Center), Street Construction and Maintenance, Planning and Code Enforcement, Recreation and Parks, Human Services, Education, a Community College, Libraries and General Administrative Services. The County also operates, in conjunction with the State of Maryland, services related to general community health and social services. In addition, a water and wastewater utility, solid waste disposal, and child care facilities are operated as business-type activities.

Economic Condition and Outlook

Anne Arundel County has once again proven itself to be one of the strongest economies in Maryland. The County has a strong economic foundation due to a diverse business mix, ranging from the technology sector, to distribution, and tourism. The County is also fortunate to have a strong Federal presence with Ft. George G. Meade Federal Campus housing the National Security Agency, being located in western Anne Arundel County.

Much of the County's growth is a direct result of the National Security Agency (NSA) and the federal dollars it pumps into the economy. NSA employs some 16,000 people in the Baltimore Washington region. The agency procures \$2 billion worth of contracts in Maryland per year, with Anne Arundel County businesses receiving about \$1.2 billion in defense contracts in FY 2003. NSA is projecting to create an unprecedented 7,500 jobs over the next five years. Anne Arundel County is poised for growth as defense and homeland security contractors locate and expand in the County to be in close proximity to NSA. Projects like National Business Park's expansion of class A office space and the Chesapeake Innovation Center (CIC), a publicly funded technology-based incubator focused on developing homeland security technologies, fortify the county's ability to retain and attract high quality companies and employees.

Anne Arundel County continues to sustain a healthy tourism sector. People visit Anne Arundel County to enjoy the 534 miles of shoreline, the historic Annapolis area, the annual boat shows and many festivals, and the 1.4 million square-foot Arundel Mills Mall in Northern Anne Arundel County. The most recent economic impact study reports that travelers spend an estimated \$2.2 billion in Anne Arundel County, which is 26% of all travel expenditures in Maryland. Tourism in Anne Arundel County supports some 22,400 jobs, which generates \$710.6 million in payroll income. Travel spending in the County generates \$62.4 million in local tax revenue.

Anne Arundel County sustains positive trends in employment and job growth largely because of its geographic location in the fourth largest and wealthiest consumer market in the nation. The County's unemployment rate has averaged 3.4% percent during recent months, which is below the State of Maryland at 4.1%, and well below the national average of 5.6%. Anne Arundel County's job growth remains positive, adding some 3,999 jobs in 2003, while national job growth remains below 1%. The professional and business services and information sectors continue to expand reflecting the growth of defense contractors in the County, such as Booz Allen & Hamilton, Computer Sciences Corp, Northrop Grumman and Titan Corporation.

Anne Arundel County is home to the Baltimore Washington International Airport (BWI), one of the fastest-growing airports in North America. BWI supports 11,000 direct jobs in the County, generates \$2.7 billion of direct economic activity in the County and contributes \$153 million in state and local tax revenue. The airport is mid-way through the \$1.8 billion expansion and renovation plan, with the addition of parking spaces, infrastructure improvements and a new consolidated rental car facility. Soon to come on-line will be a new terminal for Southwest Airlines and an overhauled concession and shopping area.

The County continues to build on an already strong economic base with expanding defense and technology sectors and sustained growth in the tourism and hospitality sectors. The attractive quality of life offered in

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Anne Arundel County, coupled with a highly skilled work force, will continue to attract businesses that will make the County their choice as a business location.

Financial Information

Funds and Component Units

The County's accounting system is organized and operated on the basis of funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, all related liabilities and residual equities or balances, and changes therein, are recorded and segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions or limitations. All funds of the County are included in this Comprehensive Annual Financial Report.

In addition, in the fiscal year 2002 the County implemented several new statements issued by the Governmental Accounting Standards Board, including Statement No. 34, which significantly changed the form and content of the Comprehensive Annual Financial Report. In addition to fund statements, a set of government-wide financial statements are presented that use the full accrual method of accounting. Also included is management's discussion and analysis of the basic financial statements. I urge you to read the Management Discussion and Analysis, Basic Financial Statements, and the Notes to the Basic Financial Statements to better understand the new reporting format.

In addition to general government activities, the governing body has financial accountability for the Anne Arundel County Board of Education and the Public Schools, the Anne Arundel Community College, the Public Library of Annapolis and Anne Arundel County, the Anne Arundel County Economic Development Corporation, the Tipton Airport Authority, and Anne Arundel Workforce Development Corporation. These agencies are included in the financial report as discretely presented component units.

Budgetary Controls

The County maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriation ordinance approved by the County Council. The County budget is comprised of the current expense budget and the capital budget. Activities of the General Fund and certain special revenue funds are included in the current expense budget. An annual budget is adopted for the following special revenue funds: County Parking Garage, Street Light, Forfeiture and Asset Seizure Team, Economic Development, Conference and Visitors, Incentive Loan Program, Roads and Special Benefits, Piney Orchard Wastewater Service, Local Management Board, Inmate Benefit and Morale, Reforestation, and Workforce Development. The capital budget, included in the six-year capital program, sets forth capital projects to be undertaken and the proposed sources of funding the capital projects.

The Office of Finance is responsible for budgetary control. The level of control at which expenditures cannot legally exceed the appropriated amount is set at the department level for the operating budget and at the project level for the capital budget. The County maintains an encumbrance system for budgetary control. All unencumbered appropriations of the operating budget lapse at year-end. Unencumbered capital appropriations continue until the specific capital project is closed.

Revenue Reserve Fund

The balance of the Revenue Reserve fund was \$27,177,741 at June 30, 2004. This fund may only be used upon request of the County Executive, with the approval of the County Council, to cover existing appropriations when revenues are not attained.

In September 2002, legislation was enacted to change the maximum amount that may be retained in the Revenue Reserve Fund as a percentage of the total general fund appropriation. The legislation provides that the amount of the annual appropriation to the Revenue Reserve Fund may not cause the sum of the balance of the Reve-

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nue Reserve Fund plus the appropriation to exceed an amount equal to 10% of the estimated average aggregate annual revenue derived from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund in the three fiscal years preceding the fiscal year for which the appropriation is made. If credited interest earnings cause the total amount of the fund to exceed an amount equal to 10% of the estimated average aggregate annual revenue derived from the income tax, real property transfer tax, recordation tax, and investment income of the General Fund in the three fiscal years preceding the fiscal year for which the appropriation is made, the Controller may credit interest earnings of the Revenue Reserve Fund to the General Fund.

Cash Management

County funds, excluding component units, held for operation and capital purposes are managed by the Office of Finance with strict guidelines as to investment vehicles. Investments are restricted by State of Maryland law, with which the County complies. The County does not invest in derivatives or reverse repurchase agreements. It does no borrowing or lending of securities. It invests primarily in obligations of the United States Government, its agencies or instrumentalities, and repurchase agreements with primary dealers. The repurchase agreements are collateralized by United States Government treasuries, agencies, and instrumentalities held by the County's custodian bank and marked to market daily.

Pension funds are separately administered by the Anne Arundel County Retirement and Pension System. These funds are managed separately through contracts with professional money managers.

Debt Management

The County Charter established a Spending Affordability Committee for the County in Fiscal Year 1990. This committee is charged to make advisory recommendations to the Office of Budget, the County Executive and the County Council relating to spending affordability, including County spending levels to reflect the affordability of the taxpayers to finance County operations and service long-term debt. With input from the Spending Affordability Committee, the County administration develops debt management policies to be used in planning future debt issuance levels. The objective is to maintain creditworthiness while at the same time ensuring that necessary capital projects will be funded. The County has an internal debt affordability model that is updated annually.

Risk Management

It is the policy of the County to retain risks of losses in those areas where it believes it is more economical to manage its risks internally and set aside assets for claims settlement in its internal service fund. The County purchases insurance for real and personal property, boilers and machinery, and faithful performance bonds, as well as school bus insurance for the bus contractors of the Board of Education.

The County maintains the self-insurance fund to provide workers' compensation and directors and officers' coverage for the County government, the Board of Education, and the Community College, and general liability and vehicle liability coverage for the County government and the Board of Education.

Retirement Plans and Other Post Employment Benefits

Anne Arundel County sponsors four single-employer defined benefit pension plans in separate trust funds administered by the Anne Arundel County Retirement and Pension System, a corporation that is an agency in the Executive Branch of County Government. County employees also participate in two multi-employer cost sharing pension plans administered by the State. The County plans were established under authority created by the County Charter and legislation, while the State Plans were created under authority created by State legislation.

Each year, an independent actuary engaged by the pension plans calculates the amount of the annual contribution that the County must make to each pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis.

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The County also provides post retirement health and dental care benefits for certain retirees and their dependents. Currently, Generally Accepted Accounting Principles (GAAP) do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Awards and Acknowledgements

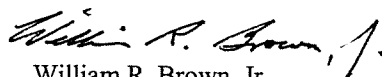
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement in Financial Reporting to Anne Arundel County, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the twenty-third consecutive year that the County has received this prestigious award.

In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. This report satisfies both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

On behalf of the Office of Finance, I would like to thank the County Executive for her leadership and support in planning and conducting the financial operations of the County in a responsible and progressive manner. I would like to express my appreciation to the entire accounting staff in the Office of Finance, and especially to Jodee Dickinson, Assistant Controller.

Sincerely,



William R. Brown, Jr.
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Anne Arundel County,
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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



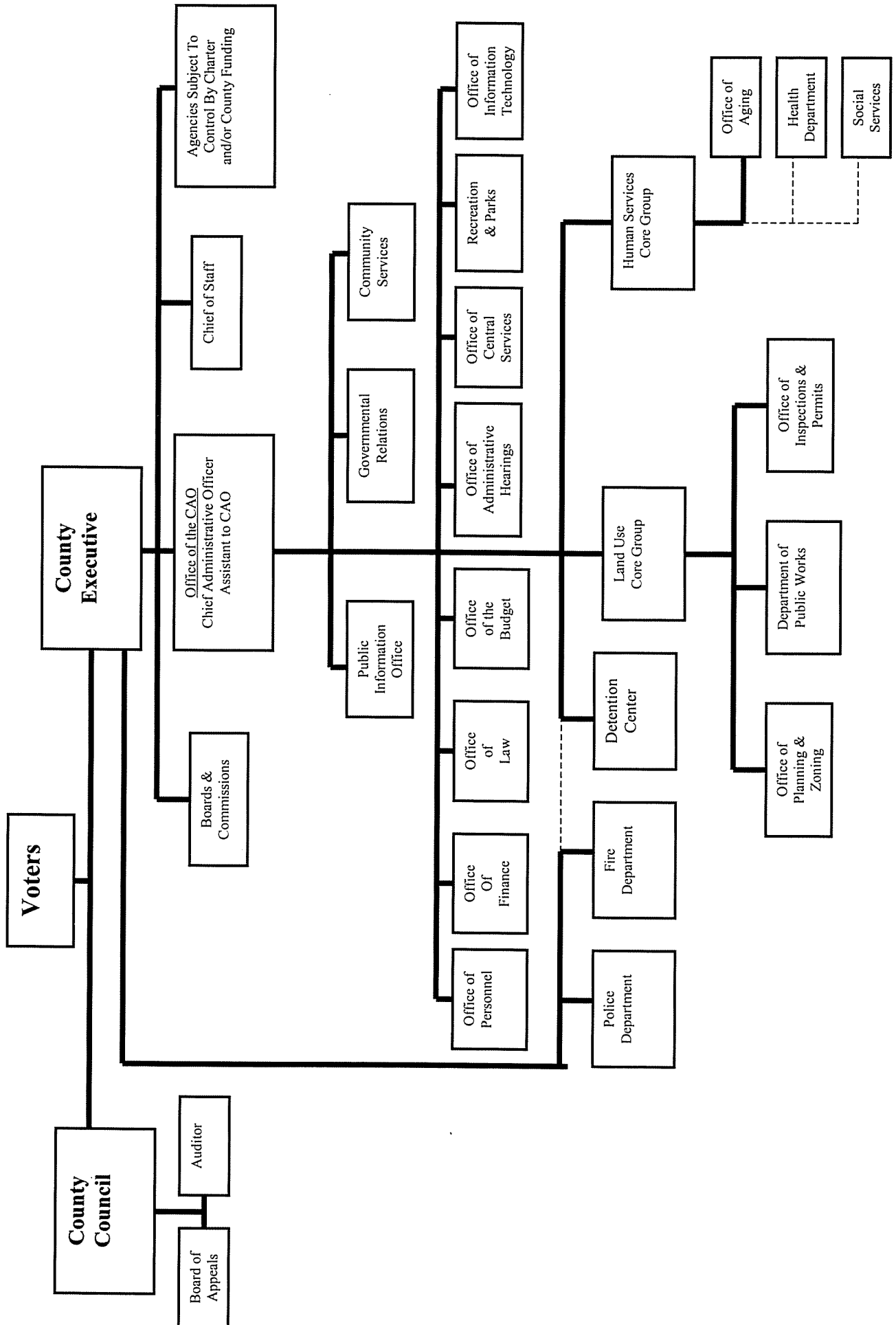
A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

Anne Arundel County, Maryland Organizational Chart



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