

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

For the Year Ended June 30, 2012



JUNE 30, 2012

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statement of Net Assets	14
Statement of Activities	15
Balance Sheet – Governmental Funds	17
Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Assets	18
Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Net Assets – Proprietary Funds	21
Statement of Revenue, Expenses, and Changes in Fund Net Assets – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23
Statement of Net Assets – Fiduciary Funds	24
Statement of Changes in Net Assets – Fiduciary Funds	25
Notes to the Financial Statements	26
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	82
COMBINING AND INDIVIDUAL FUND STATEMENTS	
Combining Statements of Financial Schedules	83
Combining Balance Sheet – Non-Major Governmental Funds	85
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds	86
Combining Statement of Net Assets – Non-Major Proprietary Funds	87
Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets – Non-Major Proprietary Funds	88
Combining Statement of Cash Flows – Non-Major Proprietary Funds	89
BUDGET AND ACTUAL SCHEDULE	
Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	92
OTHER SCHEDULES	
Local Management Board- Schedule of Revenue and Expenditures- Regulatory Basis	97
Local Management Board- Schedule of Earned Reinvestment	98



S B & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

County Commissioners of Washington County
Hagerstown, Maryland

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, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of Washington County. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit presentation of the Board of Education of Washington County, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

Accounting principles generally accepted in the United States of America require the management's discussion and analysis, the required supplementary information and the budget and actual schedules as listed in the accompanying table of contents 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 and the other auditors 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund statements, local management board schedule of revenue and expenditures- regulatory basis and local management board schedule of earned reinvestment are presented for purposes of additional analysis and are 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Hunt Valley, MD
October 22, 2012

SB & Company, LLC

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 assets* and a *statement of activities*.

- ❑ The *statement of net assets* presents information on the County's entire assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 14-16 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 17-20 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 21-23 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 24-25 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 26-81 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 82-96 of this report.

Financial Analysis on Government-Wide Financial Statements

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$612.7 million as the close of the most recent fiscal year.

Washington County, Maryland
 Net Assets
 (Government-Wide)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Total Percent Change</i>
	2012	2011	2012	2011	2012	2011	
<i>Current and other assets</i>	\$ 137,665,529	\$ 138,556,357	\$ 63,359,844	\$ 72,797,850	\$ 201,025,373	\$ 211,354,207	-5%
<i>Capital assets</i>	412,970,049	424,970,363	257,859,858	262,902,280	670,829,907	687,872,643	-2%
<i>Total Assets</i>	550,635,578	563,526,720	321,219,702	335,700,130	871,855,280	899,226,850	-3%
<i>Current and other liabilities</i>	31,380,775	30,689,527	15,716,159	17,331,940	47,096,934	48,021,467	-2%
<i>Long-term liabilities</i>	125,840,266	121,718,381	86,262,137	97,155,594	212,102,403	218,873,975	-3%
<i>Total Liabilities</i>	157,221,041	152,407,908	101,978,296	114,487,534	259,199,337	266,895,442	-3%
<i>Invested in Capital Assets,</i>							
<i>Net of Related Debt</i>	357,986,070	372,712,454	218,772,508	214,299,925	576,758,578	587,012,379	-2%
<i>Restricted Net Assets</i>	18,184,914	15,838,952	13,798,381	14,378,508	31,983,295	30,217,460	6%
<i>Unrestricted Net Assets</i>	17,243,553	22,567,406	(13,329,483)	(7,465,837)	3,914,070	15,101,569	-74%
<i>Total Net Assets</i>	\$ 393,414,537	\$ 411,118,812	\$ 219,241,406	\$ 221,212,596	\$ 612,655,943	\$ 632,331,408	-3%

The largest portion of the County's net assets 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 \$576.8 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 assets (\$31.9 million) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$3.9 million) may be used to meet the County's obligations to citizens and creditors.

Unrestricted net assets in governmental activities have been reduced by \$49.6 million in long-term debt, resulting in unrestricted net assets of \$17.2 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 \$46.3 million and Hagerstown Community College of \$3.3 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 Assets
(Government-Wide)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
Program revenues:						
<i>Charges for Services</i>	\$ 3,446,736	\$ 2,906,563	\$ 20,134,427	\$ 19,713,517	\$ 23,581,163	\$ 22,620,080
<i>Operating Grants and Contributions</i>	6,381,642	5,683,957	1,250,104	1,148,567	7,631,746	6,832,524
<i>Capital Grants and Contributions</i>	12,547,599	10,945,247	2,387,472	4,559,383	14,935,071	15,504,630
General Revenues:						
<i>Property Taxes</i>	122,743,548	125,409,839	-	-	122,743,548	125,409,839
<i>Local Taxes</i>	69,875,914	74,279,821	-	-	69,875,914	74,279,821
<i>Other</i>	3,523,045	5,105,385	319,400	594,870	3,842,445	5,700,255
Total Revenues	218,518,484	224,330,812	24,091,403	26,016,337	242,609,887	250,347,149
Program Expenses:						
<i>General Government</i>	30,664,687	39,136,319	-	-	30,664,687	39,136,319
<i>Public Safety</i>	41,705,806	39,804,734	-	-	41,705,806	39,804,734
<i>Health</i>	2,876,643	2,389,270	-	-	2,876,643	2,389,270
<i>Social Services</i>	2,248,270	2,400,068	-	-	2,248,270	2,400,068
<i>Education</i>	113,864,833	125,522,309	-	-	113,864,833	125,522,309
<i>Parks and Recreation</i>	5,782,049	6,075,518	-	-	5,782,049	6,075,518
<i>Natural Resources</i>	1,968,855	3,315,734	-	-	1,968,855	3,315,734
<i>Community Promotion</i>	3,928,577	4,047,615	-	-	3,928,577	4,047,615
<i>Highways and Streets</i>	23,451,568	17,325,648	-	-	23,451,568	17,325,648
<i>Interest on long-term debt</i>	4,181,468	4,441,225	-	-	4,181,468	4,441,225
Business-type Activities:						
<i>Water Quality</i>	-	-	11,819,738	11,614,072	11,819,738	11,614,072
<i>Solid Waste</i>	-	-	7,830,698	8,868,541	7,830,698	8,868,541
<i>Public Transit</i>	-	-	2,859,826	2,730,286	2,859,826	2,730,286
<i>Airport</i>	-	-	7,851,463	8,196,762	7,851,463	8,196,762
<i>Golf Course</i>	-	-	1,250,871	1,232,605	1,250,871	1,232,605
Total Expenses	230,672,756	244,458,440	31,612,596	32,642,266	262,285,352	277,100,706
<i>Change in net assets before transfers</i>	(12,154,272)	(20,127,628)	(7,521,193)	(6,625,929)	(19,675,465)	(26,753,557)
<i>Gain (Loss) on disposal of capital assets</i>	-	-	-	-	-	-
<i>Transfers</i>	(5,550,003)	(5,144,687)	5,550,003	5,144,687	-	-
Change in Net Assets	(17,704,275)	(25,272,315)	(1,971,190)	(1,481,242)	(19,675,465)	(26,753,557)
<i>Net Assets – beginning of year</i>	411,118,812	436,391,127	221,212,596	222,693,838	632,331,408	659,084,965
<i>Net Assets – End of year</i>	\$ 393,414,537	\$ 411,118,812	\$ 219,241,406	\$ 221,212,596	\$ 612,655,943	\$ 632,331,408

The County's total net assets decreased by \$19.7 million during fiscal year 2012. Total net assets as of June 30, 2012, were \$612.7 million representing a 4% decrease.

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

Net assets in governmental activities decreased by \$17.7 million. Key factors in this decrease are as follows:

- Property tax revenue fell just short of the 2012 projections by \$1.6 million or 1.2%. The shortfall is related to corporate personal property tax accounts reflecting recent economic conditions that involve business closures, lack of reinvestment in equipment, and assessment value changes.
- Income Tax revenue exceeded budget by \$4.8 million or 7.9% as a result of continued decreases in the unemployment rates and prior year reconciling distributions. Of the \$4.8 million \$3.2 million was distributed from prior tax years of 2008, 2009, 2010, and 2011. The average unemployment rate reflected a decrease from 9.99% in 2011 to 8.92% in 2012.
- Recordation Tax revenue fell short of budget by \$1 million or 21.8% due to the slow recovery trends within the housing market. It was anticipated that transactions would be higher than what was actually realized. Revenues lagged behind prior year actuals due to a few large commercial transactions in 2011. Fiscal year 2012 produced no large commercial recordation tax revenue as it has in the past.
- Other revenues such as permits, licenses, income tax liability reserve and Highway User revenues exceeded budget by \$200,000.
- Self insurance shortfalls were related to unfavorable claims experience costs of \$.6 million.
- Pretreatment subsidies for the three remaining scheduled out years according to the financial plan and cash flow analysis were made in the amount of \$1 million. The pretreatment subsidy was eliminated in fiscal year 2013 from the general fund expenditures and will no longer be made to the pretreatment fund after 2012.
- An additional \$.9 million in capital transfer was made to cover revenue shortfalls in Excise tax revenues realized in 2012 which allowed for continued construction of school and road projects in addition to placing funds for fiscal year 2013 project funding.
- An additional appropriation was reserved for the school health nurse program of \$.5 million for requested accrued benefit costs.
- 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 \$1.2 unspent grant awards in expenditures.
- Remaining cost centers accounted for \$1.4 million in savings that resulted from position turnovers, utility savings due to mild winter, and the housing unit that has a delayed opening due to construction delays.
- Various government-wide entries including 1) recording of depreciation expense greater than capital outlay a net difference of \$12 million; 2) accrual differences between government wide and statement of activities of \$3.4 million; and 3) recording of debt proceeds greater than debt principal payments by \$3 million. These activities are reported differently on the government-wide statements vs. the fund statements.
- Capital Improvement Projects increased by \$.2 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.

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

Business-type activities decreased the County's net assets by \$2 million, decreasing the change in net assets attributable to governmental activities. Key elements of this decrease are as follows:

- ❑ Water Quality's net assets increased by \$2.8 million, for a total of \$121 million. The increase resulted from increases in user rates designed to provide resources to meet operational costs, projected debt service, capital requirements, elimination of general fund subsidies and to provide for stable reserves.
- ❑ Solid Waste's total net assets decreased by \$.9 million for a total of \$13.3 million, mainly related to depreciation expense of \$2.7 million. The 40 West landfill site was re-designed which increased the life of the landfill by 62 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, 2012.
- ❑ Airport's total net assets are \$78.2 million as of June 30, 2012, representing a \$3.4 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

Financial Analysis on Government Fund Financial Statements

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

Governmental Funds:

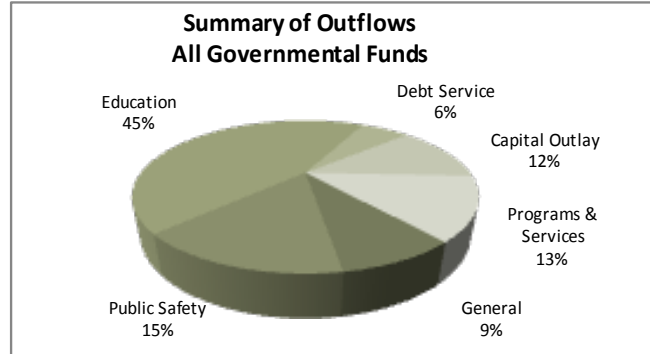
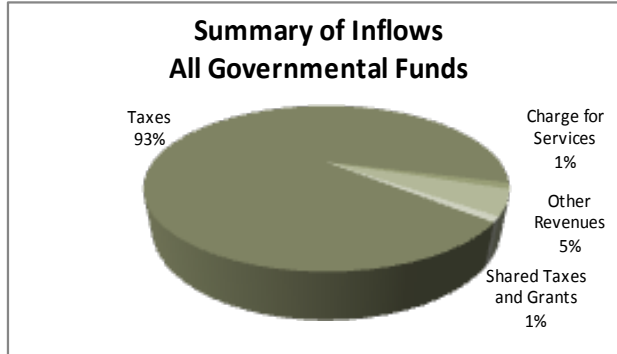
The focus of the County's governmental funds is to provide information on near term inflows, outflow, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources 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 \$112.3 million, an increase of \$.9 million in comparison with the prior year. Approximately \$36.3 million of this amount is designated for the general fund cash reserve and \$74.5 million is restricted or committed for construction projects and designated programs. The remaining amount is appropriated for other program services and assigned costs. 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>		
	2012	2011	% Change	2012	2011	% Change
<i>General Fund</i>	\$ 38,632,885	\$ 37,572,914	3%	\$ 1,059,971	\$ 1,418,906	-25%
<i>Capital Improvement Fund</i>	71,995,786	71,824,732	0%	171,054	(13,755,096)	-101%
<i>Local Management Board</i>	164,159	408,076	-60%	(243,917)	(61,735)	295%
<i>Inmate Welfare Fund</i>	95,546	446,213	-79%	(350,667)	3,692	-9598%
<i>Contraband Fund</i>	282,121	45,619	518%	236,502	(3,265)	-7344%
<i>Agricultural Education Fund</i>	67,773	120,131	-44%	(52,358)	(53,959)	-3%
<i>Hotel Rental Tax Fund</i>	826,103	562,998	47%	263,105	200,485	31%
<i>Gaming Fund</i>	5,725	(1,931)	-396%	7,656	(21,721)	-135%
<i>Land Preservation Fund</i>	256,418	397,632	-36%	(141,214)	78,344	-280%
<i>HEPMPO</i>	(18,145)	(749)	2323%	(17,396)	(749)	2223%
<i>Foreign Trade Zone Fund</i>	-	-	0%	-	308	-100%
Total	\$ 112,308,371	\$ 111,375,635	1%	\$ 932,736	\$ (12,195,098)	-108%

The following reflects all inflows and outflows of the governmental funds in total for the fiscal year ending June 30, 2012.



- The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year total fund balance reached \$38.6 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 \$36.3 million that is for cash reserve while \$.6 million is reserved for specific program funds.

The General Fund, fund balance increased by approximately \$1.1 million during the current fiscal year. Key factors related to this change are:

Major Revenue Factors:

- Property tax revenue fell just short of the 2012 projections by \$1.6 million or 1.2%. The shortfall is related to corporate personal property tax accounts reflecting recent economic conditions that involve business closures, lack of reinvestment in equipment, and assessment value changes.
- Income Tax revenue exceeded budget by \$4.8 million or 7.9% as a result of continued decreases in the unemployment rates and prior year reconciling distributions. Of the \$4.8 million \$3.2 million was distributed from prior tax years of 2008, 2009, 2010, and 2011. The average unemployment rate reflected a decrease from 9.99% in 2011 to 8.92% in 2012.
- Recordation Tax revenue fell short of budget by \$1 million or 21.8% due to the slow recovery trends within the housing market. It was anticipated that transactions would be higher than what was actually realized. Revenues lagged behind prior year actuals due to a few large commercial transactions in 2011. Fiscal year 2012 produced no large commercial recordation tax revenue as it has in the past.
- Other revenues such as permits, licenses, income tax liability reserve and Highway User revenues exceeded budget by \$200,000.
- 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 \$1.2 unspent grant awards in expenditures.

Major Expenditure Factors:

- Self insurance shortfalls were related to unfavorable claims experience costs of \$.6 million.
- Pretreatment subsidies for the three remaining scheduled out years according to the financial plan and cash flow analysis were made in the amount of \$1 million. The pretreatment subsidy was eliminated in fiscal year 2013 from the general fund expenditures and will no longer be made to the pretreatment fund after 2012.
- An additional \$.9 million in capital transfer was made to cover revenue shortfalls in Excise tax revenues realized in 2012 which allowed for continued construction of school and road projects in addition to placing funds for fiscal year 2013 project funding.
- An additional appropriation was reserved for the school health nurse program of \$.5 million for requested accrued benefit costs.

- Remaining cost centers accounted for \$1.4 million in savings that resulted from position turnovers, utility savings due to mild winter, and the housing unit that has a delayed opening due to construction delays.
- 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 \$72 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 increased by \$.2 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 \$1.7 million. The net decrease in fund balance during the current year was \$.3 million. These funds represent monies designated for specific programs and services.

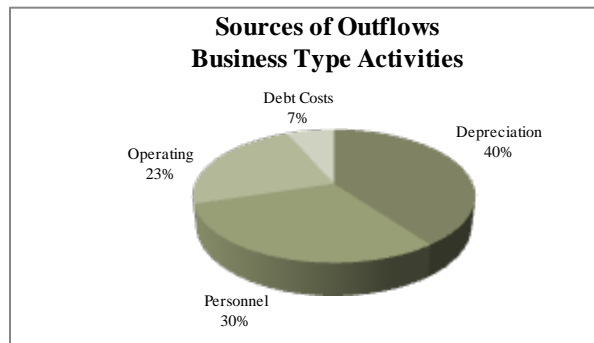
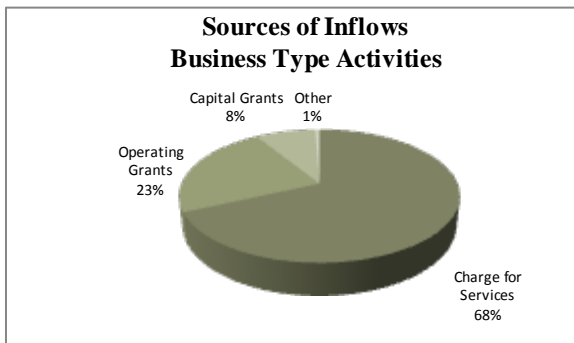
Proprietary Funds:

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

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

<i>Business-type Activities – Fund Statements</i>	<i>Fund Balance</i>			<i>Net Change in Fund Balance</i>		
	2012	2011	% Change	2012	2011	% Change
Water Quality	\$ 121,110,526	\$ 118,268,385	2%	\$ 2,842,141	\$ 2,747,107	3%
Solid Waste	13,343,334	14,229,575	-6%	(886,241)	(1,835,927)	52%
Airport	78,264,022	81,653,911	-4%	(3,389,889)	(3,305,297)	-3%
Public Transit	4,964,476	5,343,583	-7%	(379,107)	1,083,675	-135%
BleckRock	1,559,048	1,717,142	-9%	(158,094)	(170,800)	7%
Total	\$ 219,241,406	\$ 221,212,596	-1%	\$ (1,971,190)	\$ (1,481,242)	

The following reflects the inflows and outflows of the business-type activity funds for the fiscal year ending June 30, 2012.



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".

General Fund Budgetary Analysis – Government Fund Financial Statement Basis

Washington County, Maryland
 General Fund Budgetary Analysis
 As of June 30, 2012
 (Government Fund Basis)

Category	Budgetary Amounts			Difference	
	Original	Final	Actual	Org. Budget vs. Final	Final Budget vs. Actual
Revenues:					
Property Tax	\$ 124,263,740	\$ 124,263,740	\$ 122,669,812	\$ -	\$ (1,593,928)
Local Tax	64,730,000	64,730,000	68,930,809	-	4,200,809
Other Revenue	8,018,550	11,005,827	9,707,752	2,987,277	(1,298,075)
Total Revenues	197,012,290	199,999,567	201,308,373	2,987,277	1,308,806
Expenses:					
General Government	20,417,910	20,574,508	19,552,837	156,598	1,021,671
Public Safety	33,210,870	34,945,927	33,771,477	1,735,057	1,174,450
Health and Social Services	4,072,030	5,166,882	5,124,913	1,094,852	41,969
Education	101,693,900	101,693,900	101,693,900	-	-
Parks, Recreation, Natural Resources	5,756,880	5,766,710	5,744,294	9,830	22,416
Highways and streets	8,614,960	8,621,850	9,262,056	6,890	(640,206)
General Operations	459,030	443,080	400,480	(15,950)	42,600
Unallocated Employee Insurance	1,922,480	1,922,480	2,546,596	-	(624,116)
Intergovernmental	7,506,610	7,506,610	9,357,259	-	(1,850,649)
Debt Service	13,357,620	13,357,620	13,588,170	-	(230,550)
Total Expenses	197,012,290	199,999,567	201,041,982	2,987,277	(1,042,415)
Other Financing Sources (Uses)			793,580	-	793,580
Net Increase in Assets - 06/30/11	\$ -	\$ -	\$ 1,059,971	\$ -	\$ 1,059,971

Original Budget vs. Final Budget:

The net budgetary change of \$3.0 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 \$3.0 million.

Final Budget vs. Actual Results:

Final actual results yielded a \$1.1 increase to cash reserves. Revenue was over by \$1.3 million offset by expenditures and other financing sources of \$248,835. Property Tax experienced a 1.3% decrease over budget. Income Tax revenue exceeded budget by 8% or \$4.8 million. Recordation Tax fell short of final budget by \$1 million or 21.8%. Offsetting the revenue increases were \$1.2 million in overages related to school health nurse program costs and road maintenance overruns. Also attributable to net budgetary costs were negative health insurance experience for 2012 of \$624,116, a transfer to the pretreatment fund of \$1 million, and a transfer of pay-gone funds of \$.9 million to cover 2012 shortfalls in excise tax revenues and for 2013 project revenue sources.

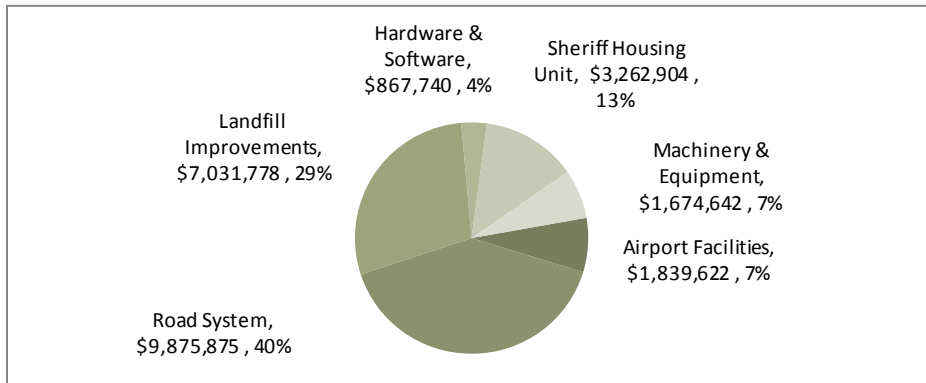
Capital Asset Administration – Government Wide Statements

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$656 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
	2012	2011	2012	2011	2012	2011	
<i>Land and Land Improvement</i>	\$ 76,575,253	\$ 74,407,709	\$ 92,839,395	\$ 91,430,808	\$ 169,414,648	\$ 165,838,517	2%
<i>Building and Improvements</i>	44,783,702	43,300,255	42,052,295	42,955,528	86,835,997	86,255,783	1%
<i>Facilities, Lines, and Mains</i>	-	-	83,863,919	85,047,642	83,863,919	85,047,642	-1%
<i>Vehicles</i>	1,218,636	1,757,125	2,402,103	3,052,749	3,620,739	4,809,874	-25%
<i>Infrastructure</i>	256,767,785	268,316,842	-	-	256,767,785	268,316,842	-4%
<i>Machinery and Equipment</i>	2,773,859	2,320,292	2,193,851	2,566,995	4,967,710	4,887,287	2%
<i>Office/Computer Equipment</i>	17,513,620	19,643,716	825,733	1,057,087	18,339,353	20,700,803	-11%
<i>Treatment Plant</i>	-	-	31,749,874	32,719,634	31,749,874	32,719,634	-3%
Total	\$399,632,855	\$409,745,939	\$ 255,927,170	\$258,830,443	\$655,560,025	\$668,576,382	-2%

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 46-49 of this report.

Debt Administration

At the end of the current fiscal year, the County had total outstanding debt, excluding capital leases, of \$182.7 million. This amount was comprised of debt backed by the full faith and credit of the County and user fees. The County's outstanding debt decreased \$7.4 million during the current fiscal year. The net decrease resulted from approximately \$13 million in principal payments, changes in deferred amounts and results of refunding; \$12.2 million redemption of airport runway bonds; and approximately \$17.8 million in new borrowings. Funds borrowed were used for infrastructure projects of \$8 million, environmental projects of \$5.7 million, educational projects of \$1.8 million and public safety costs of \$2.3 million. The County issued refunding bonds of \$7.7 million to refund a portion of the County's outstanding 2003 and 2003A Public Improvement Bonds, resulting in a total 2012 issuance of \$25.5 million.

Washington County, Maryland
Outstanding Debt
(Government – Wide)

Description	Governmental Activities		Business-type Activities		Total		% Change
	2012	2011	2012	2011	2012	2011	
<i>General Obligation Bonds</i>	\$ 124,566,752	\$ 121,333,576	\$ 35,448,306	\$ 42,219,899	\$ 160,015,058	\$ 163,553,475	-2%
<i>Maryland State Loans</i>	-	-	-	1,398,463	-	1,398,463	-100%
<i>Maryland Water Quality Bonds</i>	5,745,888	6,026,733	16,976,902	19,185,877	22,722,790	25,212,610	-10%
Total	\$ 130,312,640	\$ 127,360,309	\$ 52,425,208	\$ 62,804,239	\$ 182,737,848	\$ 190,164,548	-4%

The County's credit ratings for fiscal year 2012 are as follows: 1) Standard and Poor's rated AA, 2) Fitch rated AA, and 3) Moody's Investors Service rated Aa2. All rated with stable 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 \$1.4 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 52-57 of this report.

Economic Factors and Fiscal Year 2013

- ❑ Washington County's unemployment rate for August 2012 was 8.7% compared to 9.7% in August of 2011. Unemployment trends are showing a slow steady improvement. It is anticipated that the unemployment rate will take until the end of 2014 to recover due to permanent loss of certain industry jobs, re-entry/retraining of the current workforce, and new workforce entry.
- ❑ Housing industry trends are showing continued improvement. Foreclosure filings have continued to trend downward and average home prices sold are increasing. In addition the County's active inventory trend shows a decrease for 2012, decreasing for the fourth straight year.
- ❑ Water and sewer rates were increased for the 2013 budget year. The revenue requirements were increased 3%. This revenue increase is based on financial information formulated annually from the County's cost of service model.
- ❑ Total number of jobs increased for the third consecutive year to 63,960. That increase is reflected in the utility, education, and health areas.

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 Assets As of June 30, 2012

	Primary Government			Component Unit	
	Governmental activities	Business-type activities	Total	Board of Education	Total
ASSETS					
Cash and short-term investments	\$ 3,853,059	\$ 28,110,960	\$ 31,964,019	\$ 15,036,592	\$ 47,000,611
Investments	136,185,411	-	136,185,411	26,747,109	162,932,520
Property taxes receivable, net of allowance	1,051,056	-	1,051,056	-	1,051,056
Accounts receivable, net of allowance	5,125,285	1,356,599	6,481,884	350,260	6,832,144
Interest receivable	92,614	-	92,614	-	92,614
Unbilled receivables	206,764	1,642,740	1,849,504	-	1,849,504
Due from other governmental agencies	17,296,896	2,889,223	20,186,119	3,309,922	23,496,041
Internal balances	(28,896,875)	28,896,875	-	-	-
Inventories	816,175	300,939	1,117,114	431,129	1,548,243
Bond issue costs	612,555	162,508	775,063	-	775,063
Other assets	95,900	-	95,900	962,498	1,058,398
Other post employment benefits	815,778	-	-	7,222,174	7,222,174
Recoverable disbursements	265,270	-	265,270	-	265,270
Notes receivable	145,641	-	145,641	-	145,641
Projects under construction	13,337,194	1,932,688	15,269,882	715,632	15,985,514
Property, plant, and equipment, net	399,632,855	255,927,170	655,560,025	208,884,228	864,444,253
TOTAL ASSETS	550,635,578	321,219,702	871,039,502	263,659,544	1,134,699,046
LIABILITIES					
Current Liabilities:					
Current maturities of long-term obligations	9,878,011	4,450,970	14,328,981	-	14,328,981
Current maturities of capital lease obligations	145,522	65,501	211,023	780,120	991,143
Current maturities of installment purchase contracts	517,737	-	517,737	-	517,737
Accounts payable	9,884,557	1,094,198	10,978,755	3,384,987	14,363,742
Accrued expenses	796,176	288,908	1,085,084	14,459,691	15,544,775
Accrued interest	2,121,722	7,839,264	9,960,986	-	9,960,986
Deferred revenue	2,071,001	1,269,835	3,340,836	1,020,739	4,361,575
Compensated absences	1,838,723	376,601	2,215,324	795,234	3,010,558
Post retirement benefits	196,257	-	196,257	-	196,257
Landfill closure and post-closure costs	-	263,240	263,240	-	263,240
Other liabilities	1,710,844	67,642	1,778,486	-	1,778,486
Liabilities for unpaid claims	2,220,225	-	2,220,225	-	2,220,225
Total current liabilities	31,380,775	15,716,159	47,096,934	20,440,771	67,537,705
Non Current Liabilities:					
Deferred revenue	-	22,330,648	22,330,648	-	22,330,648
Compensated absences	543,711	158,362	702,073	5,665,752	6,367,825
Post retirement benefits	2,873,305	-	2,873,305	-	2,873,305
Long-term obligations, net	120,434,629	47,974,238	168,408,867	-	168,408,867
Capital lease obligations	455,348	-	455,348	7,230,968	7,686,316
Installment purchase contracts	1,533,273	-	1,533,273	-	1,533,273
Landfill closure and post-closure costs	-	15,798,889	15,798,889	-	15,798,889
Total noncurrent liabilities	125,840,266	86,262,137	212,102,403	12,896,720	224,999,123
TOTAL LIABILITIES	157,221,041	101,978,296	259,199,337	33,337,491	292,536,828
NET ASSETS					
Invested in capital assets, net of related debt	357,986,070	218,772,508	576,758,578	201,588,772	778,347,350
Restricted for:					
John Howard Trust	239,447	-	239,447	-	239,447
Capital projects	17,945,467	13,798,381	31,743,848	-	31,743,848
Unrestricted	17,243,553	(13,329,483)	3,914,070	28,733,281	32,647,351
TOTAL NET ASSETS	\$ 393,414,537	\$ 219,241,406	\$ 612,655,943	\$ 230,322,053	\$ 842,977,996

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, 2012**

Functions/Programs	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 30,664,687	\$ 3,044,907	\$ 4,610,420	\$ 393,068
Public safety	41,705,806	401,829	-	201,587
Health	2,876,643	-	-	-
Social services	2,248,270	-	-	-
Education	113,864,833	-	-	8,210,218
Parks, recreation and culture	5,782,049	-	-	1,160,201
Natural resources	1,968,855	-	802,287	-
Community promotion	3,928,577	-	968,935	-
Highways and streets	23,451,568	-	-	2,582,525
Interest on long-term debt	4,181,468	-	-	-
Total governmental activities	<u>230,672,756</u>	<u>3,446,736</u>	<u>6,381,642</u>	<u>12,547,599</u>
Business-type activities				
Water quality	11,819,738	10,112,939	-	179,455
Solid waste	7,830,698	6,319,897	-	-
Public transit	2,859,826	441,981	1,250,104	300,545
Airport	7,851,463	2,289,809	-	1,868,582
Black rock golf course	1,250,871	969,801	-	38,890
Total business-type activities	<u>31,612,596</u>	<u>20,134,427</u>	<u>1,250,104</u>	<u>2,387,472</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 262,285,352</u>	<u>\$ 23,581,163</u>	<u>\$ 7,631,746</u>	<u>\$ 14,935,071</u>
Component unit:				
Public school system	<u>\$ 307,294,962</u>	<u>\$ 13,293,058</u>	<u>\$ 61,600,095</u>	<u>\$ 15,170</u>

General revenue:
Taxes
 Property taxes
 Income taxes
Income on investments
Reimbursed expenses
Miscellaneous
Special items- gain (loss) on disposal
Transfers
TOTAL GENERAL REVENUE

Change in Net Assets

Net Assets- beginning of year
Net Assets- end of year

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Activities For the Year Ended June 30, 2012

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Board of Education	Total
\$ (22,616,292)	\$ -	\$ (22,616,292)	\$ -	\$ (22,616,292)
(41,102,390)	-	(41,102,390)	-	(41,102,390)
(2,876,643)	-	(2,876,643)	-	(2,876,643)
(2,248,270)	-	(2,248,270)	-	(2,248,270)
(105,654,615)	-	(105,654,615)	-	(105,654,615)
(4,621,848)	-	(4,621,848)	-	(4,621,848)
(1,166,568)	-	(1,166,568)	-	(1,166,568)
(2,959,642)	-	(2,959,642)	-	(2,959,642)
(20,869,043)	-	(20,869,043)	-	(20,869,043)
(4,181,468)	-	(4,181,468)	-	(4,181,468)
<u>(208,296,779)</u>	<u>-</u>	<u>(208,296,779)</u>	<u>-</u>	<u>(208,296,779)</u>
-	(1,527,344)	(1,527,344)	-	(1,527,344)
-	(1,510,801)	(1,510,801)	-	(1,510,801)
-	(867,196)	(867,196)	-	(867,196)
-	(3,693,072)	(3,693,072)	-	(3,693,072)
-	(242,180)	(242,180)	-	(242,180)
-	<u>(7,840,593)</u>	<u>(7,840,593)</u>	-	<u>(7,840,593)</u>
<u>(208,296,779)</u>	<u>(7,840,593)</u>	<u>(216,137,372)</u>	-	<u>(216,137,372)</u>
-	-	-	(232,386,639)	(232,386,639)
122,743,548	-	122,743,548	-	122,743,548
69,875,914	-	69,875,914	-	69,875,914
1,093,310	138,456	1,231,766	331,235	1,563,001
1,138,186	-	1,138,186	233,908,772	235,046,958
1,291,549	179,795	1,471,344	482,874	1,954,218
-	1,149	1,149	48,055	49,204
<u>(5,550,003)</u>	<u>5,550,003</u>	<u>-</u>	<u>-</u>	<u>-</u>
190,592,504	5,869,403	196,461,907	234,770,936	431,232,843
(17,704,275)	(1,971,190)	(19,675,465)	2,384,297	(17,291,168)
<u>411,118,812</u>	<u>221,212,596</u>	<u>632,331,408</u>	<u>227,937,756</u>	<u>860,269,164</u>
<u>\$ 393,414,537</u>	<u>\$ 219,241,406</u>	<u>\$ 612,655,943</u>	<u>\$ 230,322,053</u>	<u>\$ 842,977,996</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, 2012**

	General Fund	Capital Projects Fund	Non- major Funds	Total Governmental Funds
ASSETS				
Cash	\$ 315,956	\$ -	\$ 3,537,103	\$ 3,853,059
Investments	135,948,740	236,671	-	136,185,411
Property taxes receivable, net of allowance	1,051,056	-	-	1,051,056
Accounts receivable	407,981	4,439,827	277,477	5,125,285
Interest receivable	92,614	-	-	92,614
Unbilled receivables	206,764	-	-	206,764
Due from other funds	20,000	71,716,686	-	71,736,686
Due from other governmental agencies	15,804,020	1,245,384	247,492	17,296,896
Inventories	816,175	-	-	816,175
Recoverable disbursements	265,270	-	-	265,270
Other assets	95,900	-	-	95,900
Notes receivable	5,641	-	140,000	145,641
	<u>5,641</u>	<u>-</u>	<u>140,000</u>	<u>145,641</u>
TOTAL ASSETS	<u>\$ 155,030,117</u>	<u>\$ 77,638,568</u>	<u>\$ 4,202,072</u>	<u>\$ 236,870,757</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 2,230,907	\$ 5,534,764	2,118,886	\$ 9,884,557
Due to other funds	100,568,990	-	64,571	100,633,561
Accrued expenses	786,727	48	9,401	796,176
Deferred revenue	9,279,273	-	37,750	9,317,023
Liabilities for unpaid claims	2,220,225	-	-	2,220,225
Other liabilities	1,311,110	107,970	291,764	1,710,844
	<u>1,311,110</u>	<u>107,970</u>	<u>291,764</u>	<u>1,710,844</u>
TOTAL LIABILITIES	<u>116,397,232</u>	<u>5,642,782</u>	<u>2,522,372</u>	<u>124,562,386</u>
FUND BALANCES:				
Nonspendable	24,713	-	-	24,713
Restricted	1,180,746	18,184,914	1,424,570	20,790,230
Committed	36,294,934	53,810,872	199,777	90,305,583
Assigned	1,132,492	-	73,498	1,205,990
Unassigned	-	-	(18,145)	(18,145)
	<u>-</u>	<u>-</u>	<u>(18,145)</u>	<u>(18,145)</u>
TOTAL FUND BALANCES	<u>38,632,885</u>	<u>71,995,786</u>	<u>1,679,700</u>	<u>112,308,371</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 155,030,117</u>	<u>\$ 77,638,568</u>	<u>\$ 4,202,072</u>	<u>\$ 236,870,757</u>

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 Assets As of June 30, 2012

Fund balance of governmental funds \$ 112,308,371

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Capital assets, net	399,632,855
Projects under construction	13,337,194

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:

Bond issue costs	612,555
Deferred revenue	7,246,022

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	(130,312,640)
Installment purchase obligations	(2,051,010)
Capital lease obligations	(600,870)
Accrued interest payable-net of IRS subsidy	(2,121,722)
Compensated absences and post-retirement benefits	(4,636,218)

Net assets of governmental activities \$ 393,414,537

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds
For Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
REVENUE				
General property taxes	\$ 122,669,812	\$ -	\$ -	\$ 122,669,812
Other local taxes	68,930,809	1,390,703	2,260,921	72,582,433
Licenses and permits	1,278,654	-	2,038,846	3,317,500
Court costs and fines	323,625	-	-	323,625
Charges for services	497,092	-	401,829	898,921
Revenue from uses of property	1,066,799	-	26,511	1,093,310
Reimbursed expenses	1,136,308	-	1,878	1,138,186
Miscellaneous revenues	566,480	433,746	472,860	1,473,086
Shared taxes and grants	4,838,794	10,723,150	2,094,532	17,656,476
Total Revenue	<u>201,308,373</u>	<u>12,547,599</u>	<u>7,297,377</u>	<u>221,153,349</u>
EXPENDITURES				
Current:				
General government	19,552,837	-	-	19,552,837
Public safety	33,771,477	-	1,021,644	34,793,121
Health	2,876,643	-	-	2,876,643
Social services	2,248,270	-	-	2,248,270
Education	101,693,900	-	-	101,693,900
Parks, recreation and culture	5,230,239	-	188,723	5,418,962
Natural resources and land preservation	514,055	-	1,448,702	1,962,757
Intergovernmental	38,543	-	-	38,543
General operations	2,947,076	-	1,418,005	4,365,081
Community promotion	-	-	3,933,952	3,933,952
Highways and streets	9,262,056	-	-	9,262,056
Debt Service	13,588,170	-	-	13,588,170
Capital Outlay:				
General government	-	814,589	-	814,589
Public safety	-	1,642,811	-	1,642,811
Highways and streets	-	11,793,582	-	11,793,582
Education	-	12,170,933	-	12,170,933
Parks and recreation	-	1,642,686	-	1,642,686
Total Expenditures	<u>191,723,266</u>	<u>28,064,601</u>	<u>8,011,026</u>	<u>227,798,893</u>
Excess (Deficiency) Of Revenue Over Expenditures	<u>9,585,107</u>	<u>(15,517,002)</u>	<u>(713,649)</u>	<u>(6,645,544)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	3,578,900	415,360	3,994,260
Transfers out	(9,318,716)	(225,547)	-	(9,544,263)
Proceeds of capital leases	759,137	-	-	759,137
Principal amount of new debt for refunding	6,882,220	-	-	6,882,220
Refunding of loans	(6,847,777)	-	-	(6,847,777)
Proceeds of bond sale	-	12,334,703	-	12,334,703
TOTAL OTHER FINANCING SOURCES (USES)	<u>(8,525,136)</u>	<u>15,688,056</u>	<u>415,360</u>	<u>7,578,280</u>
NET CHANGES IN FUND BALANCE	<u>1,059,971</u>	<u>171,054</u>	<u>(298,289)</u>	<u>932,736</u>
FUND BALANCES - BEGINNING OF YEAR	<u>37,572,914</u>	<u>71,824,732</u>	<u>1,977,989</u>	<u>111,375,635</u>
FUND BALANCES - END OF YEAR	<u>\$ 38,632,885</u>	<u>\$ 71,995,786</u>	<u>\$ 1,679,700</u>	<u>\$ 112,308,371</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 Year Ended June 30, 2012

Net changes in fund balances in governmental funds \$ 932,736

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 depreciation exceeded capital outlay in the current period.

Capital outlay capitalized	\$ 13,269,856	
Depreciation	<u>(25,268,088)</u>	(11,998,232)

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 assets differs from the change in fund balance by the cost of the assets sold. (181,537)

Bond and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. 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 assets. This is the amount by which proceeds exceeded repayments.

Debt and lease proceeds	\$ (13,128,283)	
Bond issuance cost - CY additions	89,139	
Payments of installment purchase principal	517,736	
Payments of lease principal	158,267	
Payments of debt principal	<u>9,325,994</u>	(3,037,147)

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 earned exceeded financial resources used. (951,616)

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. (2,468,479)

Change in Net Assets of Governmental Activities \$ (17,704,275)

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Net Assets - Proprietary Funds
For Year Ended June 30, 2012

	Business Type Activities - Enterprise Funds				Total
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
ASSETS					
Current Assets:					
Cash and short-term investments	\$ 16,086,961	\$ 12,022,899	\$ 100	\$ 1,000	\$ 28,110,960
Accounts receivable	1,005,628	202,050	134,569	14,352	1,356,599
Unbilled receivables	1,330,592	304,033	5,935	2,180	1,642,740
Due from other governmental agencies	86,829	-	1,743,322	1,059,072	2,889,223
Due from other funds	18,119,934	13,121,332	-	-	31,241,266
Inventories	121,681	24,722	51,254	103,282	300,939
Total current assets	<u>36,751,625</u>	<u>25,675,036</u>	<u>1,935,180</u>	<u>1,179,886</u>	<u>65,541,727</u>
Noncurrent Assets:					
Bond issuance costs	107,244	45,369	9,895	-	162,508
Projects under construction	1,166,919	515,531	206,234	44,004	1,932,688
Property plant and equipment	171,586,491	60,590,875	141,322,194	11,437,346	384,936,906
Accumulated depreciation	(52,494,708)	(32,455,625)	(39,245,696)	(4,813,707)	(129,009,736)
Total noncurrent assets	<u>120,365,946</u>	<u>28,696,150</u>	<u>102,292,627</u>	<u>6,667,643</u>	<u>258,022,366</u>
TOTAL ASSETS	<u>157,117,571</u>	<u>54,371,186</u>	<u>104,227,807</u>	<u>7,847,529</u>	<u>323,564,093</u>
LIABILITIES					
Current Liabilities:					
Current maturities of long-term obligations	2,692,809	1,508,491	249,670	-	4,450,970
Current maturities of capital lease obligations	-	65,501	-	-	65,501
Accounts payable	242,587	500,990	271,255	79,366	1,094,198
Accrued expenses	193,741	29,219	11,564	54,384	288,908
Accrued interest	7,489,625	342,451	7,188	-	7,839,264
Due to other funds	-	-	1,284,807	1,049,584	2,334,391
Deferred revenue	104,689	393,599	770,297	1,250	1,269,835
Compensated absences	205,506	67,605	26,670	76,820	376,601
Landfill closure and post-closure costs	-	263,240	-	-	263,240
Other liabilities	7,300	-	44,956	15,386	67,642
Total current liabilities	<u>10,936,257</u>	<u>3,171,096</u>	<u>2,666,407</u>	<u>1,276,790</u>	<u>18,050,550</u>
Non Current Liabilities:					
Due to other funds	-	-	10,000	-	10,000
Deferred revenue	624,371	-	21,706,277	-	22,330,648
Compensated absences	74,811	25,440	10,896	47,215	158,362
Bonds and long-term debt	24,371,606	22,032,427	1,570,205	-	47,974,238
Landfill closure and post-closure costs	-	15,798,889	-	-	15,798,889
Total noncurrent liabilities	<u>25,070,788</u>	<u>37,856,756</u>	<u>23,297,378</u>	<u>47,215</u>	<u>86,272,137</u>
TOTAL LIABILITIES	<u>36,007,045</u>	<u>41,027,852</u>	<u>25,963,785</u>	<u>1,324,005</u>	<u>104,322,687</u>
NET ASSETS					
Invested in capital assets, net of related debt	103,917,450	7,626,343	100,561,072	6,667,643	218,772,508
Unrestricted	6,130,857	3,058,029	(22,374,250)	(144,119)	(13,329,483)
Restricted - capital projects	11,062,219	2,658,962	77,200	-	13,798,381
TOTAL NET ASSETS	<u>\$121,110,526</u>	<u>\$ 13,343,334</u>	<u>\$ 78,264,022</u>	<u>\$ 6,523,524</u>	<u>\$219,241,406</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds
For Year Ended June 30, 2012**

	Enterprise Funds				
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	Totals
OPERATING REVENUE					
Charges for services	\$ 10,112,939	\$ 6,319,897	\$ 2,289,809	\$ 1,411,782	\$ 20,134,427
Miscellaneous	23,869	78,029	61,640	16,257	179,795
TOTAL OPERATING REVENUE	<u>10,136,808</u>	<u>6,397,926</u>	<u>2,351,449</u>	<u>1,428,039</u>	<u>20,314,222</u>
OPERATING EXPENSES					
Salaries and wages	3,399,538	1,260,992	470,024	1,604,772	6,735,326
Fringe benefits	1,586,370	480,542	181,643	535,852	2,784,407
Utilities	905,521	57,499	192,318	86,614	1,241,952
Insurance	99,708	22,908	45,143	50,445	218,204
Repairs and maintenance	209,760	845	83,413	245,995	540,013
Supplies	244,693	93,507	5,192	41,188	384,580
Cost of goods sold	-	-	-	112,912	112,912
Contracted services	237,014	2,171,761	20,301	189,912	2,618,988
Rentals and leases	21,230	1,896	2,927	107,919	133,972
Other operating	1,075,829	399,701	207,955	486,420	2,169,905
Uncollectible accounts	21	13,530	(2,779)	1,011	11,783
Controllable assets	26,916	-	7,195	2,020	36,131
Depreciation	2,877,340	2,714,362	6,335,325	645,637	12,572,664
TOTAL OPERATING EXPENSES	<u>10,683,940</u>	<u>7,217,543</u>	<u>7,548,657</u>	<u>4,110,697</u>	<u>29,560,837</u>
OPERATING LOSS	<u>(547,132)</u>	<u>(819,617)</u>	<u>(5,197,208)</u>	<u>(2,682,658)</u>	<u>(9,246,615)</u>
OTHER INCOME (EXPENSE)					
Interest expense	(1,135,798)	(613,155)	(302,806)	-	(2,051,759)
Interest income	130,830	4,031	3,496	99	138,456
Gain (loss) on disposal of assets	-	-	-	1,149	1,149
TOTAL OTHER INCOME (EXPENSE)	<u>(1,004,968)</u>	<u>(609,124)</u>	<u>(299,310)</u>	<u>1,248</u>	<u>(1,912,154)</u>
LOSS BEFORE OPERATING TRANSFERS AND GRANTS	(1,552,100)	(1,428,741)	(5,496,518)	(2,681,410)	(11,158,769)
OPERATING TRANSFERS	4,214,786	542,500	217,047	531,070	5,505,403
GRANTS FOR OPERATING	-	-	-	1,250,104	1,250,104
NET INCOME (LOSS) BEFORE CAPITAL TRANSFERS AND GRANTS	2,662,686	(886,241)	(5,279,471)	(900,236)	(4,403,262)
CAPITAL TRANSFERS	-	-	21,000	23,600	44,600
CAPITAL GRANTS AND CONTRIBUTIONS	179,455	-	1,868,582	339,435	2,387,472
NET INCOME (LOSS)	2,842,141	(886,241)	(3,389,889)	(537,201)	(1,971,190)
NET ASSETS - BEGINNING OF YEAR	118,268,385	14,229,575	81,653,911	7,060,725	221,212,596
NET ASSETS - END OF YEAR	<u>\$ 121,110,526</u>	<u>\$ 13,343,334</u>	<u>\$ 78,264,022</u>	<u>\$ 6,523,524</u>	<u>\$ 219,241,406</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, 2012

	Enterprise Funds				Total
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
Cash Flows from Operating Activities					
Receipts from customers	\$ 10,187,700	\$ 6,509,978	\$ 898,991	\$ 3,056,400	\$ 20,653,069
Payments to suppliers	(2,868,620)	(3,744,486)	(353,604)	(1,439,526)	(8,406,236)
Payments to employees	(5,010,377)	(1,763,899)	(669,556)	(2,152,273)	(9,596,105)
Net Cash from Operating Activities	<u>2,308,703</u>	<u>1,001,593</u>	<u>(124,169)</u>	<u>(535,399)</u>	<u>2,650,728</u>
Cash Flows from Noncapital Financing Activities					
Operating contributions	4,214,786	542,500	217,047	1,793,154	6,767,487
Increase (decrease) in due to/from other funds	1,566,664	11,227,881	8,939,889	(1,300,419)	20,434,015
Net Cash from Noncapital Financing Activities	<u>5,781,450</u>	<u>11,770,381</u>	<u>9,156,936</u>	<u>492,735</u>	<u>27,201,502</u>
Cash Flows from Capital and Related Financing Activities					
Interest paid on notes and bond payable	(1,143,648)	(583,674)	(579,532)	-	(2,306,854)
Acquisition and construction of capital assets	(322,886)	(6,313,033)	(417,905)	(320,371)	(7,374,195)
Contribution for capital acquisitions	179,455	-	1,889,582	363,035	2,432,072
Principal payments on notes and bonds payable	(2,718,992)	(1,254,270)	(14,020,266)	-	(17,993,528)
Proceeds from issuance of notes and bonds payable	5,696,900	40,002	1,601,678	-	7,338,580
Payments for bond issuance	(8,229)	(887)	-	-	(9,116)
Net Cash from Capital and Related Financing Activities	<u>1,682,600</u>	<u>(8,111,862)</u>	<u>(11,526,443)</u>	<u>42,664</u>	<u>(17,913,041)</u>
Cash Flows from Investing Activities					
Interest on investments	130,830	4,031	3,496	-	138,357
Net change in cash	<u>9,903,583</u>	<u>4,664,143</u>	<u>(2,490,180)</u>	<u>-</u>	<u>12,077,546</u>
Cash, Beginning of Year	6,183,378	7,358,756	2,490,280	1,000	16,033,414
Cash, End of Year	<u>\$ 16,086,961</u>	<u>\$ 12,022,899</u>	<u>\$ 100</u>	<u>\$ 1,000</u>	<u>\$ 28,110,960</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities					
Operating loss	\$ (547,132)	\$ (819,617)	\$ (5,197,208)	\$ (2,694,638)	\$ (9,258,595)
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	2,877,340	2,714,362	6,335,325	645,637	12,572,664
Changes in assets and liabilities:					
Accounts receivable	50,828	55,011	(23,441)	(3,349)	79,049
Unbilled receivables	(50,197)	147,137	(5,791)	(1,135)	90,014
Prepaid expenses	-	-	-	-	-
Due to/from other government entities	32,704	-	(735,700)	1,634,345	931,349
Inventories	(2,918)	(14,789)	2,566	15,376	235
Accounts payable and other liabilities	(45,010)	(698,203)	205,495	(120,365)	(658,083)
Accrued expenses	(20,437)	(12,306)	(4,667)	(9,883)	(47,293)
Landfill closure	-	(269,847)	-	-	(269,847)
Deferred revenue	17,557	(90,096)	(687,526)	(1,500)	(761,565)
Compensated absences	(4,032)	(10,059)	(13,222)	113	(27,200)
Net Cash from Operating Activities	<u>\$ 2,308,703</u>	<u>\$ 1,001,593</u>	<u>\$ (124,169)</u>	<u>\$ (535,399)</u>	<u>\$ 2,650,728</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Net Assets – Fiduciary Funds
As of June 30, 2012**

	<u>Agency</u>	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>	<u>Total</u>
ASSETS						
Cash and short-term investments	\$ 2,798,069	\$ 1,878,605	\$ 97,146	\$ 375,780	\$ 67,793	\$ 5,217,393
Investments, at fair value:						
US Government obligations	-	9,625,015	955,678	1,689,971	51,026	12,321,690
Municipal bonds	-	42,304	-	-	-	42,304
Corporate bonds and obligations	-	6,512,153	454,381	754,896	-	7,721,430
Fixed income securities	-	2,204,601	251,870	-	-	2,456,471
Corporate stock	-	21,428,878	1,815,548	2,471,510	-	25,715,936
Equity funds	-	21,210,844	1,851,246	3,780,418	-	26,842,508
Accounts receivable	-	139,918	12,658	25,116	-	177,692
Due from other funds	-	-	-	-	25,005	25,005
TOTAL ASSETS	<u>2,798,069</u>	<u>63,042,318</u>	<u>5,438,527</u>	<u>9,097,691</u>	<u>143,824</u>	<u>80,520,429</u>
LIABILITIES						
Accounts payable	73,741	-	-	-	-	73,741
Due to student groups	2,724,328	-	-	-	-	2,724,328
TOTAL LIABILITIES	<u>2,798,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,798,069</u>
NET ASSETS						
Assets held in trust for benefit payments	-	63,042,318	5,438,527	9,097,691	-	77,578,536
Assets held in trust for scholarships	-	-	-	-	143,824	143,824
NET ASSETS	<u>\$ -</u>	<u>\$ 63,042,318</u>	<u>\$ 5,438,527</u>	<u>\$ 9,097,691</u>	<u>\$ 143,824</u>	<u>\$ 77,722,360</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Changes in Net Assets - Fiduciary Funds
For Year Ended June 30, 2012**

	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>	<u>Total</u>
ADDITIONS					
Contributions:					
Employer	\$ 2,570,100	\$ 598,620	\$ 1,623,800	\$ -	\$ 4,792,520
Plan members	1,858,283	-	-	-	1,858,283
Gifts and contributions	-	-	-	57,769	57,769
TOTAL CONTRIBUTIONS	<u>4,428,383</u>	<u>598,620</u>	<u>1,623,800</u>	<u>57,769</u>	<u>6,708,572</u>
Investment Income:					
Realized and unrealized gain	386,119	62,113	97,455	-	545,687
Interest and dividends	997,801	86,911	184,947	2,888	1,272,547
Other income	81,824	8,742	13	-	90,579
TOTAL INVESTMENT INCOME	<u>1,465,744</u>	<u>157,766</u>	<u>282,415</u>	<u>2,888</u>	<u>1,908,813</u>
	<u>5,894,127</u>	<u>756,386</u>	<u>1,906,215</u>	<u>60,657</u>	<u>8,617,385</u>
DEDUCTIONS					
Benefits	4,340,446	395,698	-	-	4,736,144
Scholarship expenses	-	-	-	30,915	30,915
Administrative expenses	235,263	32,528	20,784	-	288,575
TOTAL DEDUCTIONS	<u>4,575,709</u>	<u>428,226</u>	<u>20,784</u>	<u>30,915</u>	<u>5,055,634</u>
NET INCREASE IN ASSETS	1,318,418	328,160	1,885,431	29,742	3,561,751
NET ASSETS - BEGINNING OF YEAR	<u>61,723,900</u>	<u>5,110,367</u>	<u>7,212,260</u>	<u>114,082</u>	<u>74,160,609</u>
NET ASSETS - END OF YEAR	<u>\$ 63,042,318</u>	<u>\$ 5,438,527</u>	<u>\$ 9,097,691</u>	<u>\$ 143,824</u>	<u>\$ 77,722,360</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

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, 2012 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, 2012

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
P.O. Box 730
Hagerstown, Maryland 21741

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 assets 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, 2012

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, 2012

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 assets. 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. Bond issuance costs incurred by the governmental funds are reported as deferred charges and amortized over the term of the related debt.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Obligations (continued)

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.

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefit Programs (continued)

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. During the fiscal year ending June 30, 2008, the County adopted GASB No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*".

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.

Real Estate and Personal Property Taxes

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Real Estate and Personal Property Taxes (continued)

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 (2011 and 2012 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.

Unrestricted Net Assets

Governmental activities unrestricted net assets have been reduced by \$49.6 million in long-term debt, resulting in unrestricted net assets of \$18.3 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 \$46.3 million and Hagerstown Community College of \$3.3 million. The capital assets acquired with these bonds are not reflected in the primary government financial statements.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets and Fund Equity

The difference between fund assets and liabilities is “Net Assets” on the government-wide and fiduciary fund statements and “Fund Balance” on governmental fund statements. Net Assets are classified as “Invested in Capital Assets, Net of Related Debt,” 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.

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.

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Financial Capacity and Analysis Phase (continued)

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.

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

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 Finance Director, 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.

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 Director of Finance work with the Commissioners on the proposed budget documents for adoption.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

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, 2012

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 Director of Budget and Finance 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 Assets 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, 2012, the carrying amount of the County's deposits was \$31,964,019 and the bank balances were \$33,715,581. All deposits are carried at cost plus accrued interest. There were no significant violations of the collateralization requirements during the year ended June 30, 2012. 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, 2012, the County's bank balance of \$33,715,581 was not exposed to custodial credit risk as \$250,000 of interest bearing accounts and \$250,000 of noninterest bearing accounts are insured by FDIC and \$60,000,000 is insured by a deposit surety bond issued by Harford Fire Insurance Company.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments

As of June 30, 2012, 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	\$ 135,785,411	\$ 115,780,311	\$ 20,005,100	\$ -	\$ -
Certificates of Deposit	400,000	-	400,000	-	-
Total investments held in County's name	<u>136,185,411</u>	<u>115,780,311</u>	<u>20,405,100</u>	<u>-</u>	<u>-</u>
Investments held by trustee of					
Pension plan:					
U.S. government obligations, municipal and corporate bonds	16,179,472	2,798,419	1,543,370	4,121,935	7,715,748
Fixed income securities	2,204,601	2,204,601	-	-	-
Corporate stocks	21,428,878	21,428,878	-	-	-
Equity funds	21,210,844	21,210,844	-	-	-
Money market funds	1,878,605	1,878,605	-	-	-
Interest and dividends receivable	139,918	139,918	-	-	-
Total Investments held by trustee of pension plan	<u>63,042,318</u>	<u>49,661,265</u>	<u>1,543,370</u>	<u>4,121,935</u>	<u>7,715,748</u>
Investments held by trustee of					
LOSAP plan:					
U.S. government obligations and corporate bonds	1,410,059	251,362	176,010	342,867	639,820
Corporate stocks	1,815,548	1,815,548	-	-	-
Fixed income funds	251,870	251,870	-	-	-
Equity funds	1,851,246	1,851,246	-	-	-
Money market funds	97,146	97,146	-	-	-
Interest and dividends receivable	12,658	12,658	-	-	-
Total Investments held by trustee of LOSAP plan	<u>5,438,527</u>	<u>4,279,830</u>	<u>176,010</u>	<u>342,867</u>	<u>639,820</u>
Investments held by trustee of					
OPEB plan:					
U.S. government obligations and corporate bonds	2,444,867	407,087	351,911	457,170	1,228,699
Corporate stocks	2,471,510	2,471,510	-	-	-
Equity funds	3,780,418	3,780,418	-	-	-
Money market funds	375,780	375,780	-	-	-
Interest and dividends receivable	25,116	25,116	-	-	-
Total Investments held by trustee of OPEB plan	<u>9,097,691</u>	<u>7,059,911</u>	<u>351,911</u>	<u>457,170</u>	<u>1,228,699</u>
Total investments	<u>\$ 213,763,947</u>	<u>\$ 176,781,317</u>	<u>\$ 22,476,391</u>	<u>\$ 4,921,972</u>	<u>\$ 9,584,267</u>

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments (continued)

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%

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, 2012, the County's investments were 100% in U.S. Treasury and Agency obligations and certificates of deposit.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments (continued)

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:

<u>Investment Type</u>	<u>Evaluation Benchmark</u>
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, 2012, none of the County's investments are exposed to custodial credit risk because they are held in the County's name.

Board of Education

Cash:

Credit Risk: Maryland State Law prescribed 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. Through December 31, 2012, all deposits held in noninterest-bearing accounts are fully insured. Any cash deposit exceeding the FDIC insurance level will require collateralization. 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 as of June 30, 2012.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2012**

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education (continued)

Compliance is summarized as follows:

<u>June 30, 2012</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Responsibilities</u>	<u>Total</u>
Carrying amount of cash deposits	\$ 15,033,653	\$ 2,939	\$ 2,865,862	\$ 17,902,454
Bank balance of cash deposits	18,050,532	2,939	2,972,810	21,026,281
Amount covered by FDIC	530,921	2,031	2,279,358	2,812,310
Amount collateralized with securities held by an agent of the pledging financial institution in the School system's name	17,519,611	908	693,452	18,213,971

Investments:

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

Interest and Custodial Risk: Investments are made in fully secured time deposits and 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.

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2012**

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education (continued)

As of June 30, 2012, the School System had the following investments and maturities:

<u>June 30, 2012</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Responsibilities</u>	<u>Total</u>
Federal National Mortgage Association– Step Up/Variable, matures September 21, 2016	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000
Federal Home Loan Bank –Step Up/Variable matures May 24, 2019	2,000,000	-	-	2,000,000
Federal Home Loan Mortgage Corp.- 1.375% matures September 14, 2017	3,000,000	-	-	3,000,000
Federal Home Loan Mortgage Corp. - 2.012% matures November 24, 2014 (net of unamortized premium of \$252,891)	5,247,109	-	-	5,247,109
Federal National Mortgage Association - 1.25% matures October 17, 2016	2,000,000	-	-	2,000,000
Federal National Mortgage Association - 1.375% matures October 19, 2016	3,000,000	-	-	3,000,000
Federal Home Loan Mortgage Corp.- 1.4% matures January 25, 2017	4,000,000	-	-	4,000,000
Federal Home Loan Mortgage Corp.- 1.0% matures February 27, 2017	5,000,000	-	-	5,000,000
Income Fund of America			51,026	51,026
	<u>\$ 26,747,109</u>	<u>\$ -</u>	<u>\$ 51,026</u>	<u>\$ 26,798,135</u>

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
	<u>June 30, 2012</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Agencies	\$ 26,747,109	\$ -	\$ 21,747,109	\$ 5,000,000	\$ -
Income Fund	51,026	51,026	-	-	-
	<u>\$ 26,798,135</u>	<u>\$ 51,026</u>	<u>\$ 21,747,109</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2012**

4. RECEIVABLES

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

	Governmental Activities			Total
	General	Non-Major	Capital Projects	
Receivables:				
Taxes receivable	\$ 1,282,411	\$ -	\$ -	\$ 1,282,411
Accounts receivable	420,096	277,977	4,439,827	5,137,900
Gross receivables	1,702,507	277,977	4,439,827	6,420,311
Less: allowance for uncollectibles	243,470	500	-	243,970
Net Total Receivables	\$ 1,459,037	\$ 277,477	\$ 4,439,827	\$ 6,176,341

	Business-type Activities				Total
	Water Quality	Solid Waste	Airport	Non-major	
Accounts receivable	\$ 1,017,923	\$ 225,062	\$ 143,102	\$ 15,863	\$ 1,401,950
Less: allowance for uncollectibles	12,295	23,012	8,533	1,511	45,351
Net Total Receivables	\$ 1,005,628	\$ 202,050	\$ 134,569	\$ 14,352	\$ 1,356,599

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of the end of the current fiscal year deferred revenue for delinquent property taxes receivable reported in the General Fund was \$275,335. 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, 2012**

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

Primary Government

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 69,476,984	\$ 2,577,072	\$ (62,952)	\$ 71,991,104
Capital assets, being depreciated:				
Land Improvements	9,161,928	-	(13,010)	9,148,918
Building and Improvements	64,627,486	3,439,340	(153,957)	67,912,869
Vehicles	11,502,208	248,683	(277,328)	11,473,563
Infrastructure	1,117,391,706	7,386,979	-	1,124,778,685
Machinery and Equipment	8,639,791	1,511,553	(1,347,534)	8,803,810
Office Furniture and Equipment	5,555,445	-	(68,130)	5,487,315
Computer Equipment	27,262,754	845,954	(21,786)	28,086,922
Total capital assets, being depreciated	<u>1,244,141,318</u>	<u>13,432,509</u>	<u>(1,881,745)</u>	<u>1,255,692,082</u>
Total Capital Assets	<u>1,313,618,302</u>	<u>16,009,581</u>	<u>(1,944,697)</u>	<u>1,327,683,186</u>
Accumulated depreciation for:				
Land Improvements	(4,231,203)	(338,917)	5,351	(4,564,769)
Building and Improvements	(21,327,231)	(1,881,934)	79,998	(23,129,167)
Vehicles	(9,745,083)	(787,172)	277,328	(10,254,927)
Infrastructure	(849,074,864)	(18,936,036)	-	(868,010,900)
Machinery and Equipment	(6,319,499)	(498,831)	788,379	(6,029,951)
Office Furniture and Equipment	(4,335,409)	(432,423)	68,130	(4,699,702)
Computer Equipment	(8,839,074)	(2,543,627)	21,786	(11,360,915)
Total Accumulated Depreciation	<u>(903,872,363)</u>	<u>(25,418,940)</u>	<u>1,240,972</u>	<u>(928,050,331)</u>
Governmental Activities Capital Assets, net	<u>\$ 409,745,939</u>	<u>\$ (9,409,359)</u>	<u>\$ (703,725)</u>	<u>\$ 399,632,855</u>
Projects Under Construction	<u>\$ 15,224,424</u>	<u>\$ 15,893,668</u>	<u>\$ (17,780,898)</u>	<u>\$ 13,337,194</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements
June 30, 2012

5. CAPITAL ASSETS (continued)

Business-type Activities

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 11,760,175	\$ -	\$ -	\$ 11,760,175
Capital assets, being depreciated:				
Land Improvements	127,379,653	8,824,163	(109,348)	136,094,468
Building and Improvements	54,764,575	487,480	-	55,252,055
Facilities	110,533,575	235,637	-	110,769,212
Vehicles	6,947,236	49,510	(25,189)	6,971,557
Machinery and Equipment	9,914,991	163,089	(44,159)	10,033,921
Office Furniture and Equipment	323,205	-	-	323,205
Computer Equipment	2,276,925	21,786	(15,873)	2,282,838
Treatment Plants	51,471,642	-	(22,167)	51,449,475
Total capital assets, being depreciated	<u>363,611,802</u>	<u>9,781,665</u>	<u>(216,736)</u>	<u>373,176,731</u>
Total capital assets	<u>375,371,977</u>	<u>9,781,665</u>	<u>(216,736)</u>	<u>384,936,906</u>
Accumulated depreciation for:				
Land Improvements	(47,709,020)	(7,413,096)	106,868	(55,015,248)
Building and Improvements	(11,809,047)	(1,390,713)	-	(13,199,760)
Facilities	(25,485,933)	(1,419,360)	-	(26,905,293)
Vehicles	(3,894,487)	(700,156)	25,189	(4,569,454)
Machinery and Equipment	(7,347,996)	(531,631)	39,557	(7,840,070)
Office Furniture and Equipment	(320,171)	(2,165)	-	(322,336)
Computer Equipment	(1,222,872)	(250,975)	15,873	(1,457,974)
Treatment Plants	(18,752,008)	(969,760)	22,167	(19,699,601)
Total Accumulated Depreciation	<u>(116,541,534)</u>	<u>(12,677,856)</u>	<u>209,654</u>	<u>(129,009,736)</u>
Business-type activities capital assets, net	<u>\$ 258,830,443</u>	<u>\$ (2,896,191)</u>	<u>\$ (7,082)</u>	<u>\$ 255,927,170</u>
Projects Under Construction	<u>\$ 4,071,837</u>	<u>\$ 7,309,379</u>	<u>\$ (9,448,528)</u>	<u>\$ 1,932,688</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

5. CAPITAL ASSETS (continued)

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

Governmental Activities:

General Government	\$ 20,284,909
Public Safety	4,091,051
Recreation	373,604
Conservation of Natural Resources	5,556
Highway	512,968

Total Depreciation Expense - Governmental Activities	\$ 25,268,088
---	----------------------

Business-Type Activities:

Transit Fund	\$ 570,788
Airport Fund	6,335,325
Golf Course Fund	74,849
Water Quality Fund	2,877,340
Solid Waste Fund	2,714,362

Total Depreciation Expense – Business-Type Activities	\$ 12,572,664
--	----------------------

Board of Education (Discretely presented component unit)

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Government Activities				
Capital assets, not being depreciated:				
Land	\$ 4,500,513	\$ -	\$ -	\$ 4,500,513
Facilities under construction	1,130,485	715,632	(1,130,485)	715,632
	<u>5,630,998</u>	<u>715,632</u>	<u>(1,130,485)</u>	<u>5,216,145</u>
Capital assets, being depreciated:				
Building and Improvements	289,839,587	58,178	(65,090)	289,832,675
Furniture and equipment	36,406,811	4,107,884	(1,911,705)	38,602,990
Equipment under capital leases	10,722,040	-	-	10,722,040
	<u>336,968,438</u>	<u>4,166,062</u>	<u>(1,976,795)</u>	<u>339,157,705</u>
Accumulated depreciation:				
Building and Improvements	(106,062,010)	(6,770,535)	-	(112,832,545)
Furniture and equipment, including equipment under capital leases	(21,355,185)	(3,819,105)	1,828,878	(23,345,412)
	<u>(127,417,195)</u>	<u>(10,589,640)</u>	<u>1,828,878</u>	<u>(136,177,957)</u>
Governmental Activities Capital Assets, Net	\$ 215,182,241	\$ (5,707,946)	\$ (1,278,402)	\$ 208,195,893

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2012**

5. CAPITAL ASSETS (continued)

Board of Education (continued)

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

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Business-Type Activities				
Capital assets, being depreciated:				
Furniture and equipment	\$ 4,227,858	\$ 207,482	\$ (38,604)	\$ 4,396,736
Accumulated depreciation				
Furniture and equipment	(2,811,898)	(217,609)	36,738	(2,992,769)
Business-Type Activities Capital Assets, Net	<u>\$ 1,415,960</u>	<u>\$ (10,127)</u>	<u>\$ (1,866)</u>	<u>\$ 1,403,967</u>
Governmental activities:				
Other instructional costs		\$ 2,004,242		
Student transportation services		1,078,969		
Operation of plant		160,883		
Depreciation - unallocated		7,345,546		
Total governmental activities depreciation expense		<u>\$ 10,589,640</u>		
Business-type activities:				
Food services		<u>\$ 217,609</u>		

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.”

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2012**

6. INTERFUND RECEIVABLES AND PAYABLES (continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Airport	\$ 20,000
Water Quality	General Fund	16,734,336
	Airport	739,388
	Golf Course	349,015
	Public Transit	259,744
	HEPMPO	37,451
Solid Waste	General Fund	12,117,968
	Airport	535,419
	Golf Course	252,735
	Public Transit	188,090
	HEPMPO	27,120
Capital Projects	General Fund	<u>71,716,686</u>
Total		<u>\$ 102,977,952</u>

Due to/from primary government and component unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government- capital projects	Component unit - Board of Education	\$ 448,070
Component unit - Board of Education	Primary government- capital projects	2,632,300

The General Fund receivable from the Airport has a June 30, 2012, balance of \$20,000 which is an interest free loan and is being paid over a remaining 2 year period. All other interfund payables are without interest.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

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:

Fund	Operating Transfers In	Operating Transfers Out	Capital Transfers In	Capital Transfers Out
General Fund:				
Capital Projects	\$ -	\$ -	-	\$ 3,615,000
Solid Waste	-	542,500	-	-
Public Transit	-	472,270	-	-
Water Quality	-	4,214,786	-	-
Community Partnership	-	236,939	-	-
Agricultural Education Center	-	100,000	-	-
Golf Course	-	70,780	-	-
HEPMPO	-	4,280	-	-
Land Preservation	-	62,161	-	-
Capital Projects Fund:				
General Fund	-	-	3,578,900	-
Airport Fund	-	217,047	-	-
Golf Course	-	-	-	8,500
Solid Waste:				
General Fund	542,500	-	-	-
Public Transit:				
General Fund	472,270	-	-	-
Capital Project Fund	-	-	15,100	-
HEPMPO	-	11,980	-	-
Water Quality:				
General Fund	4,214,786	-	-	-
Airport:				
Capital Project Fund	217,047	-	21,000	-
Golf Course				
General Fund	70,780	-	-	-
Capital Project Fund	-	-	8,500	-
Local Management Board:				
General Fund	236,939	-	-	-
Agricultural Education Center:				
General Fund	100,000	-	-	-
HEPMPO				
General Fund	4,280	-	-	-
Public Transit Fund	11,980	-	-	-
Land Preservation				
General Fund	62,161	-	-	-
Total	\$ 5,932,743	\$ 5,932,743	\$ 3,623,500	\$ 3,623,500

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

8. LONG-TERM 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. During the year, general obligation bonds totaling \$17,765,000 were issued for new projects and \$7,740,000 were issued to refund bonds and loans outstanding. 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:

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements
June 30, 2012

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

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Bonds payable:						
General obligation bonds	2.0-5.5%	\$ 121,223,199	\$ 18,166,420	\$ 15,463,070	\$ 123,926,549	\$ 9,594,690
Deferred amount on refunding		(1,061,527)	(559,268)	(172,219)	(1,448,576)	-
Unamortized bond premium		1,207,355	1,050,508	166,129	2,091,734	-
Unamortized bond discount		(35,451)	-	(32,496)	(2,955)	-
Total bonds payable		<u>121,333,576</u>	<u>18,657,660</u>	<u>15,424,484</u>	<u>124,566,752</u>	<u>9,594,690</u>
Other loans payable						
Maryland Water Quality loans	1.0%	<u>6,026,733</u>	<u>-</u>	<u>280,845</u>	<u>5,745,888</u>	<u>283,321</u>
Total bonds and loans payable		<u>127,360,309</u>	<u>18,657,660</u>	<u>15,705,329</u>	<u>130,312,640</u>	<u>9,878,011</u>
Agricultural Land Preservation	3.0%	<u>2,568,746</u>	<u>-</u>	<u>517,736</u>	<u>2,051,010</u>	<u>517,736</u>
Capital lease obligations	2.1%	<u>-</u>	<u>759,137</u>	<u>158,267</u>	<u>600,870</u>	<u>145,522</u>
Governmental Activity Long-term Liabilities		<u>129,929,055</u>	<u>19,416,797</u>	<u>16,381,332</u>	<u>132,964,520</u>	<u>10,541,269</u>
Business-type Activities						
Bonds payable:						
General obligation bonds	2.0-5.5%	\$ 42,911,627	\$ 7,338,580	\$ 14,460,104	\$ 35,790,103	\$ 2,339,865
Deferred amount on refunding		(1,027,403)	(49,849)	(160,235)	(917,017)	-
Unamortized bond premium		365,414	276,255	42,474	599,195	-
Unamortized bond discount		(29,739)	-	(5,764)	(23,975)	-
Total bonds payable		<u>42,219,899</u>	<u>7,564,986</u>	<u>14,336,579</u>	<u>35,448,306</u>	<u>2,339,865</u>
Other loans payable:						
Maryland Water Quality loans	0.40-3.3%	<u>19,185,877</u>	<u>-</u>	<u>2,208,975</u>	<u>16,976,902</u>	<u>2,111,105</u>
State loans	5.5-6.4%	<u>1,398,463</u>	<u>-</u>	<u>1,398,463</u>	<u>-</u>	<u>-</u>
Other loans payable		<u>20,584,340</u>	<u>-</u>	<u>3,607,438</u>	<u>16,976,902</u>	<u>2,111,105</u>
Total bonds and loans payable		<u>62,804,239</u>	<u>7,564,986</u>	<u>17,944,017</u>	<u>52,425,208</u>	<u>4,450,970</u>
Capital lease obligations	4.0-4.3%	<u>176,624</u>	<u>-</u>	<u>111,123</u>	<u>65,501</u>	<u>65,501</u>
Business-type Activity Long-term Liabilities		<u>62,980,863</u>	<u>7,564,986</u>	<u>18,055,140</u>	<u>52,490,709</u>	<u>4,516,471</u>
Total Combined Activities Long-term Liabilities		<u>\$ 192,909,918</u>	<u>\$ 26,981,783</u>	<u>\$ 34,436,472</u>	<u>\$ 185,455,229</u>	<u>\$ 15,057,740</u>
Board of Education	4.5-8.04%	<u>\$ 8,739,164</u>	<u>\$ -</u>	<u>\$ 728,076</u>	<u>\$ 8,011,088</u>	<u>\$ 780,120</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

8. LONG-TERM 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
2013	\$ 9,878,011	\$ 4,314,442	\$ 4,450,970	\$ 1,885,748	\$ 14,328,981	\$ 6,200,190
2014	10,020,624	4,174,608	4,562,985	1,970,062	14,583,609	6,144,670
2015	9,702,503	3,847,355	4,416,526	1,997,660	14,119,029	5,845,015
2016	9,155,717	3,501,972	3,538,212	2,465,116	12,693,929	5,967,088
2017	8,888,594	3,188,633	3,372,114	2,441,000	12,260,708	5,629,633
2018-2022	37,173,919	11,656,375	17,448,393	8,246,684	54,622,312	19,903,059
2023-2027	30,018,378	5,617,398	9,067,498	1,752,048	39,085,876	7,369,446
2028-2032	14,026,302	1,160,482	5,528,696	477,512	19,554,998	1,637,994
2033	808,389	12,631	381,611	5,963	1,190,000	18,594
Total	<u>129,672,437</u>	<u>\$ 37,473,896</u>	<u>52,767,005</u>	<u>\$ 21,241,793</u>	<u>182,439,442</u>	<u>\$ 58,715,689</u>
Less:						
Deferred amount on refunding	(1,448,576)		(917,017)		(2,365,593)	
Unamortized discount	(2,955)		(23,975)		(26,930)	
Unamortized premium	2,091,734		599,195		2,690,929	
	<u>\$ 130,312,640</u>		<u>\$ 52,425,208</u>		<u>\$ 182,737,848</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, 2012, the unused authorization was \$26,672,722.

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, 2012, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$58,464,744.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2012**

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, 2012, are as follows:

As of June 30,	Principal	Interest	Total Requirement
2013	\$ 517,736	\$ 61,530	\$ 579,266
2014	517,737	45,998	563,735
2015	517,737	30,466	548,203
2016	351,794	14,934	366,728
2017	146,007	4,380	150,387
	<u>\$ 2,051,011</u>	<u>\$ 157,308</u>	<u>\$ 2,208,319</u>

For the year ended June 30, 2012, total principal and interest incurred related to agricultural land preservation installments was \$517,736 and \$77,062, 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. The future minimum lease payments under this agreement are as follows:

<u>Year ending June 30,</u>	
2013	\$ 158,267
2014	158,267
2015	158,267
2016	<u>158,267</u>
Total minimum payments	633,068
Less: amounts representing interest	<u>32,198</u>
Present value of net minimum lease payments	<u>\$ 600,870</u>

On October 3, 2008, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$37,846 through October 3, 2012. On May 26, 2009, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$30,370 through May 26, 2013.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2012**

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

Capital Leases (continued)

The future minimum lease payments under these agreements are as follows:

<u>Year ending June 30,</u>		
2013	\$	68,217
Total minimum lease payments		68,217
Less: amounts representing interest		2,716
Present value of net minimum lease payments	\$	<u>65,501</u>

The following is an analysis of the capital assets acquired under capital leases as of June 30, 2012.

	<u>Capitalized Amount</u>	<u>Accumulated Depreciation</u>	<u>NBV June 30, 2012</u>
General Fund	\$ 1,281,325	\$ 32,451	\$ 1,248,874
Solid Waste	314,975	98,873	216,102
	<u>\$ 1,596,300</u>	<u>\$ 131,324</u>	<u>\$ 1,464,976</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>
2013	\$ 780,120	\$ 417,638	\$ 1,197,758
2014	628,493	361,160	989,653
2015	648,159	312,229	960,388
2016	372,666	260,802	633,468
2017	389,818	243,650	633,468
2018-2022	2,235,320	932,022	3,167,342
2023-2027	2,799,327	368,015	3,167,342
2028	157,185	1,182	158,367
	<u>\$ 8,011,088</u>	<u>\$ 2,896,698</u>	<u>\$ 10,907,786</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

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

Advance Refunding

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, 2012, \$14,450,000 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 revenue 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 revenue 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 revenue 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, allows 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, 2012

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, allows 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 revenue in the amount of \$1,165,000 was recorded in the Airport fund at the inception of the lease.

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, allows 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 revenue 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, allows 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 revenue 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, 2012

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, allows 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 revenue 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, allows 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 revenue 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, allows 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 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 revenue in the amount of \$4,500,000 was recorded in the Airport fund as of June 30, 2011.

During year ending June 30, 2012, rental income for the above leases of \$770,701 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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

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, 2012, outsourcing revenue of \$345,600 was recognized in the Water Quality Fund.

Black Rock Golf Course had a lease agreement for golf carts which expired in December 2011. 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, 2012, were \$60,155.

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 2012, 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 at June 30, 2012, was \$2,347,663 and \$569,734, 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, 2012, was \$6,460,986. Total employee related costs associated and accrued with these compensated absences amounted to \$459,141 as of June 30, 2012. For governmental funds, \$795,234 as of June 30, 2012, 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, 2012

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. Uniformed employees may take early retirement with reduced benefits at 20 years of service and non-uniformed may take early retirement at 25 years of service. Cost-of-living adjustments are provided at the discretion of the County Commissioners. Annual reporting for the Plan is presented only in the County's fiduciary funds financial statements.

Funding Policy

The contribution requirements of Plan members and the County is established and may be amended by the County Commissioners. Plan members are required to contribute 5.5% of their annual covered salary, except for uniformed sworn officers of the Sheriff's Department, who contribute 6%.

All information that follows for the Plan is as of July 1, 2011, which is the latest actuarial report available.

Membership of the Plan

The membership consisted of the following as of July 1, 2011, the date of the latest actuarial valuation:

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

Retirees and beneficiaries receiving benefits	226
Terminated Plan members entitled to but not yet receiving benefits	42
Active Plan members	741
	<u>1,009</u>

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation for the year ended June 30, 2011, were as follows:

Annual required contribution	\$ 4,934,803
Interest on net pension obligation	202,456
Adjustment to annual required contribution	<u>(300,555)</u>
Annual pension cost	4,836,704
Contributions	<u>4,379,473</u>
Increase in net pension obligation	457,231
Net pension obligation, beginning of year	<u>2,612,331</u>
Net pension obligation, end of year	<u>\$ 3,069,562</u>

The annual required contribution for the current year was determined as part of the July 1, 2011, 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 2.0% through 2012 and 4.0% per year thereafter. 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, 2012

11. RETIREMENT PLANS (continued)

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Excess)
6/30/2011	\$ 4,836,704	90.55%	\$ 3,069,562
6/30/2010	4,255,363	57.84%	2,612,331
6/30/2009	3,827,494	93.09%	818,204
6/30/2008	3,119,308	100.00%	553,586

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 classified 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 may elect to join the "Pension System." All teachers hired within the State after December 31, 1979, must join the "Pension System for Teachers." All classified employees hired within the State after December 31, 1999, must join the "Pension System for Employees." The "Teachers' 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 provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System and as early as age 55 and 15 years of service for the Pension System. Benefits generally vest after 5 years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 1-800-492-5909, or by e-mail at sra@sra.state.md.us.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

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 5% their gross salary for the year ended June 30, 2011, respectively. 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.

Washington County School System contributions totaling \$1,999,671 and \$1,978,382 or 10.94% and 10.83% of covered payroll for fiscal years 2012 and 2011, respectively; and contributions by the State of Maryland on behalf of the School System totaling \$19,374,937 and \$18,559,074 or 15.45% and 14.34% of covered payroll for fiscal years 2012 and 2011, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed annually.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases of 3.5% per year compounded annually, attributable to inflation, (c) postretirement benefit increases ranging from 2.75% to 3.5% per year depending on the system.

The actuarial value of assets was determined by recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% nor less than 80% of the market value of assets. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll, in two distinct pieces. The unfunded actuarial accrued liability, which existed as of the June 30, 2000 actuarial valuation, is being amortized over the remaining 10-year period to June 30, 2020. Each new layer of unfunded actuarial accrued liability arising subsequent to June 30, 2000, is being amortized over a twenty-five year period.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

11. RETIREMENT PLANS (continued)

Board of Education (continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Total Annual Pension Cost (APC)</u>	<u>APC Contributed by School System</u>	<u>APC Contributed by State</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
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	16,580,780	100%	-
2009	14,644,559	1,203,511	13,441,048	100%	-
2008	13,777,983	1,268,670	12,509,313	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.

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

12. RISK MANAGEMENT (continued)

County (continued)

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 \$988,731 which is reflected in the accompanying financial statements as of June 30, 2012. Changes in the claims liability were as follows:

	Years Ended June 30,	
	2012	2011
Liability, beginning of year	\$ 725,601	\$ 989,018
Premiums collected and changes in estimates during the year	11,777,559	9,991,595
Claims and administrative costs paid	(11,514,429)	(10,255,012)
Liability, end of year	<u>\$ 988,731</u>	<u>\$ 725,601</u>

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

12. RISK MANAGEMENT (continued)

County (continued)

The County Commissioners have also established a self-insurance plan for Workers' Compensation claims whereby the County is liable for the first \$500,000 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 \$1,231,494, which is reflected in the accompanying financial statements as of June 30, 2012. Changes in the claims liability were as follows:

	<u>Years Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Liability, beginning of year	\$ 1,235,540	\$ 754,966
Premiums collected and changes in estimates during the year	814,185	1,375,540
Claims and administrative costs paid	(818,231)	(894,966)
Liability, end of year	<u>\$ 1,231,494</u>	<u>\$ 1,235,540</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, 2012

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 \$250,000 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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

12. RISK MANAGEMENT (continued)

Board of Education (continued)

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 \$29,864,325 and \$26,953,572 for the years ended June 30, 2012 and 2011, respectively.

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, 2012 and 2011. 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,	
	2012	2011
Liability, beginning of year	\$ 1,968,033	\$ 2,043,031
Claims and changes in estimates during the year	32,782,786	31,250,926
Claims paid and accrued	(32,575,817)	(31,325,924)
Liability, end of year	<u>\$ 2,175,002</u>	<u>\$ 1,968,033</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, 2012

14. SEGMENT INFORMATION (continued)

	<u>Sewer Department</u>	<u>Pretreatment Department</u>
CONDENSED STATEMENT OF NET ASSETS		
ASSETS		
Current assets	\$ 25,945,535	\$ 3,516,446
Noncurrent assets	102,883,453	5,918,217
Total Assets	<u>128,828,988</u>	<u>9,434,663</u>
LIABILITIES		
Other current liabilities	7,422,450	1,898,931
Noncurrent liabilities	<u>18,862,649</u>	<u>4,627,222</u>
Total Liabilities	26,285,099	6,526,153
Net assets		
Invested in capital assets, net of related debt	93,649,141	301,030
Unrestricted	(1,977,763)	2,607,480
Restricted-capital projects	<u>10,872,511</u>	<u>-</u>
Total Net Assets	<u>\$ 102,543,889</u>	<u>\$ 2,908,510</u>
CONDENSED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS		
Operating revenue	\$ 8,173,389	\$ -
Lease income	-	345,600
Depreciation expense	(2,112,644)	(187,664)
Other operating expenses	<u>(6,852,704)</u>	<u>(24,040)</u>
Operating income	(791,959)	133,896
Non-operating revenue (expenses):		
Interest income	114,055	-
Interest expense	(767,333)	(232,045)
Utility administration charge	-	-
Operating transfers	2,770,000	1,400,000
Capital contributions	<u>279,455</u>	<u>-</u>
Change in net assets	1,604,218	1,301,851
Net assets, beginning of year	<u>100,939,671</u>	<u>1,606,659</u>
Net Assets, End of Year	<u>\$ 102,543,889</u>	<u>\$ 2,908,510</u>
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	\$ 122,428	\$ 321,560
Noncapital financing activities	2,770,000	1,400,000
Capital and related financing activities	3,216,650	(669,722)
Investing activities	<u>(273,364)</u>	<u>-</u>
Net increase	5,835,714	1,051,838
Cash and cash equivalents, beginning of year	-	2,436,308
Cash and Cash Equivalents, End of Year	<u>\$ 5,835,714</u>	<u>\$ 3,488,146</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

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 \$190,343 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, 2012.

The Resh Landfill has reported a landfill post-closure care liability of \$5,797,371 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, 2012.

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, 2012. The Rubble Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2012.

The 40 West Landfill began operation in fiscal year 2001. The estimated life of this landfill is approximately 120 years as of June 30, 2012, it is estimated that approximately 14.6% of the capacity has been used. The estimated costs associated with closure and post-closure care of \$6,873,488 was reported as a liability in the Solid Waste Fund at June 30, 2012. 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, 2012, as specified in 40CFR258.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

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-three retirees are receiving benefits and sixty-four 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. Two former employees are receiving this benefit.

The County offered a special termination benefit to employees that retired between July 1, 1996 and September 30, 1996. Those employees are receiving health care benefits (managed care program) from the date of retirement until they are eligible for Medicare. Two former employees 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, 2012**

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

County (continued)

Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,303,670
Interest on Net OPEB Obligation	(17,506)
Adjustment to Annual Required Contribution	13,751
Annual OPEB Cost (Expense)	<u>1,299,915</u>
Contributions Made or Accrued	<u>1,889,809</u>
Increase in Net Obligation	(589,894)
Net OPEB Asset (BOY)	<u>(225,885)</u>
Net OPEB Asset (EOY)	<u><u>\$ (815,779)</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 four years as of June 30, is as follows:

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2012	\$ 1,299,915	145.38%	\$ (815,779)
2011	1,565,760	112.22%	(225,885)
2010	1,570,147	111.90%	(34,498)
2009	1,614,260	99.00%	152,502

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, 2012

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 June 30, 2012, actuarial valuation, 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 12% 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, 2012, was 26 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.

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

Board of Education (continued)

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. The current ARC rate is 8.06% of annual covered payroll.

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed for the plan as of June 30, 2012, 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 \$11,945,276 was \$149,978 higher than the ARC for the fiscal year, due to adjustments related to amortization and interest on the net OPEB obligation. The School System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 11,945,276	118.00%	\$ (7,222,174)
2011	10,505,013	123.47%	(5,069,600)
2010	10,505,013	124.63%	(2,603,769)

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

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, 2012, was as follows:

Actuarial accrued liability (AAL)	\$ 155,894,618
Actuarial value of plan assets	23,034,693
Unfunded actuarial accrued liability (UAAL)	<u>\$ 132,859,925</u>
Funded ratio (actuarial value of plan assets/AAL)	14.78%
Covered payroll (active plan members)	\$ 146,300,000
UAAL as a percentage of covered payroll	90.81%

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, 2012, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.5% initially, reduced by 1.0% per year to arrive at an ultimate healthcare cost trend rate of 5.0%. Both rates include a 4.0% 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, 2012, was twenty-six years.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

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, 2012. 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.

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, 2012, 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 \$2,707,959.

In August 2009, the School System agreed to a three year contract for access to an uninterrupted web-based data management system for \$420,000 with Performance Matters, LLC. This agreement is to facilitate access of Washington County's Public School System employees and parents to Washington County Public School System Scorecard. After the expiration of the initial term, this agreement shall automatically renew on the terms and conditions contained therein for up to three additional one year periods upon the anniversary of the initial term.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

17. CONTINGENCIES AND COMMITMENTS (continued)

Board of Education (continued)

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, 2012 are categorized as follows:

	General Fund	Capital Projects Fund	Non-major Governmental Funds	Total
Non-Spendable				
Inventory	\$ 24,713	\$ -	\$ -	\$ 24,713
Restricted				
Programs and activities	149,839	-	1,424,570	1,574,409
Workers compensation	180,000	-	-	180,000
Highways and streets	850,907	-	-	850,907
Capital projects		18,184,914	-	18,184,914
Committed				
Contingencies	36,268,829	-	-	36,268,829
Programs and activities	26,105	-	199,777	225,882
Capital projects		53,810,872	-	53,810,872
Assigned				
Programs and activities	23,491	-	73,498	96,989
One-time costs	1,109,001	-	-	1,109,001
Unassigned	-	-	(18,145)	(18,145)
Totals	<u>\$ 38,632,885</u>	<u>\$ 71,995,786</u>	<u>\$ 1,679,700</u>	<u>\$ 112,308,371</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

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 2011 calendar year census shows 811 volunteers receiving at least 50 points, which qualifies them for LOSAP credit. 137 retired volunteers and 4 spouses are participating in LOSAP. The County funds LOSAP in annual amounts determined by an actuary.

As of July 1, 2011, the date of the latest actuarial valuation, the LOSAP Unfunded Accrued Liability (UAL) is as follows:

Accrued Liability	\$ 8,295,635
Less: assets at market value	<u>5,708,987</u>
Unfunded Accrued Liability	<u><u>\$ 2,586,648</u></u>

The minimum recommended contribution for the year beginning July 1, 2012, is as follows:

Normal costs	\$ 359,106
Amortization of UAL (over 15 years)	212,770
Interest on UAL	<u>27,831</u>
Recommended contribution	<u><u>\$ 599,707</u></u>

This page intentionally left blank

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Funding Progress
June 30, 2012**

Pension Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$ 49,875,724	\$ 60,333,283	\$ 10,457,559	82.67%	\$ 29,299,129	35.69%
7/1/2008	51,808,616	67,907,912	16,099,296	76.29%	31,652,038	50.86%
7/1/2009	49,838,084	71,136,183	21,298,099	70.06%	33,576,069	63.43%
7/1/2010	52,986,292	77,023,047	24,036,755	68.79%	35,422,916	67.86%
7/1/2011	59,987,348	84,165,680	24,178,332	71.27%	34,479,726	70.12%

Length of Service Award Program (LOSAP) Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$ 4,401,471	\$ 5,581,427	\$ 1,179,956	78.86%	N/A	N/A
7/1/2008	4,242,850	6,510,528	2,267,678	65.17%	N/A	N/A
7/1/2009	3,944,546	7,111,240	3,166,694	55.47%	N/A	N/A
7/1/2010	4,572,193	7,710,562	3,138,369	59.30%	N/A	N/A
7/1/2011	5,708,987	8,295,635	2,586,648	68.82%	N/A	N/A

Other Postemployment Benefit (OPEB) Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$ -	\$ 14,950,000	\$ 14,950,000	0.00%	\$ 29,299,129	51.03%
7/1/2008	1,211,350	16,549,200	15,337,850	7.32%	31,652,038	48.46%
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	18,526,736	9,404,439	49.24%	34,479,726	27.28%

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statements of Financial Schedules June 30, 2012

Non-Major Governmental Funds

The Community Partnership Fund 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 Foreign Trade Zone Fund is a special revenue fund used to account for all transactions of the Foreign Trade Zone Commission. The Foreign Trade Zone Commission was established to allow a reduction or elimination of import taxes for County businesses within the 1,866 acres of the zone.

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, 2012

Non-Major Proprietary Funds

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, 2012

	<u>Local Management Board</u>	<u>Inmate Welfare</u>	<u>Contraband</u>	<u>Agricultural Education Center</u>	<u>Hotel Rental Tax</u>	<u>Gaming</u>	<u>Land Preservation</u>	<u>HEPMPO</u>	<u>Total Non-major Funds</u>
ASSETS									
Cash	\$ 261,765	\$ 135,965	\$ 417,098	\$ 78,463	\$ 747,291	\$ 1,445,467	\$ 451,054	\$ -	\$ 3,537,103
Accounts receivable	-	-	-	-	209,514	67,963	-	-	277,477
Due from other governmental agencies	62,711	-	-	-	-	-	122,374	62,407	247,492
Notes receivable	-	-	-	-	140,000	-	-	-	140,000
TOTAL ASSETS	<u>\$ 324,476</u>	<u>\$ 135,965</u>	<u>\$ 417,098</u>	<u>\$ 78,463</u>	<u>\$ 1,096,805</u>	<u>\$ 1,513,430</u>	<u>\$ 573,428</u>	<u>\$ 62,407</u>	<u>\$ 4,202,072</u>
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ 158,419	\$ 39,517	\$ 39,465	\$ 9,818	\$ 270,702	\$ 1,467,372	\$ 118,224	\$ 15,369	\$ 2,118,886
Accrued expenses	1,898	902	-	872	-	2,583	2,534	612	9,401
Due to other funds	-	-	-	-	-	-	-	64,571	64,571
Other liabilities	-	-	95,512	-	-	-	196,252	-	291,764
Deferred revenue	-	-	-	-	-	37,750	-	-	37,750
TOTAL LIABILITIES	<u>160,317</u>	<u>40,419</u>	<u>134,977</u>	<u>10,690</u>	<u>270,702</u>	<u>1,507,705</u>	<u>317,010</u>	<u>80,552</u>	<u>2,522,372</u>
FUND BALANCES									
Restricted	164,159	95,546	282,121	-	826,103	-	56,641	-	1,424,570
Committed	-	-	-	-	-	-	199,777	-	199,777
Assigned	-	-	-	67,773	-	5,725	-	-	73,498
Unassigned	-	-	-	-	-	-	-	(18,145)	(18,145)
TOTAL FUND BALANCES	<u>164,159</u>	<u>95,546</u>	<u>282,121</u>	<u>67,773</u>	<u>826,103</u>	<u>5,725</u>	<u>256,418</u>	<u>(18,145)</u>	<u>1,679,700</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 324,476</u>	<u>\$ 135,965</u>	<u>\$ 417,098</u>	<u>\$ 78,463</u>	<u>\$ 1,096,805</u>	<u>\$ 1,513,430</u>	<u>\$ 573,428</u>	<u>\$ 62,407</u>	<u>\$ 4,202,072</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, 2012**

	<u>Local Management Board</u>	<u>Inmate Welfare</u>	<u>Contraband</u>	<u>Agricultural Education Center</u>	<u>Hotel Rental Tax</u>	<u>Gaming</u>	<u>Land Preservation</u>	<u>HEPMPO</u>	<u>Total Non- major Funds</u>
REVENUE									
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,817,881	\$ -	\$ 443,040	\$ -	\$ 2,260,921
Licenses and permits	-	-	-	-	-	2,038,846	-	-	2,038,846
Charges for services	-	401,829	-	-	-	-	-	-	401,829
Revenue from uses of property	-	-	-	26,511	-	-	-	-	26,511
Reimbursed expenses	-	-	-	1,878	-	-	-	-	1,878
Miscellaneous revenues	-	115,096	328,761	7,976	-	-	-	21,027	472,860
Shared taxes and grants	968,935	-	-	-	-	-	802,287	323,310	2,094,532
TOTAL REVENUE	<u>968,935</u>	<u>516,925</u>	<u>328,761</u>	<u>36,365</u>	<u>1,817,881</u>	<u>2,038,846</u>	<u>1,245,327</u>	<u>344,337</u>	<u>7,297,377</u>
EXPENDITURES									
Public safety	-	-	92,259	-	-	929,385	-	-	1,021,644
Parks, recreation and culture	-	-	-	188,723	-	-	-	-	188,723
Land preservation	-	-	-	-	-	-	1,448,702	-	1,448,702
General operations	-	867,592	-	-	-	172,420	-	377,993	1,418,005
Community promotion	1,449,791	-	-	-	1,554,776	929,385	-	-	3,933,952
TOTAL EXPENDITURES	<u>1,449,791</u>	<u>867,592</u>	<u>92,259</u>	<u>188,723</u>	<u>1,554,776</u>	<u>2,031,190</u>	<u>1,448,702</u>	<u>377,993</u>	<u>8,011,026</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(480,856)</u>	<u>(350,667)</u>	<u>236,502</u>	<u>(152,358)</u>	<u>263,105</u>	<u>7,656</u>	<u>(203,375)</u>	<u>(33,656)</u>	<u>(713,649)</u>
OTHER FINANCING SOURCES									
Transfers in	236,939	-	-	100,000	-	-	62,161	16,260	415,360
NET CHANGES IN FUND BALANCES	<u>(243,917)</u>	<u>(350,667)</u>	<u>236,502</u>	<u>(52,358)</u>	<u>263,105</u>	<u>7,656</u>	<u>(141,214)</u>	<u>(17,396)</u>	<u>(298,289)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>408,076</u>	<u>446,213</u>	<u>45,619</u>	<u>120,131</u>	<u>562,998</u>	<u>(1,931)</u>	<u>397,632</u>	<u>(749)</u>	<u>1,977,989</u>
FUND BALANCES - END OF YEAR	<u>\$ 164,159</u>	<u>\$ 95,546</u>	<u>\$ 282,121</u>	<u>\$ 67,773</u>	<u>\$ 826,103</u>	<u>\$ 5,725</u>	<u>\$ 256,418</u>	<u>\$ (18,145)</u>	<u>\$ 1,679,700</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Combining Statement of Net Assets – Non-Major Proprietary Funds
As of June 30, 2012**

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
ASSETS			
Current Assets:			
Cash and short-term investments	\$ 200	\$ 800	\$ 1,000
Accounts receivable	3,339	11,013	14,352
Unbilled receivables	2,180	-	2,180
Due from other governmental agencies	1,020,182	38,890	1,059,072
Inventories	58,744	44,538	103,282
Total current assets	<u>1,084,645</u>	<u>95,241</u>	<u>1,179,886</u>
Noncurrent Assets:			
Projects under construction	793	43,211	44,004
Property plant and equipment	6,980,701	4,456,645	11,437,346
Accumulated depreciation	(2,507,799)	(2,305,908)	(4,813,707)
Total noncurrent assets	<u>4,473,695</u>	<u>2,193,948</u>	<u>6,667,643</u>
TOTAL ASSETS	<u>5,558,340</u>	<u>2,289,189</u>	<u>7,847,529</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	48,081	31,285	79,366
Accrued expenses	26,266	28,118	54,384
Due to other funds	447,834	601,750	1,049,584
Compensated absences	48,753	28,067	76,820
Deferred revenue	-	1,250	1,250
Other liabilities	-	15,386	15,386
Total current liabilities	<u>570,934</u>	<u>705,856</u>	<u>1,276,790</u>
Non Current Liabilities:			
Compensated absences	22,930	24,285	47,215
TOTAL LIABILITIES	<u>593,864</u>	<u>730,141</u>	<u>1,324,005</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,473,695	2,193,948	6,667,643
Unrestricted	490,781	(634,900)	(144,119)
TOTAL NET ASSETS	<u>\$ 4,964,476</u>	<u>\$ 1,559,048</u>	<u>\$ 6,523,524</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, 2012**

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
OPERATING REVENUE			
Charges for services	\$ 441,981	\$ 969,801	\$ 1,411,782
Miscellaneous	12,600	3,657	16,257
TOTAL OPERATING REVENUE	<u>454,581</u>	<u>973,458</u>	<u>1,428,039</u>
OPERATING EXPENSES			
Salaries and wages	1,111,347	493,425	1,604,772
Fringe benefits	352,533	183,319	535,852
Utilities	26,705	59,909	86,614
Insurance	41,846	8,599	50,445
Repairs and maintenance	176,332	69,663	245,995
Supplies	37,218	3,970	41,188
Cost of goods sold	-	112,912	112,912
Contracted services	186,672	3,240	189,912
Rentals and leases	47,764	60,155	107,919
Other operating	305,590	180,830	486,420
Uncollectible accounts	1,011	-	1,011
Controllable assets	2,020	-	2,020
Depreciation	570,788	74,849	645,637
TOTAL OPERATING EXPENSES	<u>2,859,826</u>	<u>1,250,871</u>	<u>4,110,697</u>
OPERATING LOSS	<u>(2,405,245)</u>	<u>(277,413)</u>	<u>(2,682,658)</u>
OTHER INCOME			
Interest income	99	-	99
Gain on disposal of assets	-	1,149	1,149
TOTAL OTHER INCOME	<u>99</u>	<u>1,149</u>	<u>1,248</u>
LOSS BEFORE OPERATING TRANSFERS AND GRANTS	(2,405,146)	(276,264)	(2,681,410)
OPERATING TRANSFERS	460,290	70,780	531,070
GRANTS FOR OPERATIONS	<u>1,250,104</u>	<u>-</u>	<u>1,250,104</u>
LOSS BEFORE CAPITAL TRANSFERS AND GRANTS	(694,752)	(205,484)	(900,236)
CAPITAL TRANSFERS	15,100	8,500	23,600
GRANTS FOR CAPITAL PROJECTS	<u>300,545</u>	<u>38,890</u>	<u>339,435</u>
NET LOSS	(379,107)	(158,094)	(537,201)
NET ASSETS - BEGINNING OF YEAR	<u>5,343,583</u>	<u>1,717,142</u>	<u>7,060,725</u>
NET ASSETS - END OF YEAR	<u>\$ 4,964,476</u>	<u>\$ 1,559,048</u>	<u>\$ 6,523,524</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statement of Cash Flows – Non-Major Proprietary Funds
For Year Ended June 30, 2012

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,102,997	\$ 965,383	\$ 3,068,380
Payments to suppliers	(963,425)	(476,101)	(1,439,526)
Payments to employees	(1,472,172)	(680,101)	(2,152,273)
Net Cash from Operating Activities	<u>(332,600)</u>	<u>(190,819)</u>	<u>(523,419)</u>
Cash Flows from Noncapital Financing Activities			
Operating contributions	1,710,394	70,780	1,781,174
Increase (decrease) in due to/from other funds	(1,421,279)	120,860	(1,300,419)
Net Cash from Noncapital Financing Activities	<u>289,115</u>	<u>191,640</u>	<u>480,755</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(272,160)	(48,211)	(320,371)
Contribution for capital acquisitions	315,645	47,390	363,035
Net Cash from Capital and Related Financing Activities	<u>43,485</u>	<u>(821)</u>	<u>42,664</u>
Net change in cash	-	-	-
Cash, beginning of year	200	800	1,000
Cash, End of Year	<u>\$ 200</u>	<u>\$ 800</u>	<u>\$ 1,000</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (2,405,245)	\$ (277,413)	\$ (2,682,658)
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	570,788	74,849	645,637
Changes in assets and liabilities:			
Accounts receivable	3,226	(6,575)	(3,349)
Unbilled receivables	(1,135)	-	(1,135)
Due to/from other government entities	1,634,345	-	1,634,345
Inventories	8,378	6,998	15,376
Accounts payable and other liabilities	(134,665)	14,300	(120,365)
Accrued expenses	(6,796)	(3,087)	(9,883)
Deferred revenue	-	(1,500)	(1,500)
Compensated absences	(1,496)	1,609	113
Net Cash from Operating Activities	<u>\$ (332,600)</u>	<u>\$ (190,819)</u>	<u>\$ (523,419)</u>

This page intentionally left blank

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenue				
Property Tax:				
Real property tax	\$ 111,560,210	\$ 111,560,210	\$ 111,861,921	\$ 301,711
Personal property tax	13,580,270	13,580,270	12,040,349	(1,539,921)
Property tax interest income	580,000	580,000	484,932	(95,068)
Other property tax	649,850	649,850	676,967	27,117
State administrative fees	(600,000)	(600,000)	(901,679)	(301,679)
Property tax discounts and credits	(1,506,590)	(1,506,590)	(1,492,678)	13,912
Total Property Taxes	124,263,740	124,263,740	122,669,812	(1,593,928)
Other Local Taxes				
Income tax	59,800,000	59,800,000	64,578,939	4,778,939
Income tax reserve	(420,000)	(420,000)	-	420,000
Admissions and amusement tax	360,000	360,000	319,859	(40,141)
Recordation tax	4,550,000	4,550,000	3,556,946	(993,054)
Trailer tax	440,000	440,000	475,065	35,065
Total Other Local Taxes	64,730,000	64,730,000	68,930,809	4,200,809
Other Revenues:				
Licenses and permits	1,304,860	1,304,860	1,278,654	(26,206)
Court costs and fines	244,400	244,400	323,625	79,225
Charges for services	458,680	458,680	497,092	38,412
Revenues from use of property	1,073,700	1,088,700	1,066,799	(21,901)
Reimbursed expenses	992,050	1,000,135	1,136,308	136,173
Miscellaneous revenues	1,472,130	1,507,090	566,480	(940,610)
Grant and shared revenues	1,713,790	4,636,132	3,547,046	(1,089,086)
Highway revenue	758,940	765,830	1,291,748	525,918
Total Other Revenues	8,018,550	11,005,827	9,707,752	(1,298,075)
Total Revenue	197,012,290	199,999,567	201,308,373	1,308,806
Expenditures				
General Government				
Legislative:				
County Commissioners	196,030	196,030	194,718	1,312
County Clerk	85,390	85,390	81,177	4,213
County Administrator	240,200	240,200	228,813	11,387
Public Information	147,270	232,920	226,855	6,065
Purchasing	412,190	412,190	416,306	(4,116)
Total Legislative	\$ 1,081,080	\$ 1,166,730	\$ 1,147,869	\$ 18,861

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
Judicial:				
Circuit Court	\$ 1,295,680	\$ 1,295,680	\$ 1,246,250	\$ 49,430
Orphan's Court	29,500	29,500	29,939	(439)
State's Attorney	2,499,220	2,477,674	2,390,127	87,547
Sheriff - Judicial	2,061,190	1,960,960	1,913,661	47,299
Sheriff - Process Servers	115,230	115,230	117,957	(2,727)
Grants	-	222,129	247,627	(25,498)
Total Judicial	6,000,820	6,101,173	5,945,561	155,612
Election Board	847,680	847,680	693,221	154,459
Financial Administration:				
Budget and Finance	1,203,400	1,203,400	1,156,318	47,082
Independent Auditing	70,000	70,000	66,100	3,900
Treasurer	429,360	429,360	420,121	9,239
Information Technologies	1,641,600	1,641,600	1,637,704	3,896
Total Financial Administration	3,344,360	3,344,360	3,280,243	64,117
County Attorney	618,840	618,840	547,038	71,802
Human Resources	643,170	643,170	630,916	12,254
Planning and Zoning:				
Planning and Zoning	1,095,900	773,620	555,491	218,129
Board of Zoning Appeals	53,440	53,440	48,884	4,556
Total Planning And Zoning	1,149,340	827,060	604,375	222,685
Public Works:				
Department of Public Works	455,540	455,540	453,162	2,378
Plan Review and Permitting	1,218,460	1,505,255	1,448,953	56,302
Public Works - Engineering and Construction	2,484,650	2,527,400	2,470,000	57,400
Total Public Works	4,158,650	4,488,195	4,372,115	116,080
County Owned Buildings:				
Martin Luther King Center	94,200	94,200	93,508	692
Administrative Building	279,900	289,900	241,125	48,775
Administrative Building II	110,850	94,850	38,459	56,391
Court House	557,400	567,350	519,506	47,844
County Office Building	233,460	233,460	209,832	23,628
Administration Annex	61,400	61,400	57,933	3,467
Central Services	205,460	205,460	192,687	12,773
Rental Properties	2,000	2,000	327	1,673
Library Maintenance	35,500	47,500	42,095	5,405
Dwyer Center	34,000	34,000	26,211	7,789
Public Facilities Annex	65,000	80,000	86,836	(6,836)
Total County Owned Buildings	1,679,170	1,710,120	1,508,519	201,601
Community Promotion:				
Contributions to Non-profits	67,390	67,390	66,500	890
Economic Development Commission	827,410	759,790	756,480	3,310
Total Community Promotion	894,800	827,180	822,980	4,200
Total General Government	\$ 20,417,910	\$ 20,574,508	\$ 19,552,837	\$ 1,021,671

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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u> <u>Positive (Negative)</u>
Public Safety				
Sheriff Departments:				
Patrol	\$ 7,853,520	\$ 7,859,560	\$ 7,697,649	\$ 161,911
Sheriff Auxillary Department	-	-	43,602	(43,602)
Narcotics Task Force	569,270	577,530	573,818	3,712
Grants	-	95,790	167,660	(71,870)
Total Sheriff Department	8,422,790	8,532,880	8,482,729	50,151
Fire and Rescue Services:				
Volunteer Fire and Rescue - County Grants	5,502,230	5,502,230	5,477,548	24,682
Air Unit	21,340	21,340	28,977	(7,637)
Special Operations	340,770	340,770	341,757	(987)
Total Fire and Rescue Services	5,864,340	5,864,340	5,848,282	16,058
Corrections:				
Detention Center	11,409,500	11,503,350	11,236,894	266,456
Central Booking	730,110	730,110	735,127	(5,017)
Total Corrections	12,139,610	12,233,460	11,972,021	261,439
Other Public Safety:				
911 - Communications	3,513,930	3,548,994	3,508,913	40,081
Wireless Communciations	955,230	955,230	969,601	(14,371)
Emergency Management	115,230	115,230	103,119	12,111
Fire and Rescue Operations	958,950	958,950	967,401	(8,451)
Medical Examiner	15,000	15,000	10,880	4,120
Civil Air Patrol	3,600	3,600	3,600	-
Animal Control	1,153,590	1,153,590	1,153,715	(125)
CSafe	44,100	44,100	-	44,100
Children's Village	24,500	24,500	24,500	-
Grants	-	1,496,053	726,716	769,337
Total Other Public Safety	6,784,130	8,315,247	7,468,445	846,802
Total Public Safety	33,210,870	34,945,927	33,771,477	1,174,450
Health				
Total Health	2,339,270	2,339,270	2,876,643	(537,373)
Social Services				
Total Contributions to Other Agencies	1,732,760	1,732,760	1,728,360	4,400
Grants	-	1,094,852	519,910	574,942
Total Social Services	1,732,760	2,827,612	2,248,270	579,342
Education				
Total Education	101,693,900	101,693,900	101,693,900	-
Parks, Recreation, and Culture:				
Total Contributions to Other Agencies	2,780,020	2,780,020	2,780,020	-
Parks Department	1,669,130	1,678,960	1,668,445	10,515
Martin L. Snook Park Pool	126,400	126,400	121,655	4,745
Fitness and Recreation	662,940	662,940	660,119	2,821
Total Parks, Recreation, and Culture	\$ 5,238,490	\$ 5,248,320	\$ 5,230,239	\$ 18,081

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
Conservation of Natural Resources				
Weed Control	\$ 118,630	\$ 118,630	\$ 183,196	\$ (64,566)
University of MD Extension Service	210,990	210,990	206,589	4,401
County Cooperative Extension	38,730	38,730	38,730	-
Soil Conservation	75,040	75,040	75,040	-
Gypsy Moth Program	75,000	75,000	10,500	64,500
Total Conservation of Natural Resources	<u>518,390</u>	<u>518,390</u>	<u>514,055</u>	<u>4,335</u>
Highway	<u>8,614,960</u>	<u>8,621,850</u>	<u>9,262,056</u>	<u>(640,206)</u>
General Operations				
Total General Operations	<u>459,030</u>	<u>443,080</u>	<u>400,480</u>	<u>42,600</u>
Unallocated Employee Insurance and Benefits				
Total Unallocated Employee Insurance and Benefits	<u>1,922,480</u>	<u>1,922,480</u>	<u>2,546,596</u>	<u>(624,116)</u>
Intergovernmental				
Golf Course operating transfer	70,780	70,780	70,780	-
HEPMPO operating transfer	5,970	5,970	4,280	1,690
Land Preservation operating transfer	47,480	47,480	62,161	(14,681)
Water Quality operating transfer	3,206,500	3,206,500	4,214,786	(1,008,286)
Public Transit operating transfer	472,270	472,270	472,270	-
Capital Projects operating transfer	2,715,000	2,715,000	3,615,000	(900,000)
Solid Waste operating transfer	542,500	542,500	542,500	-
Local Management Board operation transfer	307,560	307,560	236,939	70,621
Agricultural Education Center operating transfer	100,000	100,000	100,000	-
Municipality in lieu of bank shares	38,550	38,550	38,543	7
Total Intergovernmental	<u>7,506,610</u>	<u>7,506,610</u>	<u>9,357,259</u>	<u>(1,850,649)</u>
Debt Service				
Total Debt Service	<u>13,357,620</u>	<u>13,357,620</u>	<u>13,588,170</u>	<u>(230,550)</u>
Total Expenditures	<u>197,012,290</u>	<u>199,999,567</u>	<u>201,041,982</u>	<u>(1,042,415)</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	266,391	266,391
Other Financing Sources (Uses)				
Principal amount of new debt for advance refunding			6,882,220	6,882,220
Deposit to escrow fund for advance refunding and repayment of loans			(6,847,777)	(6,847,777)
Proceeds from capital lease			759,137	759,137
Total Other Financing Sources (Uses)			<u>793,580</u>	<u>793,580</u>
Net changes In Fund Balance			<u>1,059,971</u>	<u>\$ 1,059,971</u>
Fund Balance - - Beginning			<u>37,572,914</u>	
FUND BALANCE - ENDING			<u>\$ 38,632,885</u>	

OTHER SCHEDULES

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Local Management Board - Schedule of Revenue and Expenditures - Regulatory Basis
For the Year Ended June 30, 2012**

REVENUE

Community Partnership Agreement (CPA)	
Governor's Office for Children	\$ 706,675
Non- Community Partnership Agreement (Non-CPA)	
General Fund	236,939
Md State Department of Education	261,729
Total Non-Community Partnership Agreement Revenue	<u>498,668</u>

TOTAL REVENUE 1,205,343

EXPENDITURES

Community Partnership Agreement (CPA)	
Administrative :	
Salaries	43,919
Benefit costs	21,081
Total CPA administrative expenditures	<u>65,000</u>

Programs:	
Rural Out of School Time Initiative	125,000
Juvenile Delinquency Prevention & Diversion	176,000
Tomorrow's Leaders	64,181
Positive Youth Development Coordination	45,000
Post-Secondary Education & Training Coordination	61,020
Family Centered Support Services	36,000
Regional Family Navigation Program	134,474
Total CPA program expenditures	<u>641,675</u>

Non-Community Partnership Agreement (CPA)	
Administrative:	
Salaries	55,839
Benefit costs	46,655
Community Service Awards	4,636
Office supplies	1,961
Travel expenses	1,510
Contracted/Purchased services	3,709
Tuition assistance	2,621
Telephone expenses	788
Other	220
Total non-CPA administrative expenditures	<u>117,939</u>

Programs:	
Teen Pregnancy Prevention	119,000
MSDE - Healthy Families	261,729
Total non-CPA program expenditures	<u>380,729</u>

TOTAL EXPENDITURES 1,205,343

EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES \$ -

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Local Management Board - Schedule of Earned Reinvestment
For the Year Ended June 30, 2012**

BALANCE AS OF JULY 1, 2011	\$ 408,077
REVENUE	
Interest Earned July-Dec 2011	312
Interest Earned Jan-June 2012	<u>218</u>
TOTAL REVENUE	530
EXPENDITURES	
School Based Health Center at Boonsboro	215,248
Dept of Social Services - Renovations County Family Ctr	<u>29,200</u>
TOTAL EXPENDITURES	<u>244,448</u>
BALANCE AS OF JUNE 30, 2012	<u><u>\$ 164,159</u></u>