

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

For the Year Ended June 30, 2016



JUNE 30, 2016

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

County Commissioners of Washington County
Hagerstown, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County Commissioners of Washington County, Maryland (the County) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

Opinions

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information, of the County Commissioners of Washington County, Maryland, as of June 30, 2016, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying combining and individual fund statements, local management board schedule of revenue and expenditures regulatory basis, and schedule of earned reinvestment and the schedule of expenditures of Federal awards as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the basic financial statements.



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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Hunt Valley, Maryland
October 28, 2016

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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 (its ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

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

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

1) Government-wide Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 16-18 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.*



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

- **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 ten 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, Fort Ritchie Redevelopment (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 19-22 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 23-25 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 26-27 of this report.

3) **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-85 of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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 88-92 of this report.

Financial Analysis on Government-Wide Financial Statements

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$534.0 million as of the close of the most recent fiscal year.

Washington County, Maryland
Net Position
(Government-Wide)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Total Percent Change</i>
	2016	2015	2016	2015	2016	2015	
<i>Current and other assets</i>	\$121,816,117	\$126,911,860	\$49,331,328	\$46,434,529	\$171,147,445	\$173,346,389	-1.3%
<i>Capital assets</i>	435,484,009	431,053,835	250,581,641	248,459,872	686,065,650	679,513,707	1.0%
<i>Total Assets</i>	557,300,126	557,965,695	299,912,969	294,894,401	857,213,095	852,860,096	0.5%
<i>Deferred Outflow of Resources</i>	19,080,590	5,596,709	845,049	738,144	19,925,639	6,334,853	214.5%
<i>Current and other liabilities</i>	27,743,719	29,696,546	15,827,259	14,617,381	43,570,978	44,313,927	-1.7%
<i>Long-term liabilities</i>	204,374,462	191,169,520	64,383,659	57,515,145	268,758,121	248,684,665	8.1%
<i>Total Liabilities</i>	232,118,181	220,866,066	80,210,918	72,132,526	312,329,099	292,998,592	6.6%
<i>Deferred Inflow of Resources</i>	5,387,342	-	25,446,173	26,246,880	30,833,515	26,246,880	17.5%
<i>Net Investment in Capital Assets</i>	364,108,056	372,167,279	210,070,287	211,859,499	574,178,343	584,026,778	-1.7%
<i>Restricted Net Assets</i>	18,764,043	17,206,344	11,662,919	8,477,778	30,426,962	25,684,122	18.5%
<i>Unrestricted Net Assets</i>	(43,996,906)	(46,677,285)	(26,632,279)	(23,084,138)	(70,629,185)	(69,761,423)	-1.2%
<i>Total Net Position</i>	\$338,875,193	\$342,696,338	\$195,100,927	\$197,253,139	\$533,976,120	\$539,949,477	-1.1%

The largest portion of the County's net position reflects its investments in capital assets (e.g., land, roads, and bridges); less related outstanding debt used to acquire those assets in the amount of \$574.2 million. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the County's net position, \$30.4 million, represents resources that are subject to external restrictions on how they may be used. The remaining portion is unrestricted net assets of (\$70.6) million.

Unrestricted net assets in governmental activities have been reduced by \$53.4 million in long-term debt, resulting in unrestricted net assets of (\$44.0) 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 \$47.8 million and Hagerstown Community College of \$5.6 million. The capital assets acquired with these bonds are not reflected in the County's primary government financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2016	2015	2016	2015	2016	2015
Program revenues:						
<i>Charges for Services</i>	\$ 5,652,679	\$ 5,854,869	\$ 19,990,682	\$ 19,166,051	\$ 25,643,361	\$ 25,020,920
<i>Operating Grants and Contributions</i>	10,748,861	6,543,220	1,612,742	1,382,948	12,361,603	7,926,168
<i>Capital Grants and Contributions</i>	4,236,228	14,054,269	6,919,581	2,746,149	11,155,809	16,800,417
General Revenues:						
<i>Property Taxes</i>	122,058,501	118,534,624	-	-	122,058,501	118,534,624
<i>Local Taxes</i>	88,774,286	90,220,815	-	-	88,774,286	90,220,815
<i>Other</i>	3,078,809	3,416,030	898,079	725,043	3,976,888	4,141,073
Total Revenues	234,549,364	238,623,827	29,421,084	24,020,191	263,970,448	262,644,017
Program Expenses:						
<i>General Government</i>	22,855,397	32,163,683	-	-	22,855,397	32,163,683
<i>Public Safety</i>	45,580,165	46,584,797	-	-	45,580,165	46,584,797
<i>Health</i>	2,339,270	2,339,270	-	-	2,339,270	2,339,270
<i>Social Services</i>	454,165	571,517	-	-	454,165	571,517
<i>Education</i>	111,107,381	113,491,068	-	-	111,107,381	113,491,068
<i>Parks and Recreation</i>	6,189,629	6,791,711	-	-	6,189,629	6,791,711
<i>Natural Resources</i>	3,548,014	1,690,246	-	-	3,548,014	1,690,246
<i>Community Promotion</i>	5,685,839	5,959,702	-	-	5,685,839	5,959,702
<i>Highways and Streets</i>	34,514,432	16,037,762	-	-	34,514,432	16,037,762
<i>Interest on long-term debt</i>	4,455,552	4,167,500	-	-	4,455,552	4,167,500
Business-type Activities:						
<i>Water Quality</i>	-	-	13,064,911	12,707,818	13,064,911	12,707,818
<i>Solid Waste</i>	-	-	7,651,494	7,720,049	7,651,494	7,720,049
<i>Public Transit</i>	-	-	3,209,682	3,010,778	3,209,682	3,010,778
<i>Airport</i>	-	-	8,078,548	7,993,635	8,078,548	7,993,635
<i>Golf Course</i>	-	-	1,209,326	1,239,140	1,209,326	1,239,140
Total Expenses	236,729,844	229,797,256	33,213,961	32,671,420	269,943,805	262,468,676
Change in Net Position before transfers	(2,180,480)	8,826,570	(3,792,877)	(8,651,229)	(5,973,357)	175,341
Transfers	(1,640,665)	(2,946,208)	1,640,665	2,946,208	-	-
Change in Net Position	(3,821,145)	5,880,362	(2,152,212)	(5,705,021)	(5,973,357)	175,341
Net Position – Beginning of year	342,696,338	384,948,058	197,253,139	202,958,160	539,949,477	587,906,218
Change in Accounting Principle	-	(48,132,082)	-	-	-	(48,132,082)
Net Position – Beginning of year, as restated	-	336,815,976	-	202,958,160	-	539,774,136
Net Position – End of year	\$338,875,193	\$342,696,338	\$195,100,927	\$ 197,253,139	\$533,976,120	\$ 539,949,477



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

The County's net position decreased by \$5,973,357 during fiscal year 2016; total net position as of June 30, 2016 was \$533.9 million, representing a 1.1% decrease.

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

Net position in governmental activities decreased by \$3.8 million. Key factors in this decrease are as follows:

- Property tax revenue came within \$3.30 million or 2.8% of 2016 projections. Personal property tax reflected an increase over projections by \$2.06 million or 15.63% due to increased inventory and new business.
- Income Tax revenue exceeded budget by \$.3 million or .4% as a result of continued decreases in the unemployment rate which show a 12.7% improvement over prior year actual. The average unemployment rate was 9.8% in 2010; 9.3% in 2011; 8.3% in 2012; 7.9% in 2013; 7.0% in 2014; 6.2% in 2015; and 5.4% in 2016. The current unemployment rate as of August 2016 is 5.2%.
- Recordation Tax revenue exceeded budget by \$.7 million or 12.8%. The County's housing inventory has decreased since 2011; average home prices are up from 2011; large transaction activity was up. Fiscal year 2016 large commercial recordings accounted for approximately 21% of the tax collected as compared to 24% in 2015.
- Other revenues such as permits, licenses, non-use of fund balance fell short of budget by \$.7 million.
- An additional transfer of \$5.6 million was made to the Highway, Golf Course, and Capital Projects funds to cover overruns due to snow storms, additional operating subsidy and for future project funding.
- Overall public safety expenditures reflect savings of \$1.9 million resulting mainly from personnel cost savings, lower market prices in fuel products than anticipated, and favorable insurance awards during the County's bid process.
- Unallocated costs exceeded projections by \$1 million and is related to an additional contribution of \$.5 million to the pension plan and health insurance cost overages.
- Remaining cost centers accounted for \$2.4 million in savings, mainly a result of personnel cost savings due to retirement incentives, lower market prices in fuel products than anticipated, and debt service savings.
- Various government-wide entries including 1) capital outlay purchases exceeded depreciation expense by \$3.2 million; 2) recording of debt proceeds greater than debt principal payments decreasing net assets by \$2.7 million; 3) compensated absences and post-retirement benefits earned exceeded financial resources used by \$2.4 million; and 4) difference in revenues and expenditures recognized between governmental funds and the statement of activities increasing net assets by \$1.5 million. These activities are reported differently on the government-wide statements vs. the fund statements.
- Capital Improvement Projects decreased by \$4.2 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. Other governmental funds accounted for \$.3 million decrease in fund balance activity.

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

Business-type activities decreased the County's net position by \$2.2 million. Key elements of this decrease are as follows:



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

- ❑ Water Quality's net position increased by \$2.6 million, for a total of \$121.5 million in net assets. The \$2.6 million net gain includes \$3 million in depreciation expense and the anticipated use of dedicated reserves in the Water Quality's long range financial plan for self sufficiency.
- ❑ Solid Waste's total net position decreased by \$1.4 million for a total of \$5.1 million, mainly related to depreciation expense of \$3 million. The 40 West landfill site was re-designed which changed the total life from 62 years to 120 years generating an additional 4 million cubic yards of available air space. This change in accounting estimate had no effect on the total estimated closure and post closure cost which are in compliance with State financial assurance requirements. In addition the County is involved in a public/private partnership to convert landfill operations to a Waste-to-Energy facility. This new process is expected to convert at least 95% of waste to energy sources and is currently in the permitting process.
- ❑ Airport's total net position is \$62.4 million, representing a \$3.1 million decrease. The net decrease is mainly the result of increased depreciation related to the runway acquisition of which a majority was funded with federal and state grants of \$6.5 million.
- ❑ The County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and restrictions, and fiscal accountability.

Financial Analysis on Government Fund Financial Statements

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 \$98.3 million, a decrease of \$3.1 million. Approximately \$38.1 million of this amount is designated for the general fund cash reserve and \$59.6 million is restricted or committed for construction projects and designated programs. In the combined governmental activities the County maintains ten separate funds. Shown below are fund balances and net changes in fund balance for each.

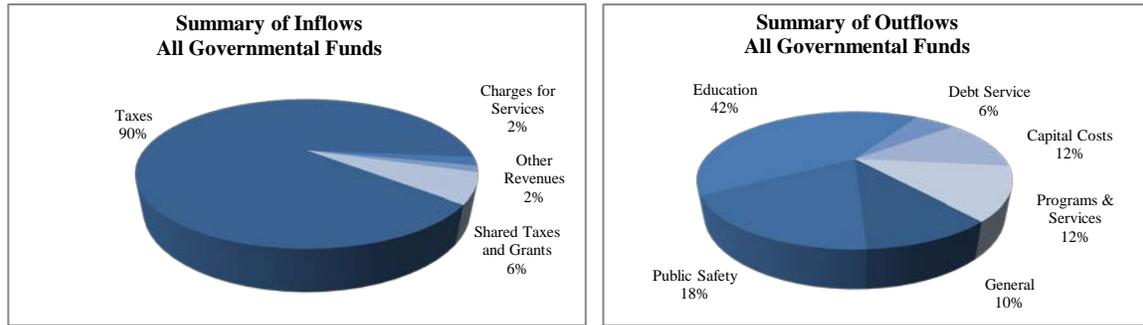
Governmental Activities	Fund Balance			Net Change in Fund Balance		
	2016	2015	% Change	2016	2015	% Change
General Fund	\$ 39,742,148	\$ 38,327,353	3.7%	\$ 1,414,795	\$ 136,884	933.6%
Capital Improvement Fund	58,357,887	62,522,002	-6.7%	(4,164,115)	(8,620,685)	-51.7%
Community Grants Mgt	5,776	17,825	-67.6%	(12,049)	19,817	-160.8%
Inmate Welfare Fund	111,042	97,863	13.5%	13,179	5,541	137.9%
Contraband Fund	13,480	57,710	-76.6%	(44,230)	(2,066)	2040.9%
Agricultural Education Fund	14,972	41,019	-63.5%	(26,047)	29,187	-189.9%
Hotel Rental Tax Fund	(143,319)	323,605	-144.3%	(466,924)	(334,513)	39.6%
Gaming Fund	35,117	32,193	9.1%	2,924	5,954	-50.9%
Land Preservation Fund	170,693	(29,955)	-669.8%	200,648	(156,387)	-228.3%
HEPMPO	(22,915)	(31,774)	-27.9%	8,859	12,690	-30.2%
Total	\$ 98,284,881	\$ 101,357,841	-3.0%	\$ (3,072,960)	\$ (8,903,578)	-65.5%



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Washington County, Maryland
Fund Balance and Net Changes in Fund Balance – Fund Basis

The following reflects all inflows and outflows of the governmental funds in total for the fiscal year ending June 30, 2016.



- The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year total fund balance reached \$39.7 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 \$38.1 million that is for cash reserve while \$1.6 million is reserved for specific program funds.

The General Fund, fund balance increased by approximately \$1.4 million during the current fiscal year. Key factors related to this change are:

Major Revenue Factors:

- Property tax revenue came within \$3.3 million or 2.8% of 2016 projections. Personal property tax reflected an increase over projections by \$2.0 million or 15.6% due to increased inventory and new business.
- Income Tax revenue exceeded budget by \$.3 million or .4% as a result of continued decreases in the unemployment rate which show a 12.7% improvement over prior year actual. The average unemployment rate was 9.8% in 2010; 9.3% in 2011; 8.3% in 2012; 7.9% in 2013; 7.0% in 2014; 6.2% in 2015; and 5.4% in 2016. The current unemployment rate as of August 2016 is 5.2%.
- Recordation Tax revenue exceeded budget by \$.7 million or 12.8%. The County's housing inventory has decreased since 2011; average home prices are up from 2011; large transaction activity was up. Fiscal year 2016 large commercial recordings accounted for approximately 21% of the tax collected as compared to 24% in 2015.
- Other revenues such as permits, licenses, non-use of fund balance fell short of budget by \$.8 million.

Major Expenditure Factors:

- An additional transfer of \$5.6 million was made to the Highway, Golf Course, and Capital Projects funds to offset operating shortfalls, negative fund balance and for future project costs.
- Overall public safety expenditures reflect savings of \$1.9 million resulting mainly from personnel cost savings, lower market prices in fuel products than anticipated, and favorable insurance awards during the County's bid process.



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

- Unallocated costs exceeded projections by \$1 million and are related to an additional contribution of \$.5 million to the pension plan and health insurance cost overages.
- Remaining cost centers accounted for \$2.4 million in savings, mainly a result of personnel cost savings due to retirement incentives, lower market prices in fuel products than anticipated, and debt service savings.
- The **Capital Projects 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 \$58.4 million all of which is designated for capital related projects. Major funding sources for projects are pay-go-funding, debt proceeds, fees and taxes, and grants. Fund balance decreased by \$4.2 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 and use of prior project savings.
- The County's **Community Grant Management, Inmate Welfare, Contraband, Agricultural Education, Foreign Trade Zone, Hotel Rental Tax, Gaming, HEPMPO, and Land Preservation Funds** combined have a fund balance of \$.2 million. The net decrease in fund balance during the current year was \$.3 million. These funds represent monies designated for specific programs and services.

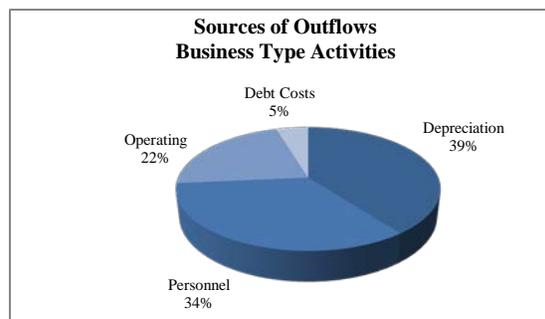
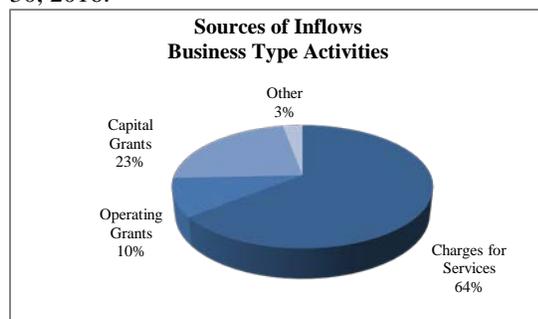
Proprietary Funds:

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

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

Business-type Activities	Total Net Position			Change in Net Position		
	2016	2015	% Change	2016	2015	% Change
Water Quality	\$ 121,496,560	\$ 118,932,196	2.2%	\$ 2,564,364	\$ (134,844)	-2001.7%
Solid Waste	5,093,876	6,471,820	-21.3%	(1,377,944)	(2,000,162)	-31.1%
Airport	62,413,162	65,479,865	-4.7%	(3,066,703)	(4,446,784)	-31.0%
Public Transit	3,624,312	4,056,389	-10.7%	(432,077)	(188,550)	129.2%
Black Rock	2,473,017	2,312,869	6.9%	160,148	1,065,319	-85.0%
Total	\$ 195,100,927	\$ 197,253,139	-1.1%	\$ (2,152,212)	\$ (5,705,021)	-62.3%

The following reflects the inflows and outflows of the business-type activity funds for the fiscal year ending June 30, 2016.





MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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, 2016
(Government Fund Basis)

Category	Budgetary Amounts		Actual	Difference	
	Original	Final		Org. Budget vs. Final Budget	Final Budget vs. Actual
Revenues:					
Property Tax	\$118,675,190	\$118,675,190	\$122,001,946	\$ -	\$3,326,756
Local Tax	81,480,000	81,480,000	82,567,546	-	1,087,546
Other Revenue	8,097,510	13,377,900	12,696,313	5,280,390	(681,587)
Total Revenues	208,252,700	213,533,090	217,265,805	5,280,390	3,732,715
Expenses:					
General Government	25,242,390	26,853,460	25,392,800	1,611,070	1,460,660
Public Safety	40,284,610	43,777,700	41,898,282	3,493,090	1,879,418
Health and Social Services	2,677,340	2,785,290	2,793,435	107,950	(8,145)
Education	104,109,040	104,109,040	104,109,040	-	-
Parks, Recreation, Natural Resources	6,270,670	6,292,230	6,255,558	21,560	36,672
Highways and Streets	9,591,340	9,619,400	9,821,132	28,060	(201,732)
General Operations	622,300	610,960	598,985	(11,340)	11,975
Unallocated Costs	699,330	699,330	1,738,720	-	(1,039,390)
Intergovernmental	3,820,190	3,850,190	9,427,062	30,000	(5,576,872)
Debt Service	14,935,490	14,935,490	13,818,901	-	1,116,589
Total Expenses	208,252,700	213,533,090	215,853,915	5,280,390	(2,320,825)
Other Financing Sources (Uses)	-	-	2,905	-	2,905
Net Increase in Assets - 06/30/16	\$ -	\$ -	\$ 1,414,795	\$ -	\$ 1,414,795

Original Budget vs. Final Budget:

The net budgetary change of \$5.3 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 \$5.3 million.

Final Budget vs. Actual Results:

Revenue was over budget by \$3.7 million and expenditures were over budget by \$2.3 million yielding a \$1.4 million net increase. Property Tax experienced an increase of \$3.3 million over budget or 2.8%. Income Tax revenue exceeded budget by .4% or \$.3 million. Recordation Tax exceeded final budget by \$.7 million or 12.8%. Other revenues fell short by \$.8 million mainly due to the grants being budgeted in total and often crossing fiscal years.



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Offsetting the revenue change were expenditure net overages of \$2.3 million, resulting from additional transfers to the Highway, Golf Course, and Capital Improvement funds of \$5.6 million to cover overruns due to snow storms, additional operating subsidy and for future project funding. Offsetting these overruns were savings of \$3.3 million recognized from retirement incentives, fuel price variances, and differences in payments made for both LOSAP and debt service.

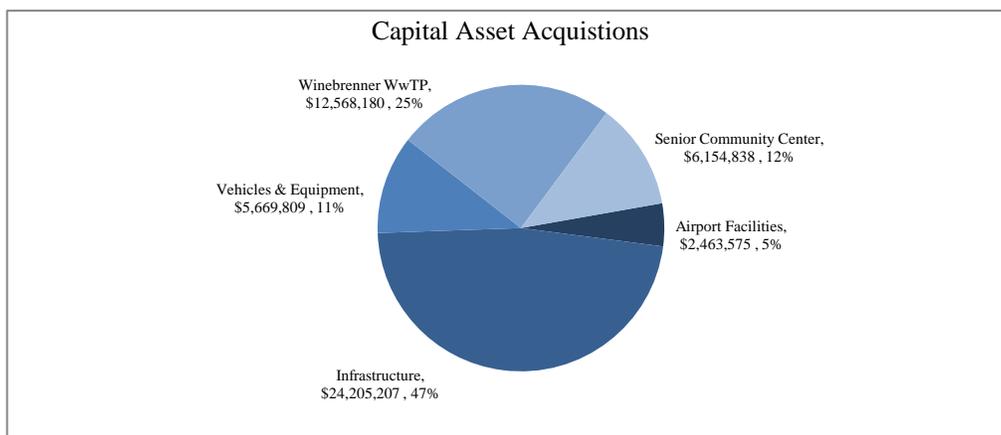
Capital Asset Administration – Government Wide Statements

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$666 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
	2016	2015	2016	2015	2016	2015	
<i>Land and Land Improvement</i>	\$93,337,991	\$90,761,013	\$68,795,678	\$70,823,766	\$162,133,669	\$161,584,779	0.3%
<i>Building and Improvements</i>	66,352,086	61,595,344	44,366,741	45,815,344	110,718,827	107,410,688	3.1%
<i>Facilities, Lines, and Mains</i>	-	-	85,255,600	86,042,590	85,255,600	86,042,590	-0.9%
<i>Vehicles</i>	4,232,010	3,186,856	1,603,632	2,110,825	5,835,642	5,297,681	10.2%
<i>Infrastructure</i>	238,958,038	232,846,628	-	-	238,958,038	232,846,628	2.6%
<i>Machinery and Equipment</i>	2,477,742	2,848,053	3,156,022	3,137,909	5,633,764	5,985,962	-5.9%
<i>Office/Computer Equipment</i>	13,096,379	13,166,918	173,472	393,266	13,269,851	13,560,184	-2.1%
<i>Treatment Plant</i>	-	-	43,795,328	32,139,702	43,795,328	32,139,702	36.3%
Total	\$418,454,246	\$404,404,812	\$247,146,473	\$240,463,402	\$665,600,719	\$644,868,214	3.2%

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 48-51 of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Debt Administration

At the end of the current fiscal year, the County had total outstanding debt, excluding capital leases, of \$199 million. This amount was comprised of debt backed by the full faith and credit of the County and user fees. The debt increased by a net of \$10 million, the result of net principal payments of \$11 million and new borrowings of \$21 million. Funds borrowed were used for infrastructure projects of \$17 million and educational projects of \$4 million.

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

Instrument Type	Governmental Activity		Business-type Activity		Total Outstanding Debt		% Change
	2016	2015	2016	2015	2016	2015	
<i>General Obligation Bonds</i>	\$142,436,609	\$139,136,640	\$39,600,931	\$32,786,306	\$182,037,540	\$171,922,946	5.9%
<i>Maryland Water Quality Bonds</i>	4,597,503	4,888,398	12,534,512	12,241,277	17,132,015	17,129,675	0.0%
Total	\$147,034,112	\$144,025,038	\$52,135,443	\$45,027,583	\$199,169,555	\$189,052,621	5.4%

The County's credit ratings for fiscal year 2016 are as follows: 1) Standard and Poor's rated AA+, 2) Fitch rated AA+, and 3) Moody's Investors Service rated Aa1.

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 \$1.2 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 53-57 of this report.

Economic Factors and Fiscal Year 2017

- ❑ Washington County's unemployment rate for June 2016 was 5.0% compared to 6.1% in June of 2015. The unemployment rate reached a high of 9.8% in 2010 and has been improving steadily due to job growth in the service industry, specifically within the categories of trade, transportation, and utilities, professional services, and education and health services.
- ❑ Water and sewer rates were increased for the 2017 budget year. The water and sewer revenue requirements were increased 3.5% and 3.4%, respectively. This revenue increase is based on financial information formulated annually from the County's cost of service model.
- ❑ Washington County has entered into a public/private partnership that will promote the use and development of domestic energy. Phase I will include a refuse-derived facility while Phase II is to generate low-cost clean-burning diesel, gasoline, jet fuel, home heating fuel and nitrogen fertilizers. This innovative approach to municipal solid waste will allow Washington County to be ahead of the curve to comply with upcoming federal and state regulations and serve as an international benchmark in environmentally responsible waste management.



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

- ❑ On July 12, 2016, the Board of County Commissioners entered into a Memorandum of Understanding with the Pen Mar Development Corporation. The purpose of this MOU was to set forth the agreement between parties concerning the transfer and development of real property located at the former Ft. Ritchie in Cascade, Maryland. On September 15, 2016, Pen Mar Development Corporation conveyed, for no monetary consideration, all real property, contracts, leases, liabilities, and personal property not specifically excluded and held by Pen Mar to the Board.

- ❑ Washington County has reserved construction funds for the Urban Improvement Project which strives to develop and revitalize the downtown district. Funding for this project includes a combination of County, City, State, and private developer contributions.

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 10435 Downsville Pike Hagerstown, Maryland 21740.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Net Position For the Year Ended June 30, 2016

	Primary Government			Component Unit	Total
	Governmental activities	Business-type activities	Total	Board of Education	
ASSETS					
Cash and short-term investments	\$ 5,751,143	\$ 42,753,103	\$ 48,504,246	\$ 22,467,730	\$ 70,971,976
Investments	91,688,709	-	91,688,709	22,006,950	113,695,659
Property taxes receivable, net of allowance	357,582	-	357,582	-	357,582
Accounts receivable, net of allowance	1,205,195	1,596,910	2,802,105	324,653	3,126,758
Interest receivable	125,528	-	125,528	-	125,528
Unbilled receivables	206,251	2,027,025	2,233,276	-	2,233,276
Due from other governmental agencies	18,501,552	2,418,718	20,920,270	8,517,111	29,437,381
Internal balances	504,588	(504,588)	-	-	-
Inventories	790,714	285,572	1,076,286	233,794	1,310,080
Other assets	41,622	-	41,622	2,003,325	2,044,947
Net other post employment benefits assets	2,053,375	-	2,053,375	-	2,053,375
Recoverable disbursements	239,858	-	239,858	-	239,858
Notes receivable	350,000	250,000	600,000	-	600,000
Projects under construction	17,029,761	3,435,168	20,464,929	18,390,191	38,855,120
Property, plant, and equipment, net	418,454,248	247,146,473	665,600,721	222,723,728	888,324,449
TOTAL ASSETS	557,300,126	299,408,381	856,708,507	296,667,482	1,153,375,989
DEFERRED OUTFLOWS OF RESOURCES					
Loss on refunding	3,632,325	845,049	4,477,374	-	4,477,374
Net pension activity	15,448,265	-	15,448,265	4,358,393	19,806,658
TOTAL DEFERRED OUTFLOWS OF RESOURCES	19,080,590	845,049	19,925,639	4,358,393	24,284,032
LIABILITIES					
Current Liabilities:					
Current maturities of long-term obligations	10,170,734	3,608,192	13,778,926	-	13,778,926
Current maturities of capital lease obligations	12,356	12,321	24,677	7,756,121	7,780,798
Current maturities of installment purchase contracts	146,006	-	146,006	-	146,006
Accounts payable	7,816,609	2,871,681	10,688,290	8,332,766	19,021,056
Accrued expenses	1,422,815	555,611	1,978,426	21,398,389	23,376,815
Accrued interest	2,218,304	6,068,969	8,287,273	-	8,287,273
Unearned revenue	377,166	1,512,881	1,890,047	1,695,755	3,585,802
Compensated absences	1,971,659	390,588	2,362,247	376,416	2,738,663
Landfill closure and post-closure costs	-	223,070	223,070	-	223,070
Other liabilities	1,715,847	79,358	1,795,205	5	1,795,210
Liabilities for unpaid claims	1,892,223	-	1,892,223	-	1,892,223
Total current liabilities	27,743,719	15,322,671	43,066,390	39,559,452	82,625,842
Noncurrent Liabilities:					
Unearned revenue	-	640,290	640,290	-	640,290
Compensated absences	1,308,742	180,717	1,489,459	6,970,907	8,460,366
Long-term obligations	136,863,377	48,527,251	185,390,628	13,444,644	198,835,272
Capital lease obligations	20,107	26,509	46,616	2,870,924	2,917,540
Installment purchase contracts	-	-	-	-	-
Landfill closure and post-closure costs	-	15,008,892	15,008,892	-	15,008,892
Net pension liability	66,182,236	-	66,182,236	18,386,392	84,568,628
Total noncurrent liabilities	204,374,462	64,383,659	268,758,121	41,672,867	310,430,988
TOTAL LIABILITIES	232,118,181	79,706,330	311,824,511	81,232,319	393,056,830
DEFERRED INFLOWS OF RESOURCES					
Service concession arrangements	-	25,446,173	25,446,173	-	25,446,173
Net pension activity	5,387,342	-	5,387,342	1,637,107	7,024,449
TOTAL DEFERRED INFLOWS OF RESOURCES	5,387,342	25,446,173	30,833,515	1,637,107	32,470,622
NET POSITION					
Net investment in capital assets	364,108,056	210,070,287	574,178,343	230,486,874	804,665,217
Restricted for:					
John Howard Trust	241,640	-	241,640	-	241,640
Capital projects	18,522,403	11,662,919	30,185,322	-	30,185,322
Unrestricted	(43,996,906)	(26,632,279)	(70,629,185)	(12,330,425)	(82,959,610)
TOTAL NET POSITION	\$ 338,875,193	\$ 195,100,927	\$ 533,976,120	\$ 218,156,449	\$ 752,132,569

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, 2016

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 22,855,397	\$ 4,313,500	\$ 1,174,141	\$ 621,339
Public safety	45,580,165	1,338,969	4,380,152	-
Health	2,339,270	-	-	-
Social services	454,165	-	-	-
Education	111,107,381	-	-	3,987
Parks, recreation and culture	6,189,629	210	61,840	74,620
Natural resources	3,548,014	-	2,338,224	-
Community promotion	5,685,839	-	1,779,262	-
Highways and streets	34,514,432	-	1,015,242	3,536,282
Interest on long-term debt	4,455,552	-	-	-
Total governmental activities	<u>236,729,844</u>	<u>5,652,679</u>	<u>10,748,861</u>	<u>4,236,228</u>
Business-type activities				
Water quality	13,064,911	10,854,288	20,054	4,048,461
Solid waste	7,651,494	5,454,581	-	-
Airport	8,078,548	2,434,904	139,299	2,248,823
Public transit	3,209,682	424,397	1,453,389	429,697
Black rock golf course	1,209,326	822,512	-	192,600
Total business-type activities	<u>33,213,961</u>	<u>19,990,682</u>	<u>1,612,742</u>	<u>6,919,581</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 269,943,805</u>	<u>\$ 25,643,361</u>	<u>\$ 12,361,603</u>	<u>\$ 11,155,809</u>
Component unit:				
Board of Education	<u>\$ 347,865,770</u>	<u>\$ 13,463,658</u>	<u>\$ 58,673,315</u>	<u>\$ 5,649</u>

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

CHANGE IN NET POSITION

NET POSITION - BEGINNING OF YEAR

NET POSITION - END OF YEAR

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Activities
For the Year Ended June 30, 2016**

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Board of Education	Total
\$ (16,746,417)	\$ -	\$ (16,746,417)	\$ -	\$ (16,746,417)
(39,861,044)	-	(39,861,044)	-	(39,861,044)
(2,339,270)	-	(2,339,270)	-	(2,339,270)
(454,165)	-	(454,165)	-	(454,165)
(111,103,394)	-	(111,103,394)	-	(111,103,394)
(6,052,959)	-	(6,052,959)	-	(6,052,959)
(1,209,790)	-	(1,209,790)	-	(1,209,790)
(3,906,577)	-	(3,906,577)	-	(3,906,577)
(29,962,908)	-	(29,962,908)	-	(29,962,908)
(4,455,552)	-	(4,455,552)	-	(4,455,552)
<u>(216,092,076)</u>	<u>-</u>	<u>(216,092,076)</u>	<u>-</u>	<u>(216,092,076)</u>
-	1,857,892	1,857,892	-	1,857,892
-	(2,196,913)	(2,196,913)	-	(2,196,913)
-	(3,255,522)	(3,255,522)	-	(3,255,522)
-	(902,199)	(902,199)	-	(902,199)
-	<u>(194,214)</u>	<u>(194,214)</u>	-	<u>(194,214)</u>
-	<u>(4,690,956)</u>	<u>(4,690,956)</u>	-	<u>(4,690,956)</u>
<u>(216,092,076)</u>	<u>(4,690,956)</u>	<u>(220,783,032)</u>	<u>-</u>	<u>(220,783,032)</u>
-	-	-	(275,723,148)	(275,723,148)
122,058,501	-	122,058,501	-	122,058,501
88,774,286	-	88,774,286	-	88,774,286
1,115,007	200,001	1,315,008	371,173	1,686,181
1,639,121	-	1,639,121	-	1,639,121
638,476	703,713	1,342,189	468,128	1,810,317
-	-	-	257,886,746	257,886,746
(313,795)	(5,635)	(319,430)	-	(319,430)
<u>(1,640,665)</u>	<u>1,640,665</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>212,270,931</u>	<u>2,538,744</u>	<u>214,809,675</u>	<u>258,726,047</u>	<u>473,535,722</u>
(3,821,145)	(2,152,212)	(5,973,357)	(16,997,101)	(22,970,458)
342,696,338	197,253,139	539,949,477	235,153,550	775,103,027
<u>\$ 338,875,193</u>	<u>\$ 195,100,927</u>	<u>\$ 533,976,120</u>	<u>\$ 218,156,449</u>	<u>\$ 752,132,569</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, 2016**

	General Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds
ASSETS				
Cash	\$ 162,083	\$ 3,351,281	\$ 2,237,779	\$ 5,751,143
Investments	91,452,894	235,815	-	91,688,709
Property taxes receivable, net of allowance	357,582	-	-	357,582
Accounts receivable, net of allowance	503,433	387,033	314,729	1,205,195
Interest receivable	124,855	673	-	125,528
Unbilled receivables	206,251	-	-	206,251
Due from other funds	-	56,333,230	-	56,333,230
Due from other governmental agencies	16,757,732	1,154,596	589,224	18,501,552
Recoverable disbursements	239,858	-	-	239,858
Notes receivable	350,000	-	-	350,000
Other assets	41,622	-	-	41,622
Inventories	790,714	-	-	790,714
TOTAL ASSETS	\$ 110,987,024	\$ 61,462,628	\$ 3,141,732	\$ 175,591,384
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 2,514,765	\$ 3,104,479	\$ 2,197,365	\$ 7,816,609
Due to other funds	55,483,023	-	345,619	55,828,642
Accrued expenses	1,404,296	12	18,507	1,422,815
Other liabilities	1,350,527	250	365,070	1,715,847
Liabilities for unpaid claims	1,892,223	-	-	1,892,223
Unearned revenue	346,841	-	30,325	377,166
TOTAL LIABILITIES	62,991,675	3,104,741	2,956,886	69,053,302
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenues	8,253,201	-	-	8,253,201
FUND BALANCES:				
Nonspendable	1,090,714	-	-	1,090,714
Restricted	528,978	18,522,403	349,888	19,401,269
Committed	38,104,831	39,835,484	-	77,940,315
Assigned	17,625	-	50,089	67,714
Unassigned	-	-	(215,131)	(215,131)
TOTAL FUND BALANCES	39,742,148	58,357,887	184,846	98,284,881
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 110,987,024	\$ 61,462,628	\$ 3,141,732	\$ 175,591,384

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Position As of June 30, 2016

Fund balance of governmental funds	\$ 98,284,881
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets, net	418,454,246
Projects under construction	17,029,761
Other long-term assets that are not available to pay for current-period expenditures and, therefore, are deferred in the funds:	
Net other post employment benefits	2,053,375
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:	
Unavailable revenue	8,253,201
Deferred outflow of resources, including loss on refunding and net deferred pension activity are not financial resources and therefore are not reported in the funds	13,693,248
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Long-term obligations	(147,034,112)
Installment purchase obligations	(146,006)
Capital lease obligations	(32,463)
Accrued interest payable-net of IRS subsidy	(2,218,301)
Compensated absences and net pension liability	<u>(69,462,637)</u>
Net position of governmental activities	<u>\$ 338,875,193</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds
REVENUE				
General property taxes	\$ 122,001,946	\$ -	\$ -	\$ 122,001,946
Other local taxes	82,567,546	3,934,781	2,255,673	88,758,000
Licenses and permits	1,316,242	-	2,158,533	3,474,775
Court costs and fines	252,384	-	-	252,384
Charges for services	477,971	-	325,629	803,600
Revenue from uses of property	1,074,126	-	40,881	1,115,007
Reimbursed expenses	1,011,679	-	4,639	1,016,318
Miscellaneous revenues	493,792	437,804	144,684	1,076,280
Shared taxes and grants	6,349,348	2,184,691	4,471,066	13,005,105
Highway	1,720,771	-	-	1,720,771
Total Revenue	<u>217,265,805</u>	<u>6,557,276</u>	<u>9,401,105</u>	<u>233,224,186</u>
EXPENDITURES				
Current:				
General government	25,392,800	-	-	25,392,800
Public safety	41,898,282	-	1,450,632	43,348,914
Health	2,339,270	-	-	2,339,270
Social services	454,165	-	-	454,165
Education	104,109,040	-	-	104,109,040
Parks, recreation and culture	5,586,517	-	226,038	5,812,555
Natural resources	669,041	-	2,873,263	3,542,304
Intergovernmental	38,543	-	-	38,543
General operations	2,337,705	-	170,691	2,508,396
Community promotion	-	-	5,685,975	5,685,975
Highways and streets	9,821,132	-	-	9,821,132
Debt service	13,818,901	-	-	13,818,901
Capital outlay:				
General government	-	6,050,137	-	6,050,137
Public safety	-	1,174,908	-	1,174,908
Highways and streets	-	16,440,597	-	16,440,597
Education	-	6,998,341	-	6,998,341
Parks and recreation	-	82,098	-	82,098
Total Expenditures	<u>206,465,396</u>	<u>30,746,081</u>	<u>10,406,599</u>	<u>247,618,076</u>
Excess (Deficiency) Of Revenue Over Expenditures	<u>10,800,409</u>	<u>(24,188,805)</u>	<u>(1,005,494)</u>	<u>(14,393,890)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	7,630,000	981,854	8,611,854
Transfers out	(9,388,519)	(564,000)	(300,000)	(10,252,519)
Principal amount of new debt for advance refunding	7,078,184	-	-	7,078,184
Deposit to escrow fund for advance refunding and and repayment of loans	(7,075,279)	-	-	(7,075,279)
Proceeds of bond sale	-	12,958,690	-	12,958,690
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,385,614)</u>	<u>20,024,690</u>	<u>681,854</u>	<u>11,320,930</u>
NET CHANGES IN FUND BALANCE	<u>1,414,795</u>	<u>(4,164,115)</u>	<u>(323,640)</u>	<u>(3,072,960)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>38,327,353</u>	<u>62,522,002</u>	<u>508,486</u>	<u>101,357,841</u>
FUND BALANCES - END OF YEAR	<u>\$ 39,742,148</u>	<u>\$ 58,357,887</u>	<u>\$ 184,846</u>	<u>\$ 98,284,881</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2016

Net changes in fund balances in governmental funds \$ (3,072,960)

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

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

Capital outlay capitalized	\$ 19,809,160	
Depreciation	<u>(16,631,325)</u>	3,177,835

In the statement of activities, only the gain or loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold. (361,396)

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

Debt and lease proceeds	\$ (12,961,595)	
Payments of installment purchase principal	351,794	
Payments of lease principal	167,077	
Payments of debt principal	<u>9,721,412</u>	(2,721,312)

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 the financial resources used. (2,386,263)

Revenue and expenditures are reported in the statement of activities on the accrual basis and in the governmental funds when they provide or use current financial resources. This is the net difference of revenues and expenditures recognized between the governmental funds and statement of activities. 1,542,951

Change in net position of governmental activities \$ (3,821,145)

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Net Position - Proprietary Funds
For the Year Ended June 30, 2016

	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	\$ 25,896,038	\$ 16,380,459	\$ 100	\$ 476,506	\$ 42,753,103
Accounts receivable, net	1,347,379	193,535	39,013	16,983	1,596,910
Unbilled receivables	1,727,150	286,931	12,019	925	2,027,025
Due from other governmental agencies	427,924	-	1,407,899	582,895	2,418,718
Notes Receivable	-	250,000	-	-	250,000
Inventories	106,271	13,866	44,616	120,819	285,572
Total current assets	29,504,762	17,124,791	1,503,647	1,198,128	49,331,328
Noncurrent Assets:					
Projects under construction	2,797,048	49,473	588,647	-	3,435,168
Property, plant and equipment	195,402,351	66,999,223	152,736,662	12,251,143	427,389,379
Accumulated depreciation	(64,077,074)	(44,740,718)	(64,406,186)	(7,018,928)	(180,242,906)
Total noncurrent assets	134,122,325	22,307,978	88,919,123	5,232,215	250,581,641
TOTAL ASSETS	163,627,087	39,432,769	90,422,770	6,430,343	299,912,969
DEFERRED OUTFLOWS OF RESOURCES					
Loss on refundings	477,187	344,400	23,462	-	845,049
LIABILITIES					
Current Liabilities:					
Current maturities of long-term obligations	2,104,597	1,415,925	87,670	-	3,608,192
Current maturities of capital lease obligations	12,321	-	-	-	12,321
Accounts payable	2,172,108	229,929	345,013	124,631	2,871,681
Accrued expenses	405,043	52,110	24,609	73,849	555,611
Accrued interest	5,807,258	247,256	14,455	-	6,068,969
Due to other funds	-	-	504,588	-	504,588
Unearned revenue	164,533	548,096	800,002	250	1,512,881
Compensated absences	225,249	69,441	27,029	68,869	390,588
Landfill closure and post-closure costs	-	223,070	-	-	223,070
Other liabilities	7,300	-	44,260	27,798	79,358
Total current liabilities	10,898,409	2,785,827	1,847,626	295,397	15,827,259
Non Current Liabilities:					
Unearned revenue	640,290	-	-	-	640,290
Compensated absences	99,663	30,504	12,933	37,617	180,717
Bonds and long-term debt	30,942,843	16,858,070	726,338	-	48,527,251
Capital lease obligations	26,509	-	-	-	26,509
Landfill closure and post-closure costs	-	15,008,892	-	-	15,008,892
Total noncurrent liabilities	31,709,305	31,897,466	739,271	37,617	64,383,659
TOTAL LIABILITIES	42,607,714	34,683,293	2,586,897	333,014	80,210,918
DEFERRED INFLOWS OF RESOURCES					
Service concession arrangements	-	-	25,446,173	-	25,446,173
Net Position					
Net investment in capital assets	112,621,973	4,110,983	88,105,115	5,232,215	210,070,287
Restricted - capital projects	11,585,919	77,000	-	-	11,662,919
Unrestricted	(2,711,332)	905,893	(25,691,953)	865,114	(26,632,279)
TOTAL NET POSITION	\$ 121,496,560	\$ 5,093,876	\$ 62,413,162	\$ 6,097,329	\$ 195,100,927

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2016

	Enterprise Funds				Totals
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
OPERATING REVENUE					
Charges for services	\$ 10,854,288	\$ 5,454,581	\$ 2,434,904	\$ 1,246,909	\$ 19,990,682
Miscellaneous	352,980	325,904	3,569	21,260	703,713
TOTAL OPERATING REVENUE	11,207,268	5,780,485	2,438,473	1,268,169	20,694,395
OPERATING EXPENSES					
Salaries and wages	3,761,195	1,277,155	569,546	1,702,251	7,310,147
Fringe benefits	2,269,897	608,754	295,823	755,650	3,930,124
Utilities	875,664	51,010	180,892	81,779	1,189,345
Insurance	118,872	31,644	45,964	46,864	243,344
Repairs and maintenance	344,556	-	93,497	197,263	635,316
Supplies	269,253	88,744	11,650	40,799	410,446
Cost of goods sold	-	-	-	97,963	97,963
Contracted services	211,311	1,713,300	58,567	455,757	2,438,935
Rentals and leases	21,981	1,986	5,954	122,210	152,131
Other operating	1,124,659	337,743	245,663	274,335	1,982,400
Uncollectible accounts	24	(324)	(60,726)	-	(61,026)
Controllable assets	52,678	13,527	83,883	2,045	152,133
Depreciation	2,990,424	3,033,149	6,511,913	642,092	13,177,578
TOTAL OPERATING EXPENSES	12,040,514	7,156,688	8,042,626	4,419,008	31,658,836
OPERATING LOSS	(833,246)	(1,376,203)	(5,604,153)	(3,150,839)	(10,964,441)
OTHER INCOME (EXPENSE)					
Interest expense	(1,024,397)	(494,806)	(35,922)	-	(1,555,125)
Interest income	193,820	1,665	4,541	(25)	200,001
Gain (loss) on disposal of assets	(8,023)	-	4,209	(1,821)	(5,635)
TOTAL OTHER INCOME (EXPENSE)	(838,600)	(493,141)	(27,172)	(1,846)	(1,360,759)
LOSS BEFORE OPERATING TRANSFERS AND GRANTS	(1,671,846)	(1,869,344)	(5,631,325)	(3,152,685)	(12,325,200)
OPERATING TRANSFERS	167,695	491,400	64,500	753,070	1,476,665
GRANTS FOR OPERATING	20,054	-	139,299	1,453,389	1,612,742
NET LOSS BEFORE CAPITAL TRANSFERS AND GRANTS	(1,484,097)	(1,377,944)	(5,427,526)	(946,226)	(9,235,793)
CAPITAL TRANSFERS	-	-	112,000	52,000	164,000
CAPITAL GRANTS AND CONTRIBUTIONS	4,048,461	-	2,248,823	622,297	6,919,581
NET CHANGES IN NET POSITION	2,564,364	(1,377,944)	(3,066,703)	(271,929)	(2,152,212)
NET POSITION - BEGINNING OF YEAR	118,932,196	6,471,820	65,479,865	6,369,258	197,253,139
NET POSITION - END OF YEAR	\$ 121,496,560	\$ 5,093,876	\$ 62,413,162	\$ 6,097,329	\$ 195,100,927

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, 2016

	Enterprise Funds				Total
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
Cash Flows from Operating Activities					
Receipts from customers	\$17,562,230	\$10,981,889	\$ 686,782	\$ 1,723,414	\$ 30,954,315
Payments to suppliers	(1,541,156)	(2,601,726)	(579,518)	(2,001,913)	(6,724,313)
Payments to employees	(5,971,073)	(2,118,026)	(856,867)	(2,265,503)	(11,211,469)
Net Cash from Operating Activities	<u>10,050,001</u>	<u>6,262,137</u>	<u>(749,603)</u>	<u>(2,544,002)</u>	<u>13,018,533</u>
Cash Flows from Noncapital Financing Activities					
Operating contributions	187,749	491,400	203,799	2,206,459	3,089,407
Increase (decrease) in due to/from other funds	732,280	-	504,588	-	1,236,868
Net Cash from Noncapital Financing Activities	<u>920,029</u>	<u>491,400</u>	<u>708,387</u>	<u>2,206,459</u>	<u>4,326,275</u>
Cash Flows from Capital and Related Financing Activities					
Interest paid on notes and bond payable	(1,960,323)	(499,881)	(39,692)	(25)	(2,499,921)
Acquisition and construction of capital assets	(11,651,447)	(613,725)	(2,715,530)	(522,983)	(15,503,685)
Gain (loss) on the sale of assets	-	-	4,209	(1,821)	2,388
Contribution for capital acquisitions	4,048,461	-	2,360,823	674,297	7,083,581
Proceeds from/payments on notes and bonds payable	8,511,032	(1,254,334)	(263,766)	-	6,992,932
Net Cash from Capital and Related Financing Activities	<u>(1,052,277)</u>	<u>(2,367,940)</u>	<u>(653,956)</u>	<u>149,468</u>	<u>(3,924,705)</u>
Cash Flows from Investing Activities					
Interest on investments	193,820	1,665	4,541	-	200,026
Net change in cash	10,111,573	4,387,262	(690,631)	(188,075)	13,620,129
Cash, Beginning of Year	15,784,465	11,993,197	690,731	664,581	29,132,974
Cash, End of Year	<u>\$25,896,038</u>	<u>\$16,380,459</u>	<u>\$ 100</u>	<u>\$ 476,506</u>	<u>\$ 42,753,103</u>
Non-Cash Operating Activities					
Loss on refunding	\$ 477,187	\$ 344,400	\$ 23,462	\$ -	\$ 845,049
Non-Cash Capital and Related Financing Activities					
Capital lease	\$ (11,738)	\$ -	\$ -	\$ -	\$ (11,738)
Reconciliation of Operating Loss to Net Cash from Operating Activities					
Operating loss	\$ (833,246)	\$(1,376,203)	\$ (5,604,153)	\$(3,150,839)	\$(10,964,441)
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	2,990,424	3,033,149	6,511,913	642,092	13,177,578
Changes in assets and liabilities:					
Accounts receivable	(191,802)	46,367	(18,753)	(1,953)	(166,141)
Unbilled receivables	(332,251)	9,513	19,490	(364)	(303,612)
Due to/from other government entities	6,800,662	5,130,323	(951,721)	(54,336)	10,924,928
Notes receivable	-	(250,000)	-	-	(250,000)
Inventories	(9,773)	(15)	(12,369)	632	(21,525)
Accounts payable and other liabilities	1,487,615	(194,112)	98,195	44,826	1,436,524
Accrued expenses	50,667	14,718	7,777	13,173	86,335
Landfill closure	-	(169,969)	-	-	(169,969)
Unearned revenue	78,353	15,201	(800,707)	(30,300)	(737,453)
Compensated absences	9,352	3,165	725	(6,933)	6,309
Net Cash from Operating Activities	<u>\$10,050,001</u>	<u>\$ 6,262,137</u>	<u>\$ (749,603)</u>	<u>\$(2,544,002)</u>	<u>\$ 13,018,533</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Net Position – Fiduciary Funds
As of June 30, 2016**

	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>	<u>Agency</u>
ASSETS					
Cash and short-term investments	\$ 6,768,327	\$ 126,849	\$ 1,878,714	\$ 64,719	\$ 3,304,980
Investments, at fair value:					
US Government obligations	12,297,602	1,121,897	2,159,848	-	-
Corporate bonds and obligations	7,388,761	498,778	1,007,995	-	-
Fixed income securities	5,841,710	593,088	1,508,719	-	-
Corporate stock	26,523,984	2,018,841	4,078,272	-	-
Equity funds	34,385,579	3,136,137	6,424,415	62,992	-
Accounts receivable	141,346	11,452	23,142	-	-
Due from other funds	-	-	-	5	-
TOTAL ASSETS	<u>93,347,309</u>	<u>7,507,042</u>	<u>17,081,105</u>	<u>127,716</u>	<u>3,304,980</u>
LIABILITIES					
Accounts payable	-	-	-	-	46,830
Due to other funds	-	-	-	-	-
Due to student groups	-	-	-	-	3,258,150
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,304,980</u>
NET POSITION					
Held in trust for pension and OPEB	93,347,309	7,507,042	17,081,105	-	-
Held in trust for scholarships	-	-	-	127,716	-
NET POSITION	<u>\$ 93,347,309</u>	<u>\$ 7,507,042</u>	<u>\$ 17,081,105</u>	<u>\$ 127,716</u>	<u>\$ -</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Changes in Net Position - Fiduciary Funds
For Year Ended June 30, 2016

	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>
ADDITIONS				
Contributions:				
Employer	\$ 6,621,156	\$ -	\$ 1,006,600	\$ -
Plan members	1,873,710	-	-	-
Gifts and contributions	-	-	-	29,200
Receipts of In-kind	420,253	41,632	57,611	-
Total Contributions	<u>8,915,119</u>	<u>41,632</u>	<u>1,064,211</u>	<u>29,200</u>
Investment Income:				
Realized and unrealized gains (losses)	(2,903,171)	(276,316)	(461,506)	-
Interest and dividends	1,040,831	88,455	164,688	3,641
Other income	2,666,177	258,252	462,826	-
Total Investment Income	<u>803,837</u>	<u>70,391</u>	<u>166,008</u>	<u>3,641</u>
TOTAL ADDITIONS	<u>9,718,956</u>	<u>112,023</u>	<u>1,230,219</u>	<u>32,841</u>
DEDUCTIONS				
Benefits	7,789,289	490,872	-	-
Scholarship expenses	-	-	-	31,846
Administrative expenses	693,845	77,394	113,658	-
TOTAL DEDUCTIONS	<u>8,483,134</u>	<u>568,266</u>	<u>113,658</u>	<u>31,846</u>
CHANGES IN NET POSITION	1,235,822	(456,243)	1,116,561	995
NET POSITION - BEGINNING OF YEAR	<u>92,111,487</u>	<u>7,963,285</u>	<u>15,964,544</u>	<u>126,721</u>
NET POSITION - END OF YEAR	<u>\$ 93,347,309</u>	<u>\$ 7,507,042</u>	<u>\$ 17,081,105</u>	<u>\$ 127,716</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

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, 2016 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, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued)

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

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

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

Government-Wide and Fund Financial Statements

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

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 capitalized in the appropriate fund.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(continued)

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fiduciary funds:

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(continued)

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

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

Use of Estimates in the Preparation of Financial Statements

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

Capital Assets

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

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

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

Long-Term Obligations

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

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

Investments

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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

Inventories

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

Employee Benefit Programs

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

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

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

Taxes and County Services

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 (2015 and 2016 calendar years)
Recordation tax	\$3.80 per \$500
Trailer park	15% of gross rentals
Property taxes	\$0.948 per \$100 of assessable base

Cash Flows

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

Concentrations of Credit Risk

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position and Fund Equity

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

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

Implementation of New Accounting Principles

The GASB has issued Statement No. 72, entitled Fair Value Measurement and Application; Statement No. 76; entitled, The Hierarchy of Generally Accepted Accounting Principles for State and Local Government; These statements did not have a material effect on the County’s financial statements.

The GASB has also issued Statement No. 74 entitled, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans; GASB Statement No. 75, entitled, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; and GASB Statement No. 77; entitled, Tax Abatement Disclosures, which will require adoption in the future, if applicable. These statements may or will have a material effect on the County’s financial statements once implemented. The County will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

Financial Capacity and Analysis Phase

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Budget Development Start

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

Budget Development Phase

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Review and Modification Phase

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

Adoption Phase

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

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

Start Up

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

Balanced Budget

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

Costing of Services

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Amendment to the Budget

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

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

3. CASH AND SHORT-TERM INVESTMENTS

County

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

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

Deposits

As of June 30, 2016, the carrying amount of the County's deposits was \$48,504,246 and the bank balances were \$50,310,418. All deposits are carried at cost plus accrued interest. There were no significant violations of the collateralization requirements during the year ended June 30, 2016. 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, 2016, the County's bank balance of \$50,310,418 was exposed to custodial credit risk as \$250,000 of interest bearing accounts and \$250,000 of noninterest bearing accounts are insured by FDIC, \$15,000,000 is covered by a short term line of credit, and the remainder is collateralized through the Bank of New York Mellon.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

3. CASH AND SHORT-TERM INVESTMENTS (continued)

County (continued)

Investments

As of June 30, 2016, 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	\$ 91,230,984	\$ 82,795,579	\$ 8,435,405	\$ -	\$ -
Certificates of Deposit	457,725	-	457,725	-	-
Total investments held in County's name	91,688,709	82,795,579	8,893,130	-	-
Investments held by trustee of					
Pension plan:					
U.S. government obligations, municipal and corporate bonds	19,686,363	19,686,363	-	-	-
Fixed income securities	5,841,710	5,841,710	-	-	-
Corporate stocks	26,523,984	26,523,984	-	-	-
Equity funds	34,385,579	34,385,579	-	-	-
Money market funds	6,768,327	6,768,327	-	-	-
Interest and dividends receivable	141,346	141,346	-	-	-
Total Investments held by trustee of pension plan	93,347,309	93,347,309	-	-	-
Investments held by trustee of					
LOSAP plan:					
U.S. government obligations and corporate bonds	1,620,675	1,620,675	-	-	-
Corporate stocks	2,018,841	2,018,841	-	-	-
Fixed income funds	593,088	593,088	-	-	-
Equity funds	3,136,137	3,136,137	-	-	-
Money market funds	126,849	126,849	-	-	-
Interest and dividends receivable	11,452	11,452	-	-	-
Total Investments held by trustee of LOSAP plan	7,507,042	7,507,042	-	-	-
Investments held by trustee of					
OPEB plan:					
U.S. government obligations and corporate bonds	3,167,843	3,167,843	-	-	-
Corporate stocks	4,078,272	4,078,272	-	-	-
Fixed income funds	1,508,719	1,508,719	-	-	-
Equity funds	6,424,415	6,424,415	-	-	-
Money market funds	1,878,714	1,878,714	-	-	-
Interest and dividends receivable	23,142	23,142	-	-	-
Total Investments held by trustee of OPEB plan	17,081,105	17,081,105	-	-	-
Total investments	\$ 209,624,165	\$ 200,731,035	\$ 8,893,130	\$ -	\$ -

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the County's investments are valued using quoted market prices (level 1 inputs).

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments (continued)

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments (continued)

Credit Risk: It is the County's investment policy to only invest in U.S. Government Treasury obligations, agencies and sponsored instrumentalities. Also the County's investment policy allows for investments in banks located in the State of Maryland (Certificates of Deposit) with the exception of Bankers Acceptances. Commercial banks must have a short-term rating of at least investment grade from the appropriate bank rating agencies. Bankers' Acceptances from domestic banks, which also include United States affiliates of large international banks, must have a rating of A1 from Standards and Poor's Corporation and P1 from Moody's Investor Services. As of June 30, 2016, the County's investments were 100% in U.S. Treasury and Agency obligations and certificates of deposit.

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

Investment Type	Evaluation Benchmark
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, 2016, none of the County's investments are exposed to custodial credit risk because they are held in the County's name.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education

Cash:

Credit Risk: Maryland State Law prescribes that local government units, such as the School System, must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels with collateral whose market value is at least equal to the deposits. Any cash deposit exceeding the FDIC insurance level will require collateralization. Beginning January 1, 2013, FDIC coverage limits are applied to total noninterest-bearing accounts separately from interest-bearing accounts. Additionally, a compensating balance agreement exists with the Board’s primary financial institution. This non-interest bearing deposit is maintained in lieu of cash payments for standard bank services. The required average balance totaled \$250,000 at June 30, 2016.

Compliance is summarized as follows:

<u>June 30, 2016</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Responsibilities</u>	<u>Total</u>
Carrying amount of cash deposits	\$ 22,462,617	\$ 5,113	\$ 3,369,699	\$ 25,837,429
Bank balance of cash deposits	24,782,823	4,194	3,468,983	28,256,000
Amount covered by FDIC	499,605	2,028	878,067	1,379,700
Amount collateralized with securities held by an agent of the pledging financial institution in the School system’s name	24,283,218	2,166	2,590,916	26,876,300

Investments:

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements
June 30, 2016

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education (continued)

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

As of June 30, 2016, the School System had the following investments and maturities:

<u>June 30, 2016</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Responsibilities</u>	<u>Total</u>
Federal Farm Credit Bank – 1.100% matures October 15, 2018	\$ 5,500,110	\$ -	\$ -	\$ 5,500,110
Federal Home Loan Mortgage Corp. - 1.250% matures October 29, 2018	5,002,150	-	-	5,002,150
Federal National Mortgage Association - 1.250% matures January 30, 2019	4,000,600	-	-	4,000,600
Federal National Mortgage Association - 1.125% matures June 28, 2019	3,503,990	-	-	3,503,990
Federal Home Loan Bank - 1.370% matures October 24, 2019	3,000,090	-	-	3,000,090
Federal Home Loan Bank - 1.390% matures December 26, 2019	1,000,010	-	-	1,000,010
Income Fund of America	-	-	62,992	62,992
	<u>\$ 22,006,950</u>	<u>\$ -</u>	<u>\$ 62,992</u>	<u>\$ 22,069,942</u>

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
	<u>June 30, 2016</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Agencies	\$ 22,006,950	\$ -	\$ 22,006,950	\$ -	\$ -
Income Fund	62,992	62,992	-	-	-
	<u>\$ 22,069,942</u>	<u>\$ 62,992</u>	<u>\$ 22,006,950</u>	<u>\$ -</u>	<u>\$ -</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements
June 30, 2016

4. RECEIVABLES

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

	<u>Governmental Activities</u>			
	<u>General</u>	<u>Capital Projects</u>	<u>Non-Major</u>	<u>Total</u>
Receivables:				
Taxes receivable	\$ 480,714	\$ -	\$ -	\$ 480,714
Accounts receivable	554,043	387,033	314,729	1,255,805
Gross receivables	1,034,757	387,033	314,729	1,736,519
Less: allowance for uncollectibles	(173,742)	-	-	(173,742)
Net Total Receivables	\$ 861,015	\$ 387,033	\$ 314,729	\$ 1,562,777

	<u>Business-type Activities</u>				
	<u>Water Quality</u>	<u>Solid Waste</u>	<u>Airport</u>	<u>Non-major</u>	<u>Total</u>
Accounts receivable	\$ 1,362,652	\$ 260,613	\$ 49,813	\$ 17,483	\$ 1,690,561
Less: allowance for uncollectibles	(15,273)	(67,078)	(10,800)	(500)	(93,651)
Net Total Receivables	\$ 1,347,379	\$ 193,535	\$ 39,013	\$ 16,983	\$ 1,596,910

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also record unearned revenue in connection with resources that have been received, but not yet earned. As of the end of the current fiscal year unearned revenue for delinquent property taxes receivable reported in the General Fund was \$277,005. 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, 2016

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

Primary Government

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 83,080,346	\$ 2,408,065	\$ (330,834)	\$ 85,157,577
Capital assets, being depreciated:				
Land improvements	13,145,015	908,697	-	14,053,712
Building and improvements	90,855,192	7,171,106	-	98,026,298
Vehicles	14,127,073	1,942,579	(685,984)	15,383,668
Infrastructure	1,144,423,015	15,729,722	-	1,160,152,737
Machinery and equipment	9,365,501	108,619	(112,143)	9,361,977
Office furniture and equipment	5,606,200	-	(42,941)	5,563,259
Computer equipment	32,573,381	2,794,419	-	35,367,800
Total capital assets, being depreciated	<u>1,310,095,377</u>	<u>28,655,142</u>	<u>(841,068)</u>	<u>1,337,909,451</u>
Total capital assets	<u>1,393,175,723</u>	<u>31,063,207</u>	<u>(1,171,902)</u>	<u>1,423,067,028</u>
Accumulated depreciation for:				
Land improvements	(5,464,348)	(408,950)	-	(5,873,298)
Building and improvements	(29,259,848)	(2,414,364)	-	(31,674,212)
Vehicles	(10,940,217)	(884,804)	673,363	(11,151,658)
Infrastructure	(911,576,387)	(9,618,312)	-	(921,194,699)
Machinery and equipment	(6,517,448)	(478,930)	112,143	(6,884,235)
Office furniture and equipment	(5,437,988)	(18,124)	42,479	(5,413,633)
Computer equipment	(19,574,675)	(2,846,372)	-	(22,421,047)
Total accumulated depreciation	<u>(988,770,911)</u>	<u>(16,669,856)</u>	<u>827,985</u>	<u>(1,004,612,782)</u>
Governmental activities capital assets, net	<u>\$ 404,404,812</u>	<u>\$ 14,393,351</u>	<u>\$ (343,917)</u>	<u>\$ 418,454,246</u>
Projects Under Construction	<u>\$ 26,649,023</u>	<u>\$ 23,747,740</u>	<u>\$ (33,367,002)</u>	<u>\$ 17,029,761</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements
June 30, 2016

5. CAPITAL ASSETS (continued)

Business-type Activities

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 12,052,287	\$ -	\$ -	\$ 12,052,287
Capital assets, being depreciated:				
Land improvements	137,399,526	5,672,806	-	143,072,332
Building and improvements	63,261,108	116,856	-	63,377,964
Facilities	117,310,657	750,378	-	118,061,035
Vehicles	8,257,096	213,608	(291,285)	8,179,419
Machinery and equipment	12,262,985	610,584	(343,228)	12,530,341
Office furniture and equipment	323,205	-	-	323,205
Computer equipment	2,529,187	-	-	2,529,187
Treatment plants	54,673,121	12,634,170	(43,682)	67,263,609
Total capital assets, being depreciated	396,016,885	19,998,402	(678,195)	415,337,092
Total capital assets	408,069,172	19,998,402	(678,195)	427,389,379
Accumulated depreciation for:				
Land improvements	(78,628,047)	(7,700,894)	-	(86,328,941)
Building and improvements	(17,445,764)	(1,565,459)	-	(19,011,223)
Facilities	(31,268,067)	(1,537,368)	-	(32,805,435)
Vehicles	(6,146,271)	(712,787)	283,271	(6,575,787)
Machinery and equipment	(9,125,076)	(566,265)	317,022	(9,374,319)
Office furniture and equipment	(323,206)	-	-	(323,206)
Computer equipment	(2,135,920)	(219,794)	-	(2,355,714)
Treatment plants	(22,533,419)	(970,521)	35,659	(23,468,281)
Total accumulated depreciation	(167,605,770)	(13,273,088)	635,952	(180,242,906)
Business-type activities capital assets, net	\$ 240,463,402	\$ 6,725,314	\$ (42,243)	\$ 247,146,473
Projects Under Construction	\$ 7,996,470	\$ 15,377,202	\$ (19,938,504)	\$ 3,435,168

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

5. CAPITAL ASSETS (continued)

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

Governmental Activities:

General Government	\$ 11,840,331
Public Safety	3,986,202
Recreation	305,149
Conservation of Natural Resources	5,662
Highway	493,981
Total Depreciation Expense - Governmental Activities	<u>\$ 16,631,325</u>

Business-Type Activities:

Transit Fund	\$ 538,533
Airport Fund	6,511,913
Golf Course Fund	103,559
Water Quality Fund	2,990,424
Solid Waste Fund	3,033,149
Total Depreciation Expense – Business-Type Activities	<u>\$ 13,177,578</u>

Board of Education (Discretely presented component unit)

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Government activities				
Capital assets, not being depreciated:				
Land	\$ 8,692,987	\$ -	\$ -	\$ 8,692,987
Facilities under construction	8,277,129	10,373,517	(260,455)	18,390,191
	<u>16,970,116</u>	<u>10,373,517</u>	<u>(260,455)</u>	<u>27,083,178</u>
Capital assets, being depreciated:				
Building and improvements	319,487,836	1,292,991	-	320,780,827
Furniture and equipment	45,780,323	3,429,462	(2,040,936)	47,168,849
Equipment under capital leases	9,426,852	4,440,983	-	13,867,835
	<u>374,695,011</u>	<u>9,163,436</u>	<u>(2,040,936)</u>	<u>381,817,511</u>
Accumulated depreciation:				
Building and improvements	(130,184,262)	(7,086,404)	-	(137,270,666)
Furniture and equipment	(29,002,794)	(3,291,504)	2,006,188	(30,288,110)
Buildings and equipment under capital lease	(1,305,820)	(451,322)	-	(1,757,142)
	<u>(160,492,876)</u>	<u>(10,829,230)</u>	<u>2,006,188</u>	<u>(169,315,918)</u>
Governmental activities capital assets, net	<u>\$ 231,172,251</u>	<u>\$ 8,707,723</u>	<u>\$ (295,203)</u>	<u>\$ 239,584,771</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

5. CAPITAL ASSETS (continued)

Board of Education (continued)

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
Business-type activities				
Capital assets, being depreciated:				
Furniture and equipment	\$ 4,797,296	\$ 270,008	\$ (3,044)	\$ 5,064,260
Accumulated depreciation				
Furniture and equipment	(3,338,777)	(199,379)	3,044	(3,535,112)
Business-type activities capital assets, net	<u>\$ 1,458,519</u>	<u>\$ 70,629</u>	<u>\$ -</u>	<u>\$ 1,529,148</u>

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

Governmental activities:

Other instructional costs	\$ 1,787,560
Student transportation services	1,287,305
Operation of plant	176,080
Depreciation - unallocated	<u>7,578,285</u>
Total governmental activities depreciation expense	<u>\$ 10,829,230</u>

Business-type activities:

Food services	<u>\$ 199,379</u>
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COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

6. INTERFUND RECEIVABLES AND PAYABLES

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	General Fund	\$ 55,483,022
	Community Grant Management	63,507
	Hotel Rental Tax Fund	62,840
	HEPMPO	219,272
	Airport	<u>504,588</u>
Total		<u>\$ 56,333,229</u>

Due to/from primary government and component unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Component unit - Board of Education	Primary government - capital projects	\$ 623,800

All interfund payables are without interest.

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:

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

7. INTERFUND TRANSACTIONS (continued)

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

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Capital Transfers In</u>	<u>Capital Transfers Out</u>
General Fund:				
Capital Projects	\$ -	\$ -	\$ -	\$ 7,130,000
Solid Waste	-	491,400	-	-
Public Transit	-	472,300	-	-
Water Quality	-	167,695	-	-
Community Grants Management	-	286,820	-	-
Agricultural Education Center	-	140,050	-	-
Golf Course	-	296,950	-	-
HEPMPO	-	7,990	-	-
Land Preservation	-	130,814	-	-
Airport	-	14,500	-	-
Capital Projects Fund:				
General Fund	-	-	7,130,000	-
Airport Fund	-	-	-	112,000
Hotel Rental Fund	-	-	250,000	-
Golf Course	-	-	-	52,000
Land Preservation	-	-	-	400,000
Solid Waste:				
General Fund	491,400	-	-	-
Public Transit:				
General Fund	472,300	-	-	-
HEPMPO	-	16,180	-	-
Water Quality:				
General Fund	167,695	-	-	-
Airport:				
General Fund	14,500	-	-	-
Hotel Rental	50,000	-	-	-
Capital Project Fund	-	-	112,000	-
Golf Course:				
General Fund	296,950	-	-	-
Capital Projects Fund	-	-	52,000	-
Community Grant Management Fund:				
General Fund	286,820	-	-	-
Agricultural Education Center:				
General Fund	140,050	-	-	-
HEPMPO:				
General Fund	7,990	-	-	-
Public Transit Fund	16,180	-	-	-
Hotel Rental:				
Capital Project Fund	-	-	-	250,000
Airport	-	50,000	-	-
Land Preservation:				
General Fund	130,814	-	-	-
Capital Projects Fund	-	-	400,000	-
Total	<u>\$ 2,074,699</u>	<u>\$ 2,074,699</u>	<u>\$ 7,944,000</u>	<u>\$ 7,944,000</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Bonds payable:						
General obligation bonds	2.0-5.5%	\$132,436,537	\$ 18,396,940	\$ 15,935,702	\$ 134,897,775	\$ 9,875,929
Unamortized bond premium		6,700,103	1,639,934	801,203	7,538,834	-
Total bonds payable		<u>139,136,640</u>	<u>20,036,874</u>	<u>16,736,905</u>	<u>142,436,609</u>	<u>9,875,929</u>
Other loans payable						
Maryland Water Quality loans	1.0%	4,888,398	-	290,895	4,597,503	294,805
Total bonds and loans payable		144,025,038	20,036,874	17,027,800	147,034,112	10,170,734
Agricultural Land Preservation	3.0%	497,800	-	351,794	146,006	146,006
Capital lease obligations	2.1%	199,540	-	167,077	32,463	12,356
Net pension liability		<u>55,203,520</u>	<u>10,978,716</u>	<u>-</u>	<u>66,182,236</u>	<u>-</u>
Governmental Activity Long-term Liabilities		<u>199,925,898</u>	<u>31,015,590</u>	<u>17,546,671</u>	<u>213,394,817</u>	<u>10,329,096</u>
Business-type Activities						
Bonds payable:						
General obligation bonds	2.0-5.9%	\$ 31,890,951	\$ 11,693,060	\$ 5,766,908	\$ 37,817,103	\$ 2,610,866
Unamortized bond premium		905,439	1,015,527	130,559	1,790,407	-
Unamortized bond discount		(10,084)	-	(3,505)	(6,579)	-
Total bonds payable		<u>32,786,306</u>	<u>12,708,587</u>	<u>5,893,962</u>	<u>39,600,931</u>	<u>2,610,866</u>
Other loans payable:						
Maryland Water Quality loans	0.40-1.7%	13,404,936	-	870,424	12,534,512	997,326
Amount to be drawn		(1,163,659)	-	(1,163,659)	-	-
Total other loans payable		<u>12,241,277</u>	<u>-</u>	<u>(293,235)</u>	<u>12,534,512</u>	<u>997,326</u>
Total bonds and loans payable		<u>45,027,583</u>	<u>12,708,587</u>	<u>5,600,727</u>	<u>52,135,443</u>	<u>3,608,192</u>
Capital lease obligations	4.90%	<u>50,568</u>	<u>-</u>	<u>11,738</u>	<u>38,830</u>	<u>12,321</u>
Business-type Activity Long-term Liabilities		<u>45,078,151</u>	<u>12,708,587</u>	<u>5,612,465</u>	<u>52,174,273</u>	<u>3,620,513</u>
Total Combined Activities Long-term Liabilities		<u>\$ 245,004,049</u>	<u>\$ 43,724,177</u>	<u>\$ 23,159,136</u>	<u>\$ 265,569,090</u>	<u>\$ 13,949,609</u>
Board of Education	1.95-11.64%	<u>\$ 7,003,515</u>	<u>\$ 4,440,983</u>	<u>\$ 817,453</u>	<u>\$ 10,627,045</u>	<u>\$ 7,756,121</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

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

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

Year ending June 30	Governmental Activities		Business-type Activities		Combined Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 10,170,734	\$ 4,474,924	\$ 3,608,192	\$ 2,715,934	\$ 13,778,926	\$ 7,190,858
2018	10,033,914	4,408,533	4,393,451	2,841,221	14,427,365	7,249,754
2019	8,932,960	4,063,504	4,916,903	2,782,180	13,849,863	6,845,684
2020	9,201,097	3,718,214	4,308,425	2,717,151	13,509,522	6,435,365
2021	9,643,509	3,369,467	3,193,843	940,863	12,837,352	4,310,330
2022-2026	43,312,467	11,899,571	13,571,018	3,431,647	56,883,485	15,331,218
2027-2031	31,383,749	5,333,743	10,354,746	1,651,040	41,738,495	6,984,783
2032-2036	16,011,422	1,286,951	5,425,462	451,567	21,436,884	1,738,518
2037	805,426	12,080	579,575	8,695	1,385,001	20,775
Total	<u>\$ 139,495,278</u>	<u>\$ 38,566,987</u>	<u>\$ 50,351,615</u>	<u>\$ 17,540,298</u>	<u>\$ 189,846,893</u>	<u>\$ 56,107,285</u>
Less:						
Unamortized discount	-		(6,579)		(6,579)	
Unamortized premium	7,538,834		1,790,407		9,329,241	
	<u>\$ 147,034,112</u>		<u>\$ 52,135,443</u>		<u>\$ 199,169,555</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, 2016, the unused authorization was \$37,734,722.

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, 2016, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$50,969,311.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

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, 2016, are as follows:

<u>As of June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2017	<u>\$ 146,006</u>	<u>\$ 4,380</u>	<u>\$ 150,386</u>

For the year ended June 30, 2016, total principal and interest incurred related to agricultural land preservation installments was \$351,794 and \$14,934, respectively.

Capital Leases

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

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 12,925
2018	12,925
2019	<u>7,539</u>
Total minimum payments	33,389
Less: amounts representing interest	<u>926</u>
Present value of net minimum lease payments	<u>\$ 32,463</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

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

Capital Leases (continued)

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

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 14,250
2018	14,250
2019	14,250
Total minimum payments	42,750
Less: amounts representing interest	3,920
Present value of net minimum lease payments	<u>\$ 38,830</u>

The following is an analysis of the capital assets acquired under capital leases as of June 30, 2016.

	<u>Capitalized Amount</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value June 30, 2016</u>
General Fund	\$ 56,548	\$ 27,332	\$ 29,216
Water Quality	76,000	36,733	39,267
Total	<u>\$ 132,548</u>	<u>\$ 64,065</u>	<u>\$ 68,483</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>
2017	\$ 7,756,121	\$ 232,201	\$ 7,988,322
2018	710,845	85,936	796,781
2019	1,062,366	56,708	1,119,074
2020	1,097,713	20,853	1,118,566
	<u>\$ 10,627,045</u>	<u>\$ 395,698</u>	<u>\$ 11,022,743</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

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, 2016, \$31,100,000 of long-term obligations outstanding are considered defeased.

9. OPERATING LEASE AGREEMENTS

County

During fiscal year 2004, the County entered into a lease agreement whereby the lessee constructed a building and improvements on land owned at the Airport. The total cost of the building and improvements was capitalized as an asset in the Airport Fund with an estimated useful life of 40 years. As of June 30, 2004, the building and improvements were estimated at \$2,500,000. During the year ended June 30, 2005, a revised cost was obtained reducing the value to \$2,000,000. The \$500,000 adjustment was recorded as a reduction to fixed assets and deferred inflow of resources in the June 30, 2005, financial statements. The terms of the original agreement which began June 30, 2004, allowed the lessee to use the property for a period of 25 years, with no additional payments due. During fiscal year 2006, this lease was amended with lease terms extended to 31 years and additional building and improvements valued at \$1,800,000 were capitalized as an asset in the Airport Fund with an estimated useful life of 40 years. During fiscal year 2009, a second amendment to the lease agreement allowed for additional building and improvements valued at \$400,000 and an extension of the lease through December 31, 2042. The addition was capitalized as an asset in the Airport Fund with an estimated useful life of 40 years. Deferred inflow of resources in the amount of \$2,500,000 was recorded in the Airport Fund at the inception of this lease but was adjusted down to \$2,000,000 during year ended 2005, and was to be recognized as rental income over the original 25 year term of the lease. Since the amendments extending the lease term and the additional capitalization of building and improvements, the remaining deferred inflow of resources of \$3,587,724 as of June 30, 2010, will be amortized over 33 years. The terms of the agreement as amended in fiscal year 2009, allow the lessee to use the property for a period of 33 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 33 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, 2016

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

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

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

During year ending June 30, 2016, rental income for the above leases of \$881,889 was recognized in the Airport Fund.

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

The term of the lease runs for a period of ninety-nine years with fixed monthly rent payments of \$28,800. During the year ended June 30, 2016, outsourcing revenue of \$345,600 was recognized in the Water Quality Fund.

On January 19, 2012, Black Rock Golf Course entered into a new lease for golf carts. The agreement called for lease payments of \$8,077 payable from April through November of each year. The lease term is for six years commencing on March 1, 2012. Total lease payments for the year ended June 30, 2016, were \$64,616.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

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 2016, and is capped at 25 days. The accrual of sick leave is based on payment upon retirement at a rate of \$10 per day for each unused sick leave day up to a total of 130 days. Total unpaid vacation and sick leave accrued as of June 30, 2016, was \$2,562,388 and \$526,196, 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, 2016, was \$7,347,323. Total employee related costs associated and accrued with these compensated absences amounted to \$522,127 as of June 30, 2016. For governmental funds, \$375,260, as of June 30, 2016, 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, 2016

11. RETIREMENT PLANS

County Defined Benefit Pension Plan

Plan Description

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

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

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

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

The net pension liability by plan is as follows:

Retirement Plan	
Net Pension Liability	\$ 65,694,940
LOSAP Plan	
Net Pension Liability	487,296
	<u>\$ 66,182,236</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

Investments

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

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

Funding Policy

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

All information that follows for the Plan is measured as of June 30, 2016, which is the latest actuarial report available.

Membership of the Plan

The membership consisted of the following as of June 30, 2016, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	334
Terminated Plan members entitled to but not yet receiving benefits	15
Active Plan members	771
Total	<u>1,120</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

Actuarial Assumptions

The long-term expected rate of return on pension plan investments was determined using a standard building block approach. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic assumed rates of return for each class included in the pension plans' general target asset allocation as of June 30, 2016 is as follows:

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

Annual Pension Cost and Net Pension Obligation

The total pension liability for the current year was determined as part of the June 30, 2016, 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 3.0% per year. The actuary was using the RP-2014 adjusted to 2006 Total Dataset with Generational projection using scale MP2015 to 2015. 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.

Net Pension Liability

The net pension liability is equal to the total pension liability minus the net position of the plan. The result as of June 30, 2016 is as follows:

Total pension liability	\$ 159,042,249
Net position	<u>(93,347,309)</u>
Net pension liability	<u>\$ 65,694,940</u>

Net position as a percentage of total pension liability is 58.7%.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

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

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

	1.0% decrease (6.75%)	Current rate 7.75%	1.0% increase (8.75%)
Net pension liability	<u>\$ 82,802,269</u>	<u>\$ 65,694,940</u>	<u>\$ 51,208,247</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2016, the County recognized pension expense of \$2,931,673 for the Plan. As of June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 5,443,333	\$ -
Change in assumptions	2,110,133	-
Net difference between projected and actual investment earnings	6,563,556	-
Total	<u>\$ 14,117,022</u>	<u>\$ -</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

The above amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized in the pension expense as follows:

<u>Years Ended June 30,</u>	<u>Amount</u>
2017	\$ 3,262,983
2018	3,262,983
2019	3,262,982
2020	2,817,384
2021	1,510,690
Total	<u><u>\$ 14,117,022</u></u>

Board of Education

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

11. RETIREMENT PLANS (continued)

Board of Education (continued)

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

Both the "Retirement System" and the "Pension System" for teachers and educational support employees are jointly contributory. Under the "Retirement System", employees contribute 4% - 7% of their total gross salary, and under the "Pension System", employees contribute 7% their gross salary for the year. Effective, July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The pension plans funded ratio is 69.66%, which measures the actuarial value of plan assets as a percentage of actuarial accrued liability.

- Washington County School System contributions totaling \$1,864,791 and \$1,890,341 for fiscal years 2016 and 2015, respectively; and contributions by the State of Maryland on behalf of the School System totaling \$17,316,621 and \$17,080,357 for fiscal years 2016 and 2015, respectively. All contributions were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed annually.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements
June 30, 2016

11. RETIREMENT PLANS (continued)

Board of Education (continued)

At June 30, 2016, the School System reported a liability for its proportionate share of net pension liability that reflected a reduction for State pension support provided to the School System. The amount recognized by the School System as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the School System were as follows:

	<u>Teacher's Retirement and Pension System</u>	<u>Employees' Retirement and Pension System</u>
School System's proportionate share of net pension liability	\$ -	\$ 18,386,392
State's proportionate share of net position liability associated with the School System	164,126,551	-
Total	<u>\$ 164,126,551</u>	<u>\$ 18,386,392</u>

For the year ended June 30, 2016, the School System recognized pension expense of \$23,915,666 related to governmental activities and \$265,603 related to business-type activities. As of June 30, 2016, the School System reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ 1,086,981	\$ -
Net difference between projected and actual investment earnings	1,619,458	-
Difference between actual and expected experience	-	1,637,107
School System contributions subsequent to the measurement date	1,651,954	-
Total	<u>\$ 4,358,393</u>	<u>\$ 1,637,107</u>

The \$1,651,954 reported as deferred outflows of resources related to pensions resulting from the School System contributions subsequent to the measurement ate will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

11. RETIREMENT PLANS (continued)

Board of Education (continued)

<u>Years Ended June 30,</u>	<u>Amount</u>
2017	\$ 159,167
2018	159,167
2019	159,167
2020	159,167
2021	432,664

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

The following presents the net pension liability of the plan, calculated using a discount rate of 7.55% as well as what the plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.55%) or 1-percentage point higher (8.55%) than the current rate:

	<u>1.0% decrease (6.55%)</u>	<u>Current rate 7.55%</u>	<u>1.0% increase (8.55%)</u>
Net pension liability	<u>\$ 25,986,344</u>	<u>\$ 18,386,392</u>	<u>\$ 12,054,516</u>

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, 2016

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 \$1,150,931 which is reflected in the accompanying financial statements as of June 30, 2016. Changes in the claims liability were as follows:

	Years Ended June 30,	
	2016	2015
Liability, beginning of year	\$ 1,056,288	\$ 1,060,759
Premiums collected and changes in estimates during the year	14,527,289	13,919,883
Claims and administrative costs paid	(14,432,646)	(13,924,354)
Liability, end of year	<u>\$ 1,150,931</u>	<u>\$ 1,056,288</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, 2016

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 \$600,000 per occurrence. As required by the State of Maryland, \$175,000 in U.S. Treasury Notes is held by the State Workers' Compensation Commission and is included in investments on the balance sheet. The County extends coverage under this plan to the employees of other governmental and nonprofit agencies. These agencies are charged a "premium", however the County bears the risk of loss. The liability for estimated claims was determined to be \$741,292, which is reflected in the accompanying financial statements as of June 30, 2016. Changes in the claims liability were as follows:

	<u>Years Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Liability, beginning of year	\$ 777,183	\$ 1,054,492
Premiums collected and changes in estimates during the year	815,104	1,255,713
Claims and administrative costs paid	<u>(850,995)</u>	<u>(1,533,022)</u>
Liability, end of year	<u>\$ 741,292</u>	<u>\$ 777,183</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, 2016

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 75% 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 \$500,000 for each worker's compensation claim.

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

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

In accordance with the Governmental Accounting Standards Board's Statement No. 10 "*Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*," charges to other funds must be accounted for as revenue by an internal service fund and expenditures/expenses by the other funds. The amounts of these charges were \$31,077,727 and \$29,960,584 for the years ended June 30, 2016 and 2015, respectively.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

12. RISK MANAGEMENT (continued)

Board of Education (continued)

The Self-Insurance Fund's accrued liabilities include an estimate of the amount to be paid for self-insured claims incurred prior to June 30, 2016 and 2015. 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,	
	2016	2015
Liability, beginning of year	\$ 2,625,050	\$ 2,165,352
Claims and changes in estimates during the year	44,668,598	39,184,521
Claims paid and accrued	(44,169,731)	(38,724,823)
Liability, end of year	<u>\$ 3,123,917</u>	<u>\$ 2,625,050</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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

14. SEGMENT INFORMATION (continued)

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, 2016

	<u>Sewer Department</u>	<u>Pretreatment Department</u>
CONDENSED STATEMENT OF NET POSITION		
ASSETS		
Current assets	\$ 22,199,284	\$ 1,852,529
Noncurrent assets	116,957,135	5,156,440
Total Assets	<u>139,156,419</u>	<u>7,008,969</u>
DEFERRED OUTFLOW OF RESOURCES	209,410	221,675
LIABILITIES		
Other current liabilities	7,991,245	1,585,078
Noncurrent liabilities	<u>27,701,002</u>	<u>2,969,722</u>
Total Liabilities	35,692,247	4,554,800
Net Position		
Net investment in capital assets	100,033,320	1,635,091
Unrestricted	(7,883,332)	1,040,753
Restricted - capital projects	<u>11,523,594</u>	<u>-</u>
Total Net Position	<u>\$ 103,673,582</u>	<u>\$ 2,675,844</u>
CONDENSED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION		
Operating revenue	\$ 9,427,238	\$ -
Lease income	-	345,600
Depreciation expense	(2,145,058)	(187,409)
Other operating expenses	<u>(7,835,633)</u>	<u>(21,019)</u>
Operating income	(553,453)	137,172
Non-operating revenue (expenses):		
Interest expense	(761,179)	(165,229)
Interest income	156,526	-
Capital contributions	<u>4,048,461</u>	<u>-</u>
Change in Net Position	2,890,355	(28,057)
Net Position, beginning of year	<u>100,783,227</u>	<u>2,703,901</u>
Net Position, End of Year	<u>\$ 103,673,582</u>	<u>\$ 2,675,844</u>
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	\$ 11,052,590	\$ 482,690
Capital and related financing activities	14,489,521	(1,014,938)
Investing activities	<u>(14,960,637)</u>	<u>-</u>
Net increase	10,581,474	(532,248)
Cash and cash equivalents, beginning of year	<u>8,474,525</u>	<u>2,384,777</u>
Cash and Cash Equivalents, End of Year	<u>\$ 19,055,999</u>	<u>\$ 1,852,529</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

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 \$159,492 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, 2016.

The Resh Landfill has reported a landfill post-closure care liability of \$4,998,053 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, 2016.

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, 2016. The Rubble Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2016.

The 40 West Landfill began operation in fiscal year 2001. The estimated life of this landfill is approximately 120 years as of June 30, 2016, it is estimated that approximately 17.2% of the capacity has been used. The estimated costs associated with closure and post-closure care of \$8,105,075 was reported as a liability in the Solid Waste Fund at June 30, 2016. 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 CFO that they meet the Local Government Financial Test as of June 30, 2016, as specified in 40CFR258.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

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, fifty-one retirees are receiving benefits and twenty employees are retirement eligible. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported.

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

County (continued)

Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,203,000
Interest on Net OPEB Obligation	133,000
Adjustment to Annual Required Contribution	(130,000)
Annual OPEB Cost (Expense)	<u>1,206,000</u>
Contributions Made or Accrued	<u>1,485,600</u>
Increase(decrease) in Net Assets	(279,600)
Net OPEB Asset - Beginning of Year	<u>(1,767,775)</u>
Net OPEB Asset - End of Year	<u><u>\$ (2,047,375)</u></u>

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

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Assets
2016	\$ 1,203,000	123.80%	\$ (2,047,375)
2015	1,169,915	147.41%	(1,767,775)
2014	1,291,864	130.97%	(1,213,123)

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, 2016

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

County (continued)

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

In the actuarial valuation for the plan year ending June 30, 2016, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.50% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 7.8% initially, reduced by decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar charge on an open basis. The remaining amortization period as of June 30, 2016, was 22 years.

Board of Education

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

Board of Education (continued)

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed for the plan as of June 30, 2016, 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 \$27,266,000, including current claims, was \$3,000 more than the ARC, due to adjustments related to amortization and interest on the net OPEB obligation. The School System made contributions to the plan during the year ended June 30, 2016 of \$16,730,000, resulting in a decrease of the net OPEB receivable of \$411,890 and creation of a payable. The balance of the net OPEB receivable at June 30, 2016 is \$13,444,644. The School System’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years is as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
2016	\$ 27,266,000	49.18%	\$ 13,444,644
2015	16,986,000	74.64%	(411,890)
2014	16,324,000	75.95%	(4,718,849)

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

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, 2016, was as follows:

Actuarial accrued liability (AAL)	\$ 317,648,000
Actuarial value of plan assets	<u>40,897,700</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 276,750,300</u>
Funded ratio (actuarial value of plan assets/AAL)	12.88%

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, 2016, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 6.9% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.0% initially decreasing gradually to 5.3%. Both rates include a 2.3% 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, 2016, was twenty-one years.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

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, 2016. There are also certain unasserted claims that could possibly be asserted. The Commissioners intend to defend all litigations against them. In the Commissioners' opinion, the liability, if any, in or arising from these litigations or any other legal proceedings in which the County is involved, will not have a material adverse effect on its financial condition.

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

On June 23, 2014, the Board of County Commissioners of Washington County, Maryland entered into a \$4 million loan agreement with the Maryland Department of Business and Economic Development and Mack Trucks, Inc. The loan proceeds were made for eligible project costs and does not require repayment unless specific employment levels are not met. If such a condition occurs, repayments are guaranteed to DBED by the County. Mack Trucks, Inc. is contractually obligated to the County to reimburse any payments occurring as a result of the guarantee. As of June 30, 2016, there is no effect on amounts reported on the County's statement of net position or statement of activities as a result of this guarantee.

On July 12, 2016, the Board of County Commissioners entered into a Memorandum of Understanding with the Pen Mar Development Corporation. The purpose of this MOU was to set forth the agreement between parties concerning the transfer and development of real property located at the former Ft. Ritchie in Cascade, Maryland. On September 15, 2016, Pen Mar Development Corporation conveyed, for no monetary consideration, all real property, contracts, leases, liabilities, and personal property not specifically excluded held by Pen Mar to the Board.

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2016

17. CONTINGENCIES AND COMMITMENTS (continued)

Board of Education (continued)

As of June 30, 2016, 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 \$22,422,079.

The School System entered into various school construction commitments that will be funded by the State of Maryland or the County, totaling approximately \$2,826,754 as of June 30, 2016, and are included in encumbrances.

The School System leases classroom space, cafeteria space, storage, and parking deck passes for the Barbara Ingram School for the Arts. These leases are renewable on an annual basis. The lease for the parking deck spaces does not have a set term. Total required minimum monthly payments for the year ended June 30, 2016 were approximately \$95,264. Rent expense for these leases amounted to \$127,267 for the year ended June 30, 2016.

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

18. COMMITTED AND ASSIGNED FUND BALANCES

Fund balances reflected in the governmental funds balance sheet as of June 30, 2016 are categorized as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
Non-Spendable				
Inventory	\$ 790,714	\$ -	\$ -	\$ 790,714
Long-term receivable	300,000	-	-	300,000
Restricted				
Programs and activities	350,764	-	349,888	700,652
Workers compensation	178,214	-	-	178,214
Capital projects	-	18,522,403	-	18,522,403
Committed				
Contingencies	37,700,514	-	-	37,700,514
Programs and activities	404,317	-	-	404,317
Capital projects	-	39,835,484	-	39,835,484
Assigned				
Programs and activities	17,625	-	50,089	67,714
Unassigned	-	-	(215,131)	(215,131)
Totals	<u>\$ 39,742,148</u>	<u>\$ 58,357,887</u>	<u>\$ 184,846</u>	<u>\$ 98,284,881</u>

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.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

19. RETIREMENT PLAN - FIRE AND RESCUE VOLUNTEERS (continued)

The 2015 calendar year census shows 752 volunteers receiving at least 50 points, which qualifies them for LOSAP credit. 168 retired volunteers and 29 spouses are participating in LOSAP. The County funds LOSAP in annual amounts determined by an actuary.

Investments

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

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

The long-term expected rate of return on pension plan investments was determined using a standard building block approach. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic assumed rates of return for each class included in the pension plans' general target asset allocation as of June 30, 2016 is as follows:

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2016

19. RETIREMENT PLAN - FIRE AND RESCUE VOLUNTEERS (continued)

Net pension liability

The net pension liability is equal to the total pension liability minus the net position of the plan. The result as of June 30, 2016 is as follows:

Total pension liability	\$ 7,994,338
Net position	<u>(7,507,042)</u>
Net pension liability	<u><u>\$ 487,296</u></u>

Net position as a percentage of total pension liability is 93.9%.

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

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

	1.0% decrease	Current rate	1.0% increase
	(6.75%)	7.75%	(8.75%)
Net pension liability	<u>\$ 1,410,024</u>	<u>\$ 487,286</u>	<u>\$ (287,326)</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2016**

19. RETIREMENT PLAN - FIRE AND RESCUE VOLUNTEERS (continued)

Pension expense and deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2016, the County recognized pension expense of (\$70,278). As of June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to the length of service award program from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 5,387,342
Change in assumptions	776,656	-
Net difference between projected and actual investment earnings	554,587	-
Total	<u>\$ 1,331,243</u>	<u>\$ 5,387,342</u>

The above amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Years Ended June 30,</u>	<u>Amount</u>
2017	\$ (619,724)
2018	(619,724)
2019	(619,725)
2020	(660,028)
2021	(768,447)
Thereafter	(768,451)
Total	<u>\$ (4,056,099)</u>

REQUIRED SUPPLEMENTARY INFORMATION

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COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Funding Progress
June 30, 2016**

Other Postemployment Benefit (OPEB) Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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]
7/1/2013	\$ 11,216,550	\$ 18,745,334	\$ 7,528,784	59.84%	\$ 35,288,757	21.33%
7/1/2014	14,285,774	19,164,845	4,879,071	74.54%	33,098,009	14.74%
7/1/2015	15,964,542	19,343,000	3,378,458	82.53%	N/A	N/A

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Changes in Pension Fund Net Pension Liability and Related Ratios - General Employees' Pension Fund June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Service Cost: Retirement benefits Administration	\$ 3,124,202	\$ 3,508,850	\$ 6,922,217
Interest	10,745,024	10,252,003	7,708,164
Benefit payments, including refunds of member contributions, death, & terminations	(7,789,289)	(6,880,888)	(6,004,033)
Changes of benefit terms	1,358,032	-	-
Differences between expected and actual experiences	6,532,000	-	-
Changes of assumptions	2,532,160	-	-
Net changes in total pension liability	<u>16,502,129</u>	<u>6,879,965</u>	<u>8,626,348</u>
Total pension liability - beginning	<u>142,540,120</u>	<u>135,660,155</u>	<u>127,033,807</u>
Total pension liability - ending (a)	<u>\$ 159,042,249</u>	<u>\$ 142,540,120</u>	<u>\$ 135,660,155</u>
Plan fiduciary net position			
Contributions - employer	\$ 6,621,156	\$ 6,786,549	\$ 6,017,521
Contributions - member	1,873,710	1,871,200	1,876,133
Net investment income	628,709	4,747,193	12,817,264
Receipts of In-kind	-	220,613	-
Benefit payments, including refunds of member contributions	(7,789,289)	(6,880,887)	(6,004,103)
Administrative expense	(98,464)	(604,197)	(238,016)
Net changes in plan fiduciary net position	<u>1,235,822</u>	<u>6,140,471</u>	<u>14,468,799</u>
Plan fiduciary net positions - beginning	<u>92,111,487</u>	<u>85,971,016</u>	<u>71,502,217</u>
Plan fiduciary net positions - ending (b)	<u>\$ 93,347,309</u>	<u>\$ 92,111,487</u>	<u>\$ 85,971,016</u>
County's net pension - liability - ending (a) - (b)	\$ 65,694,940	\$ 50,428,633	\$ 49,689,139
Plan fiduciary net position as a percentage of total pension liability	58.69%	64.62%	63.37%
Covered employee payroll	\$ 31,662,000	\$ 33,098,009	\$ 35,288,757
Net liability as a percentage of covered payroll	207.49%	152.36%	140.81%
Annual money-weighted rate of return, net of investment expense	0.68%	5.52%	17.59%

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of General Employees' Pension Fund Employer Contributions
June 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 6,621,000	\$ 6,786,549	\$ 6,442,087
Contributions in relation to the actuarially determined contributions	<u>6,621,000</u>	<u>6,786,549</u>	<u>6,017,521</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 424,566</u>
Covered employee payroll	\$ 31,662,000	\$ 33,098,009	\$ 35,288,757
Contributions as a percentage of covered employee payroll	20.91%	20.50%	17.05%

Notes to schedule

Valuation Date

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

Methods and assumptions used to determine contribution rates:

Cost method	Projected Unit Credit
Investment return	7.75%
Mortality	RP. 2014 adjusted to 2006 Total Dataset with Generational projection using Scale MP2015 to 2015
Turnover	T4
Salary Scale	3.0% increases per year
Retirement age of DROP Electic	Rates vary by participant age and services.
Valuation of Assets	3 year smoothed market.

Notes to schedule:

This information is not available for FY13 and prior.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Changes in Pension Fund Net Pension Liability and Related Ratios - Length of Service Award Fund
June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Service Cost: Retirement benefits Administration	\$ 157,984	\$ 143,037	\$ 147,049
Interest	968,187	922,814	872,518
Changes of benefit terms	-	-	-
Differences between expected and actual experiences	(6,285,232)	-	-
Changes of assumptions	906,099	-	-
Benefit payments, including refunds of member contributions, death, & terminations	<u>(490,872)</u>	<u>(461,316)</u>	<u>(431,634)</u>
Net changes in total pension liability	(4,743,834)	604,535	587,933
Total pension liability - beginning	<u>12,738,172</u>	<u>12,133,637</u>	<u>11,545,704</u>
Total pension liability - ending (a)	<u>\$ 7,994,338</u>	<u>\$ 12,738,172</u>	<u>\$ 12,133,637</u>
Plan fiduciary net position			
Contributions - employer	\$ -	\$ 600,000	\$ 600,000
Net investment income	55,233	381,511	1,074,025
Receipts of In-kind	-	-	15,232
Benefit payments, including refunds of member contributions	(490,872)	(461,316)	(431,634)
Administrative expense	<u>(20,610)</u>	<u>(23,215)</u>	<u>(27,429)</u>
Net changes in plan fiduciary net position	(456,249)	496,980	1,230,194
Plan fiduciary net positions - beginning	<u>7,963,285</u>	<u>7,466,305</u>	<u>6,236,111</u>
Plan fiduciary net positions - ending (b)	<u>\$ 7,507,036</u>	<u>\$ 7,963,285</u>	<u>\$ 7,466,305</u>
County's net pension - liability - ending (a) - (b)	\$ 487,302	\$ 4,774,887	\$ 4,667,332
Plan fiduciary net position as a percentage of total pension liability	93.90%	62.52%	61.53%
Covered employee payroll	NA	NA	NA
Net liability as a percentage of covered payroll	NA	NA	NA
Annual money-weighted rate of return, net of investment expense	0.69%	5.11%	16.78%

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Volunteer Length of Service Award Fund Employer Contributions
June 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ -	\$ 600,000	\$ 585,843
Contributions in relation to the actuarially determined contributions	<u>-</u>	<u>600,000</u>	<u>600,000</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,157)</u>
Covered employee payroll	NA	NA	NA
Contributions as a percentage of covered employee payroll	NA	NA	NA

Notes to schedule

Valuation Date

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

Methods and assumptions used to determine contribution rates:

Cost method	Projected Unit Credit
Investment return	7.75%
Mortality	RP. 2014 adjusted to 2006 Total Dataset with Generational projection using Scale MP2015 to 2015
Retirement age	Normal retirement age
Valuation of Assets	Market value

Notes to schedule:

This information is not available for FY13 and prior

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statements of Financial Schedules June 30, 2016

Non-Major Governmental Funds

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

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

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statements of Financial Schedules

June 30, 2016

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, 2016**

	Community Grant Management	Inmate Welfare	Contraband	Agricultural Education Center	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non-major Funds
ASSETS									
Cash	\$ -	\$ 132,941	\$ 103,700	\$ 19,841	\$ -	\$ 1,518,590	\$ 462,707	\$ -	\$ 2,237,779
Accounts receivable	-	-	-	-	210,243	100,005	307	4,174	314,729
Due from other governmental agencies	358,613	-	-	3,816	-	-	-	226,795	589,224
TOTAL ASSETS	\$ 358,613	\$ 132,941	\$ 103,700	\$ 23,657	\$ 210,243	\$ 1,618,595	\$ 463,014	\$ 230,969	\$ 3,141,732
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ 281,727	\$ 20,670	\$ -	\$ 7,438	\$ 290,722	\$ 1,549,524	\$ 12,688	\$ 34,596	\$ 2,197,365
Due to other funds	63,507	-	-	-	62,840	-	-	219,272	345,619
Accrued expenses	7,603	1,229	-	1,247	-	3,629	4,783	16	18,507
Other liabilities	-	-	90,220	-	-	-	274,850	-	365,070
Unearned revenue	-	-	-	-	-	30,325	-	-	30,325
TOTAL LIABILITIES	352,837	21,899	90,220	8,685	353,562	1,583,478	292,321	253,884	2,956,886
FUND BALANCES									
Restricted	2	111,042	13,480	-	-	-	225,364	-	349,888
Committed	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	14,972	-	35,117	-	-	50,089
Unassigned	5,774	-	-	-	(143,319)	-	(54,671)	(22,915)	(215,131)
TOTAL FUND BALANCES	5,776	111,042	13,480	14,972	(143,319)	35,117	170,693	(22,915)	184,846
TOTAL LIABILITIES AND FUND BALANCES	\$ 358,613	\$ 132,941	\$ 103,700	\$ 23,657	\$ 210,243	\$ 1,618,595	\$ 463,014	\$ 230,969	\$ 3,141,732

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, 2016

	Community Grant Management	Inmate Welfare	Contraband	Agricultural Education Center	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non- major Funds
REVENUE									
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,050,800	\$ -	\$ 204,873	\$ -	\$ 2,255,673
Licenses and permits	-	-	-	-	-	2,158,533	-	-	2,158,533
Charges for services	-	325,629	-	-	-	-	-	-	325,629
Revenue from uses of property	-	-	-	40,881	-	-	-	-	40,881
Reimbursed expenses	-	-	-	4,639	-	-	-	-	4,639
Miscellaneous revenues	-	90,058	11,435	10,605	-	-	-	32,586	144,684
Shared taxes and grants	1,663,167	-	-	3,816	-	-	2,338,224	465,859	4,471,066
TOTAL REVENUE	1,663,167	415,687	11,435	59,941	2,050,800	2,158,533	2,543,097	498,445	9,401,105
EXPENDITURES									
Public safety	-	402,508	55,665	-	-	992,459	-	-	1,450,632
Parks, recreation and culture	-	-	-	226,038	-	-	-	-	226,038
Land preservation	-	-	-	-	-	-	2,873,263	-	2,873,263
General operations	-	-	-	-	-	170,691	-	-	170,691
Community promotion	1,962,036	-	-	-	2,217,724	992,459	-	513,756	5,685,975
TOTAL EXPENDITURES	1,962,036	402,508	55,665	226,038	2,217,724	2,155,609	2,873,263	513,756	10,406,599
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES									
	(298,869)	13,179	(44,230)	(166,097)	(166,924)	2,924	(330,166)	(15,311)	(1,005,494)
OTHER FINANCING SOURCES									
Transfers in	286,820	-	-	140,050	-	-	530,814	24,170	981,854
Transfers out	-	-	-	-	(300,000)	-	-	-	(300,000)
TOTAL OTHER FINANCING SOURCES (USES)	286,820	-	-	140,050	(300,000)	-	530,814	24,170	681,854
NET CHANGES IN FUND BALANCES	(12,049)	13,179	(44,230)	(26,047)	(466,924)	2,924	200,648	8,859	(323,640)
FUND BALANCES - BEGINNING OF YEAR	17,825	97,863	57,710	41,019	323,605	32,193	(29,955)	(31,774)	508,486
FUND BALANCES - END OF YEAR	\$ 5,776	\$ 111,042	\$ 13,480	\$ 14,972	\$ (143,319)	\$ 35,117	\$ 170,693	\$ (22,915)	\$ 184,846

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Combining Statement of Net Position – Non-Major Proprietary Funds
As of June 30, 2016**

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
ASSETS			
Current Assets:			
Cash and short-term investments	\$ 469,940	\$ 6,566	\$ 476,506
Accounts receivable	1,658	15,325	16,983
Unbilled receivables	925	-	925
Due from other governmental agencies	390,295	192,600	582,895
Inventories	71,292	49,527	120,819
Total current assets	934,110	264,018	1,198,128
Noncurrent Assets:			
Property plant and equipment	7,384,338	4,866,805	12,251,143
Accumulated depreciation	(4,505,599)	(2,513,329)	(7,018,928)
Total noncurrent assets	2,878,739	2,353,476	5,232,215
TOTAL ASSETS	3,812,849	2,617,494	6,430,343
LIABILITIES			
Current Liabilities:			
Accounts payable	71,166	53,465	124,631
Accrued expenses	47,328	26,521	73,849
Unearned revenue	-	250	250
Compensated absences	48,913	19,956	68,869
Other liabilities	-	27,798	27,798
Total current liabilities	167,407	127,990	295,397
Noncurrent Liabilities:			
Compensated absences	21,130	16,487	37,617
TOTAL LIABILITIES	188,537	144,477	333,014
NET POSITION			
Net invested in capital assets	2,878,739	2,353,476	5,232,215
Unrestricted	745,573	119,541	865,114
TOTAL NET POSITION	\$ 3,624,312	\$ 2,473,017	\$ 6,097,329

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statement of Revenue, Expenses and Changes in Fund Net Position – Non-Major Proprietary Funds
For the Year Ended June 30, 2016

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
OPERATING REVENUE			
Charges for services	\$ 424,397	\$ 822,512	\$ 1,246,909
Miscellaneous	15,848	5,412	21,260
TOTAL OPERATING REVENUE	440,245	827,924	1,268,169
OPERATING EXPENSES			
Salaries and wages	1,251,072	451,179	1,702,251
Fringe benefits	528,188	227,462	755,650
Utilities	23,837	57,942	81,779
Insurance	37,240	9,624	46,864
Repairs and maintenance	121,314	75,949	197,263
Supplies	38,020	2,779	40,799
Cost of goods sold	-	97,963	97,963
Contracted services	452,605	3,152	455,757
Rentals and leases	56,106	66,104	122,210
Other operating	162,396	111,939	274,335
Uncollectible accounts	-	-	-
Controllable assets	371	1,674	2,045
Depreciation	538,533	103,559	642,092
TOTAL OPERATING EXPENSES	3,209,682	1,209,326	4,419,008
OPERATING LOSS	(2,769,437)	(381,402)	(3,150,839)
OTHER INCOME			
Interest expense	(25)	-	(25)
Gain on disposal of assets	(1,821)	-	(1,821)
TOTAL OTHER INCOME	(1,846)	-	(1,846)
LOSS BEFORE OPERATING TRANSFERS AND GRANTS	(2,771,283)	(381,402)	(3,152,685)
OPERATING TRANSFERS	456,120	296,950	753,070
GRANTS FOR OPERATIONS	1,453,389	-	1,453,389
LOSS BEFORE CAPITAL TRANSFERS AND GRANTS	(861,774)	(84,452)	(946,226)
CAPITAL TRANSFERS	-	52,000	52,000
GRANTS FOR CAPITAL PROJECTS	429,697	192,600	622,297
CHANGES IN NET POSITION	(432,077)	160,148	(271,929)
NET POSITION - BEGINNING OF YEAR	4,056,389	2,312,869	6,369,258
NET POSITION - END OF YEAR	\$ 3,624,312	\$ 2,473,017	\$ 6,097,329

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statement of Cash Flows – Non-Major Proprietary Funds
For Year Ended June 30, 2016

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 903,369	\$ 820,045	\$ 1,723,414
Payments to suppliers	(1,611,790)	(390,123)	(2,001,913)
Payments to employees	(1,570,734)	(694,769)	(2,265,503)
Net Cash from Operating Activities	<u>(2,279,155)</u>	<u>(264,847)</u>	<u>(2,544,002)</u>
Cash Flows from Noncapital Financing Activities			
Operating contributions	1,909,509	296,950	2,206,459
Net Cash from Noncapital Financing Activities	<u>1,909,509</u>	<u>296,950</u>	<u>2,206,459</u>
Cash Flows from Capital and Related Financing Activities			
Interest paid on notes and bond payable	(25)	-	(25)
Acquisition and construction of capital assets	(101,654)	(421,329)	(522,983)
Gain (loss) on the sale of assets	(1,821)	-	(1,821)
Contribution for capital acquisitions	429,697	244,600	674,297
Net Cash from Capital and Related Financing Activities	<u>326,197</u>	<u>(176,729)</u>	<u>149,468</u>
Net change in cash	(43,449)	(144,626)	(188,075)
Cash, beginning of year	513,389	151,192	664,581
Cash, End of Year	<u>\$ 469,940</u>	<u>\$ 6,566</u>	<u>\$ 476,506</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (2,769,437)	\$ (381,402)	\$ (3,150,839)
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	538,533	103,559	642,092
Changes in assets and liabilities:			
Accounts receivable	5,626	(7,579)	(1,953)
Unbilled receivables	(364)	-	(364)
Due to/from other government entities	(54,336)	-	(54,336)
Inventories	(1,818)	2,450	632
Accounts payable and other liabilities	13,835	30,991	44,826
Accrued expenses	11,599	1,574	13,173
Unearned revenue	(30,000)	(300)	(30,300)
Compensated absences	7,207	(14,140)	(6,933)
Net Cash from Operating Activities	<u>\$ (2,279,155)</u>	<u>\$ (264,847)</u>	<u>\$ (2,544,002)</u>

BUDGET AND ACTUAL SCHEDULE

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
 For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property Taxes				
Real property tax	\$ 106,977,350	\$ 106,977,350	\$ 108,378,572	\$ 1,401,222
Personal property tax	12,497,840	12,497,840	14,449,229	1,951,389
Property tax interest income	480,000	480,000	409,974	(70,026)
Other property tax	714,020	714,020	666,620	(47,400)
State administrative fees	(525,000)	(525,000)	(578,891)	(53,891)
Property tax discounts and credits	(1,469,020)	(1,469,020)	(1,323,558)	145,462
Total Property Taxes	<u>118,675,190</u>	<u>118,675,190</u>	<u>122,001,946</u>	<u>3,326,756</u>
Other Local Taxes				
Income tax	74,910,000	74,910,000	75,208,180	298,180
Admissions and amusement tax	300,000	300,000	274,939	(25,061)
Recordation tax	5,800,000	5,800,000	6,539,448	739,448
Trailer tax	470,000	470,000	544,979	74,979
Total Other Local Taxes	<u>81,480,000</u>	<u>81,480,000</u>	<u>82,567,546</u>	<u>1,087,546</u>
Other Revenues				
Licenses and permits	1,260,200	1,260,200	1,316,242	56,042
Court costs and fines	330,300	330,300	252,384	(77,916)
Charges for services	388,850	388,850	477,971	89,121
Revenues from use of property	976,550	976,550	1,074,126	97,576
Reimbursed expenses	1,145,170	1,145,170	1,011,679	(133,491)
Miscellaneous revenues	406,200	426,310	493,792	67,482
Grant and shared revenues	1,929,990	7,162,210	6,349,348	(812,862)
Highway revenues	1,660,250	1,688,310	1,720,771	32,461
Total Other Revenues	<u>8,097,510</u>	<u>13,377,900</u>	<u>12,696,313</u>	<u>(681,587)</u>
TOTAL REVENUE	<u>208,252,700</u>	<u>213,533,090</u>	<u>217,265,805</u>	<u>3,732,715</u>
EXPENDITURES				
General Government				
Legislative				
County Commissioners	249,000	249,000	223,005	25,995
County Clerk	97,630	97,630	95,594	2,036
County Administrator	419,470	419,470	454,932	(35,462)
Public Relations	385,850	385,850	390,997	(5,147)
Purchasing	504,390	504,390	502,158	2,232
Total Legislative	<u>1,656,340</u>	<u>1,656,340</u>	<u>1,666,686</u>	<u>(10,346)</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund (continued)
For the Year Ended June 30, 2016**

	<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>
Judicial				
Circuit Court	\$ 1,483,590	\$ 1,483,590	\$ 1,349,455	\$ 134,135
Orphan's Court	30,920	30,920	29,828	1,092
State's Attorney	3,262,860	3,262,860	3,096,994	165,866
Sheriff - Judicial	2,418,650	2,418,650	2,336,733	81,917
Sheriff - Process Servers	131,670	131,670	117,050	14,620
Grants	-	279,120	275,090	4,030
Total Judicial	<u>7,327,690</u>	<u>7,606,810</u>	<u>7,205,150</u>	<u>401,660</u>
Election Board	<u>1,116,420</u>	<u>1,116,420</u>	<u>956,606</u>	<u>159,814</u>
Financial Administration				
Budget and Finance	1,345,240	1,345,240	1,352,369	(7,129)
Independent Auditing	70,000	70,000	61,460	8,540
Treasurer	420,690	420,690	425,766	(5,076)
Information Technologies	2,075,900	2,075,900	2,091,722	(15,822)
Total Financial Administration	<u>3,911,830</u>	<u>3,911,830</u>	<u>3,931,317</u>	<u>(19,487)</u>
County Attorney	<u>662,450</u>	<u>662,450</u>	<u>631,440</u>	<u>31,010</u>
Human Resources	<u>696,210</u>	<u>696,210</u>	<u>708,260</u>	<u>(12,050)</u>
Planning and Zoning				
Planning and Zoning	669,510	669,510	601,509	68,001
Board of Zoning Appeals	53,440	53,440	49,315	4,125
Grants	-	25,000	25,000	-
Total Planning and Zoning	<u>722,950</u>	<u>747,950</u>	<u>675,824</u>	<u>72,126</u>
Public Works				
Department of Public Works	224,120	224,120	234,720	(10,600)
Public Works - Plan Review	1,850,590	898,900	919,189	(20,289)
Public Works - Permitting	-	961,690	839,056	122,634
Public Works - Engineering	1,549,270	1,549,270	1,554,675	(5,405)
Public Works - Construction	1,692,180	1,682,180	1,655,567	26,613
Grant	-	1,300,000	683,282	616,718
Total Public Works	<u>5,316,160</u>	<u>6,616,160</u>	<u>5,886,489</u>	<u>729,671</u>
County Owned Buildings				
Martin Luther King Center	105,200	105,200	73,194	32,006
Administrative Building	197,900	197,900	172,738	25,162
Administrative Building II	91,850	91,850	94,648	(2,798)
Court House	583,770	590,720	580,819	9,901
County Office Building	205,110	205,110	192,873	12,237
Administration Annex	56,900	56,900	48,266	8,634
Central Services	203,100	203,100	197,458	5,642
Rental Properties	2,000	2,000	1,291	709
Library Maintenance	34,500	34,500	24,171	10,329
Dwyer Center	29,000	29,000	23,639	5,361
Public Facilities Annex	78,560	78,560	66,764	11,796
Total County Owned Buildings	<u>1,587,890</u>	<u>1,594,840</u>	<u>1,475,861</u>	<u>118,979</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund (continued)
For the Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Community Promotion				
Contributions to Non-profits	\$ 1,685,420	\$ 1,685,420	\$ 1,699,892	\$ (14,472)
Business Development	559,030	559,030	555,275	3,755
Total Community Promotion	<u>2,244,450</u>	<u>2,244,450</u>	<u>2,255,167</u>	<u>(10,717)</u>
Total General Government	<u>25,242,390</u>	<u>26,853,460</u>	<u>25,392,800</u>	<u>1,460,660</u>
Public Safety				
Sheriff Departments				
Patrol	9,597,500	9,608,670	9,345,169	263,501
Sheriff Auxiliary	-	-	27,391	(27,391)
Narcotics Task Force	680,680	682,110	699,919	(17,809)
Grants	-	493,080	399,410	93,670
Total Sheriff Departments	<u>10,278,180</u>	<u>10,783,860</u>	<u>10,471,889</u>	<u>311,971</u>
Fire and Rescue Services				
Volunteer Fire and Rescue - County Grants	7,188,370	7,188,370	6,504,960	683,410
Air Unit	31,060	31,060	28,789	2,271
Special Operations	368,620	368,620	363,318	5,302
Total Fire and Rescue Services	<u>7,588,050</u>	<u>7,588,050</u>	<u>6,897,067</u>	<u>690,983</u>
Corrections				
Detention Center	13,415,240	13,385,240	12,872,066	513,174
Central Booking	854,080	854,080	851,140	2,940
Total Corrections	<u>14,269,320</u>	<u>14,239,320</u>	<u>13,723,206</u>	<u>516,114</u>
Other Public Safety				
911 - Communications	4,230,110	4,230,110	4,188,201	41,909
Wireless Communications	1,310,850	1,310,850	1,276,535	34,315
Emergency Management	133,700	145,040	145,981	(941)
Fire and Rescue Operations	1,208,510	1,208,510	1,127,839	80,671
Medical Examiner	15,000	15,000	19,840	(4,840)
Civil Air Patrol	3,600	3,600	3,600	-
Animal Control	1,247,290	1,247,290	1,247,290	-
Grants	-	3,006,070	2,796,834	209,236
Other Public Safety	<u>8,149,060</u>	<u>11,166,470</u>	<u>10,806,120</u>	<u>360,350</u>
Total Public Safety	<u>40,284,610</u>	<u>43,777,700</u>	<u>41,898,282</u>	<u>1,879,418</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
 General Fund (continued)
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget -
				Positive (Negative)
Health	\$ 2,339,270	\$ 2,339,270	\$ 2,339,270	\$ -
Social Services				
Total Contributions to Other Agencies	338,070	338,070	338,070	-
Grants	-	107,950	116,095	(8,145)
Total Social Services	<u>338,070</u>	<u>446,020</u>	<u>454,165</u>	<u>(8,145)</u>
Education	<u>104,109,040</u>	<u>104,109,040</u>	<u>104,109,040</u>	<u>-</u>
Parks, Recreation, and Culture				
Total Contributions to Other Agencies	2,967,330	2,967,330	2,967,330	-
Parks Department	1,657,820	1,686,380	1,609,697	76,683
Martin L. Snook Park Pool	120,160	120,160	119,727	433
Fitness and Recreation	845,630	845,630	869,049	(23,419)
Grants	-	21,000	20,714	286
Total Parks, Recreation, and Culture	<u>5,590,940</u>	<u>5,640,500</u>	<u>5,586,517</u>	<u>53,983</u>
Conservation of Natural Resources				
Weed Control	203,200	175,200	196,391	(21,191)
Agricultural Extension Service	232,400	232,400	232,400	-
Cooperative Extension	38,730	38,730	38,730	-
Soil Conservation Service	195,400	195,400	195,400	-
Gypsy Moth Program	10,000	10,000	6,120	3,880
Total Conservation of Natural Resources	<u>679,730</u>	<u>651,730</u>	<u>669,041</u>	<u>(17,311)</u>
Highway	<u>9,591,340</u>	<u>9,619,400</u>	<u>9,821,132</u>	<u>(201,732)</u>
General Operations	<u>622,300</u>	<u>610,960</u>	<u>598,985</u>	<u>11,975</u>
Unallocated Employee Insurance and Benefits	<u>699,330</u>	<u>699,330</u>	<u>1,738,720</u>	<u>(1,039,390)</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
 General Fund (continued)
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Intergovernmental				
Golf Course operating transfer	\$ 246,950	\$ 246,950	\$ 296,950	\$ (50,000)
HEPMPO operating transfer	7,990	7,990	7,990	-
Land Preservation operating transfer	106,060	106,060	130,814	(24,754)
Water Quality operating transfer	174,070	174,070	167,695	6,375
Public Transit operating transfer	472,300	472,300	472,300	-
Airport operating transfer	14,500	14,500	14,500	-
Capital Projects operating transfer	1,800,000	1,830,000	7,380,000	(5,550,000)
Solid Waste operating transfer	491,400	491,400	491,400	-
Grants Management operating transfer	286,820	286,820	286,820	-
Agricultural Education Center operating transfer	181,550	181,550	140,050	41,500
Municipality in lieu of bank shares	38,550	38,550	38,543	7
Total Intergovernmental	<u>3,820,190</u>	<u>3,850,190</u>	<u>9,427,062</u>	<u>(5,576,872)</u>
Debt Service	<u>14,935,490</u>	<u>14,935,490</u>	<u>13,818,901</u>	<u>1,116,589</u>
TOTAL EXPENDITURES	<u>208,252,700</u>	<u>213,533,090</u>	<u>215,853,915</u>	<u>(2,320,825)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,411,890</u>	<u>\$ 1,411,890</u>
OTHER FINANCING SOURCES (USES)				
Principal amount of new debt for advance refunding			7,078,184	7,078,184
Deposit to escrow fund for advance refunding and repayment of loans			(7,075,279)	(7,075,279)
TOTAL OTHER FINANCING SOURCES (USES)			<u>\$ 2,905</u>	<u>\$ 2,905</u>
NET CHANGES IN FUND BALANCE			1,414,795	
FUND BALANCE - BEGINNING			<u>38,327,353</u>	
FUND BALANCE - ENDING			<u>\$ 39,742,148</u>	

OTHER SCHEDULES

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Local Management Board - Schedule of Revenue and Expenditures - Regulatory Basis For the Year Ended June 30, 2016

REVENUE

Community Partnership Agreement (CPA)	
Governor's Office for Children	\$ 709,200
Non- Community Partnership Agreement (Non-CPA)	
General Fund	286,820
Other Revenue	-
Md State Department of Education	468,268
Dept. of Housing and Community Development	485,699
Total Non-Community Partnership Agreement Revenue	<u>1,240,787</u>
TOTAL REVENUE	<u>1,949,987</u>

EXPENDITURES

Community Partnership Agreement (CPA)	
Administrative :	
Salaries	43,063
Benefit costs	21,937
Total CPA administrative expenditures	<u>65,000</u>
Programs:	
GOCCP Planning Grant	25,000
Statewide School Climate	9,782
Rural Out of School Time Initiative	122,500
GOC-School Based Mental Health	211,558
GOC Clinical Services and Outreach	139,058
Family Centered Support Services	69,058
School readiness Program	64,173
Rachels Challenge Chain Reaction	3,072
Total CPA program expenditures	<u>644,201</u>
Non-Community Partnership Agreement (CPA)	
Administrative:	
Salaries	101,856
Benefit costs	64,548
Advertising	263
Community service awards	700
Small office equipment	51
Office supplies	878
Other Miscellaneous	22
Personal mileage	1,024
Postage	155
Travel Expenses	1,552
Entertainment/business expense	169
Contracted/purchased services	1,584
Training	1,768
Copy machine rental	1,291
Telephone expenses	485
Water	9
Controllable Assets	1,085
Total non-CPA administrative expenditures	<u>177,440</u>
Programs:	
School Based Mental Health	120,000
MSDE - Healthy Families	468,268
Dept. of Housing and Community Development	485,699
Total non-CPA program expenditures	<u>1,073,967</u>
TOTAL EXPENDITURES	<u>1,960,608</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>\$ (10,621)</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Local Management Board - Schedule of Earned Reinvestment
For the Year Ended June 30, 2016**

BALANCE AS OF JULY 1, 2015	\$	1,430
EXPENDITURE		(1,428)
BALANCE AS OF JUNE 30, 2016	\$	<u>2</u>

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SINGLE AUDIT REPORTING

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

County Commissioners of Washington County
Hagerstown, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the County Commissioners of Washington County, Maryland (the County), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 28, 2016. Our report includes a reference to other auditors who audited the financial statements of the Board of Education of Washington County, as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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



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

Compliance and Other Matters

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

Purpose of this Report

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

Hunt Valley, Maryland
October 28, 2016

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**

County Commissioners of Washington County
Hagerstown, Maryland

Report on Compliance for Each Major Federal Program

We have audited the County Commissioners of Washington County, Maryland's (the County) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the County's major Federal programs for the year ended June 30, 2016. The County's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.



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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

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



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

Hunt Valley, Maryland
October 28, 2016

SB & Company, LLC

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor or Pass-Through Entity Identifying Number	Federal Expenditures
<u>DIRECT EXPENDITURES OF FEDERAL AWARDS:</u>			
<u>Department of Transportation</u>			
Airport Taxiway Rehabilitation Design	20.106	AIP-3-24-0019-051	\$ 2,096,274
Airport Taxiway Rehabilitation Design	20.106	AIP-3-24-0019-051	81,309
Total Department of Transportation			<u>2,177,583</u>
<u>Department of Justice</u>			
State Criminal Alien Assistance Program WC Detention Center Award "One Time Pymt"	16.606	2015-AP-BX-1405	45,109
Byrne Memorial Justice Assistance Grant Program (closed)	16.738	BJAG-2012-0084	2,021
Byrne Memorial Dept Of Justice Awd (closed)	16.738	BJAG-2012-0062	11,584
Byrne Memorial Justice Assistance Grant Program (closed)	16.738	2014-DJ-BX-0633	5,962
Byrne Memorial Justice Assistance Grant Program (closed)	16.738	BJAG-2012-0071	21,567
Medication Assisted Treatment Program	16.593	RSAT-2013-0003	1,950
Total Department of Justice			<u>88,193</u>
<u>Appalachian Regional Commission</u>			
Appalachian Regional Commission-Manufacturing Supply Chain Study (closed)	23.001	MD-17733-14	25,000
Total Appalachian Regional Commission			<u>25,000</u>
TOTAL DIRECT FEDERAL EXPENDITURES			<u><u>2,290,776</u></u>
<u>INDIRECT EXPENDITURES OF FEDERAL AWARDS:</u>			
<u>Department of Health and Human Services</u>			
Passed through Maryland Department of Human Resources			
Child Support Enforcement Administration (closed)	93.563	CSEA-CRA-15-041	86,990
Child Support Enforcement Administration	93.563	CSEA-CRA-16-041	148,114
Total Department of Health and Human Services			<u>235,104</u>
<u>Department of Housing and Urban Development</u>			
Passed through Maryland Department of Housing and Community Development			
DHCD-CDBG MD Neighborhood Conservation Initiative Prg	14.228	MD-NCI-4A	335,508
Emergency Solutions Grants Program FFY2014 ** CAC, CASA, Reach, St Johns Shelter. Valor Ministries	14.231	15ESG22-2014	13,474
Emergency Solutions Grants Program FFY2015 ** CAC, CASA, Reach, St Johns Shelter. Valor Ministries	14.231	15ESG22-2015	33,503
DHCD-CDBG MD Comm Dev Block Grt ADA County Building (closed)	14.228	MD-14-CD-31	401,591
Total Department of Housing & Urban Development			<u>784,076</u>
<u>Department of Transportation</u>			
Passed through Maryland Department of Transportation			
Safe Routes To School - Grant Year E, Gye-033 "Lincolnshire Elementary School"	20.205	MS-LS-148-28	315,492
Federal Transit Metropolitan Planning Grant HEPMPO Resolution 2015-12	20.505	FY2016 UPWP	415,155
Federal Transit Formula Grant "Jobs"	20.507	WA125307O2016	81,623
Federal Transit Formula Grant "ADA-para-transit"	20.507	WA125307O2016	106,298
Federal Transit Formula Grant "Small Urban Public Transportation"	20.507	WA125307O2015	695,750
Federal Transit Formula Grant Fy15 "WCTC Capital Maintenance" (closed)	20.507	WA125307C2015	84,121
Federal Transit Formula Grant Fy16 "WCTC Capital Maintenance"	20.507	WA125307C2016	210,097
Federal Transit Formula Grant Fy16 "Vehicle Lift System"	20.507	WA125307C2016	31,666
Federal Transit Formula Grant Fy15 "WCTC Small Bus Replacement"	20.507	WA125339C2015	56,068
			<u>1,996,270</u>

The accompanying notes are an integral part of this schedule.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor or Pass-Through Entity Identifying Number	Federal Expenditures
Passed through Maryland Emergency Management Agency			
LEPC Interagency Hazardous Materials Public Sector Ffy15 Planning Grant (closed)	20.703	HMEP FFY15 PLANNING	26,588
LEPC Interagency Hazardous Materials Public Sector Ffy15 Training Grant (closed)	20.703	HMEP FFY15 TRAINING	974
LEPC Interagency Hazardous Materials Public Sector Ffy16 Training Grant	20.703	HMEP FFY16 TRAINING	2,279
			29,841
Passed Through the Maryland State Highway Administration			
Eastern Blvd Widening Phase II & Grade Separation	20.205	WA374ZM1	40,784
Economic Development Grants For Public Works - "Old Roxbury Road Bridge" W5372	20.205	W-5372	22,610
Economic Development Grants For Public Works - "Marble Quarry Road Bridge "2"	20.205	WA213ZM2	1,565
Economic Development Grants For Public Works - "Crystal Falls Over Beaver Creek"	20.205	WA394ZM1	27,273
Economic Development Grants For Public Works - Coffman Farms/Old Forge Rd	20.205	WA417ZM2	76,222
Economic Development Grants For Public Works - Old Forge Rd	20.205	WA397ZM1	343,146
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	WA385ZM1	336,948
Economic Development Grants For Public Works - Garis Shop Over Antietam	20.205	WA384ZM1	17,398
Economic Development Grants For Public Works - Poffenberger Rd Bridge	20.205	WA384ZM1	820
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	WA396ZM1	1,161
SHA Mou Bocc/City Of Hgr: Burhans Boulevard Bridges	20.205	WA427ZM2	683,282
Economic Development Grants For Public Works - "Roxbury Road Bridge" AU	20.205		1,340
Economic Development Grants For Public Works - "Crystal Falls Over Beaver Creek" AU	20.205	WA394ZM1	670
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam AU	20.205	WA385ZM1	1,320
Economic Development Grants For Public Works - Garis Shop Over Antietam AU	20.205	WA384ZM1	1,970
Economic Development Grants For Public Works - Poffenberger Rd Bridge AU	20.205	WA395ZM1	798
Economic Development Grants For Public Works - Poffenberger Rd Bridge AU	20.205	WA396ZM1	522
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam AU	20.205	WA395ZM1	827
			1,558,656
Total Department of Transportation			3,584,767
Department of Homeland Security			
Passed Through Maryland Emergency Management Agency			
Law Enforcement Officer Reimbursement (TSA-airport)	97.090	HST S0213HSLR805	10,240
Emergency Management Performance Grant-Ffy15 "EMPG" (closed)	97.042	EWM-2014-EP-00011-S01	100,716
Homeland Security Grant Program- Ffy2015 Planner Position "SHSGP" AU	97.042	EWM-2015-SS-00077	79,773
Homeland Security Grant Program- Ffy2014 Planner Position "SHSGP" AU (closed)	97.067	EWM-2014-SS-00007-S01	89,751
Homeland Security Grant Program- Ffy2015 MOA MEMA/MIEMSS (closed)	97.067	2012-SS-T O-00044-S01-SHS	52,635
Homeland Security Grant Program - Disaster Reimbursement	97.036	FEMA 4261 DR-MD	350,179
Total Department of Homeland Security			683,294
Department of Justice			
PASSED THROUGH GOVERNOR'S OFFICE OF CRIME CONTROL & PREVENTION:			
Technology Improvement Equipment Award (closed)	16.738	BJAG-2013-0036	24,835
Total Department of Justice			24,835
Department of Environmental Protection			
Antietam Creek Stream Bank Restoration	66.460	FFY-2014 GRTS#8	217,088
Total Department of Environmental Protection			217,088
TOTAL INDIRECT EXPENDITURES OF FEDERAL AWARDS			5,529,164
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 7,819,940

The accompanying notes are an integral part of this schedule.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of the County Commissioners of Washington County, Maryland's (the County) are included in the scope of U.S. Office of Management and Budget (OMB) Compliance Supplement audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Compliance testing of all requirements, as described in the Uniform Guidance, was performed for the grant programs noted below. The programs included on the Schedule of Expenditures of Federal Awards represent all Federal award programs with fiscal year 2016, cash or non-cash expenditures activities. We have evaluated the Federal financial assistance programs of the County for the year ended June 30, 2016, and have selected the major program listed below for testing. Our coverage for testing was 28% of all Federal expenditures.

Major Programs	Federal CFDA	Federal Expenditures
Airport Taxiway Rehabilitation Design	20.106	\$ 2,096,274
Airport Taxiway Rehabilitation Design	20.106	81,309
		\$ 2,177,583

2. BASIS OF PRESENTATION

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Findings and Questioned Costs
June 30, 2016**

Section I - Summary of Independent Public Accountants' Results

Financial Statements

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

Federal Awards

Type of Independent Public Accountants report issued on compliance for major programs	Unmodified
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of Major Programs:

Major Programs	Federal CFDA	Federal Expenditures
Airport Taxiway Rehabilitation Design	20.106	\$ 2,096,274
Airport Taxiway Rehabilitation Design	20.106	81,309
		\$ 2,177,583
Threshold for distinguishing between Type A and B programs		\$ 750,000
Did the County qualify as a low risk auditee?		Yes

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Findings and Questioned Costs
June 30, 2016**

Section II - Financial Statement Findings

None Noted.

Section III - Federal Award Findings

None Noted.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Prior Year Findings
June 30, 2016**

There are no prior year findings to disclose.