

RATINGS: Moody's: Aa2
Standard & Poor's: AA
Fitch : AA

**New Issue-Book-Entry Only**

*In the opinion of Bond Counsel, assuming continuous compliance with certain covenants described herein, under existing law, the interest on the Bonds (a) will be excludable from gross income for federal income tax purposes, and (b) is not includable in corporate or individual alternative minimum taxable income as an enumerated item of tax preference, but may be included in the calculation of a corporation's alternative minimum taxable income for federal income tax purposes, and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States of America. It is also the opinion of Bond Counsel that, under existing law, the Bonds, their transfer, the interest payable thereon, and any income derived therefrom in the hands of the holders thereof from time to time (including any profit made in the sale thereof) shall be and are declared to be at all times exempt from State of Maryland, county, municipal, or other taxation of every kind and nature whatsoever within the State, but no opinion is expressed as to Maryland estate or inheritance taxes or any other Maryland taxes not levied directly on the Bonds, their transfer or the income therefrom. See the information contained herein under the caption "THE BONDS—Tax Matters".*

**\$25,505,000**  
**WASHINGTON COUNTY, MARYLAND**  
**(COUNTY COMMISSIONERS OF WASHINGTON COUNTY)**  
**GENERAL OBLIGATION BONDS**

**Consisting of**

**\$17,765,000**  
**PUBLIC IMPROVEMENT BONDS OF 2012**

**\$7,740,000**  
**REFUNDING BONDS OF 2012**

Dated:	Date of delivery
Due:	The Public Improvement Bonds are due July 1 and the Refunding Bonds are due January 1, as shown on the inside cover page
Interest Payable:	January 1 and July 1
First Interest Payment Due:	January 1, 2013
Denomination:	Integral multiples of \$5,000
Form:	Registered, book-entry only through the facilities of The Depository Trust Company ("DTC")
Optional Redemption:	The Public Improvement Bonds maturing on or after July 1, 2023 are redeemable prior to maturity at the County's option as set forth in "THE BONDS—Redemption" herein. The Refunding Bonds are not subject to optional redemption prior to maturity.
Security:	The Bonds are general obligations of County Commissioners of Washington County (the "County") for the payment of which its full faith and credit and unlimited taxing power are pledged (see "THE BONDS—Sources of Payment" herein).

**FOR MATURITY SCHEDULES, INTEREST RATES, PRICES OR YIELDS AND CUSIP NUMBERS SEE INSIDE COVER PAGE**

**Conditions Affecting Issuance:** The Bonds of each series are offered when, as and if issued, subject to, among other conditions, the delivery of such Bonds and the approving legal opinion of Funk & Bolton, P.A., Bond Counsel, with respect thereto and other conditions specified in the official Notice of Sale. Delivery will occur through the facilities of DTC on or about May 24, 2012.

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Prospective bidders and investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

Dated: May 8, 2012

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**\$17,765,000 County Commissioners of Washington County Public Improvement Bonds of 2012****MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS**

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Maturing July 1	Principal Amount	Interest Rate*	Price or Yield*	CUSIP	Maturing July 1	Principal Amount	Interest Rate*	Price or Yield*	CUSIP
2013	\$ 640,000	2.000%	0.350%	937751 W35	2023	\$ 885,000	3.000%	2.270%**	937751 X59
2014	660,000	2.000	0.420	937751 W43	2024	915,000	3.000	2.500%**	937751 X67
2015	685,000	2.000	0.560	937751 W50	2025	945,000	3.000	2.700%**	937751 X75
2016	705,000	2.000	0.720	937751 W68	2026	980,000	3.000	2.800%**	937751 X83
2017	730,000	2.000	0.900	937751 W76	2027	1,010,000	3.000	2.900%**	937751 X91
2018	755,000	2.500	1.180	937751 W84	2030	1,115,000	3.000	3.080	937751 Y41
2019	780,000	3.000	1.400	937751 W92	2031	1,150,000	3.000	3.150	937751 Y58
2020	805,000	3.000	1.630	937751 X26	2032	1,190,000	3.125	3.180	937751 Y66
2021	830,000	3.250	1.880	937751 X34					
2022	860,000	3.000	2.000	937751 X42					

**\$2,125,000 Term Bond, Due July 1, 2029, Interest Rate 3.00%, Price @100, CUSIP 937751 Y33**

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**\$7,740,000 County Commissioners of Washington County Refunding Bonds of 2012****MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS**

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Maturing January 1	Principal Amount	Interest Rate*	Price or Yield*	CUSIP	Maturing January 1	Principal Amount	Interest Rate*	Price or Yield*	CUSIP
2013	\$ 275,000	2.000%	0.250%	937751 Y74	2019	\$ 805,000	5.000%	1.330%	937751 Z57
2014	560,000	2.000	0.400	937751 Y82	2020	855,000	4.000	1.550	937751 Z65
2015	570,000	2.000	0.560	937751 Y90	2021	890,000	4.000	1.800	937751 Z73
2016	905,000	3.000	0.740	937751 Z24	2022	440,000	4.000	2.000	937751 Z81
2017	760,000	3.000	0.940	937751 Z32	2023	460,000	4.000	2.180	937751 Z99
2018	800,000	3.000	1.170	937751 Z40	2024	420,000	4.000	2.310	937751 2A2

\*The interest rates shown above are those resulting from the successful bids for the Bonds of such series on May 8, 2012 and were furnished by the successful bidder therefor. The prices or yields shown above were furnished by the successful bidder therefor. Other information concerning the terms of the reoffering of the Bonds of each series, if any, should be obtained from the successful bidder for such series and not from the County. (See "MISCELLANEOUS--Sale at Competitive Bidding" herein. A syndicate led by Davenport & Company LLC was the successful bidder for the Public Improvement Bonds and J.P. Morgan Securities LLC was the successful bidder for the Refunding Bonds.

\*\*Priced to first call date.

No dealer, broker, salesman or other person has been authorized by the County or the successful bidder for the Bonds of either series to give any information or to make any representations with respect to the Bonds or the County other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the County and other sources which are deemed to be reliable but it is not to be construed as a representation by the County as to information from sources other than the County.

This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or holders of any of the Bonds.

All quotations from and summaries and explanation of provisions of laws and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the respective dates as of which information is given herein or the date hereof.

In connection with this offering, the successful bidder for either series of the Bonds may over-allot or effect transactions which stabilize or maintain the market price of such series of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

CUSIP numbers are copyright 2012 by the American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and the County does not take any responsibility for the accuracy thereof. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau's information.

**WASHINGTON COUNTY, MARYLAND  
ADMINISTRATION BUILDING  
100 WEST WASHINGTON STREET  
HAGERSTOWN, MARYLAND 21740**

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**COUNTY COMMISSIONERS**

Terry L. Baker, President  
John F. Barr, Vice President  
Ruth Anne Callaham, Commissioner  
Jeffrey A. Cline, Commissioner  
William B. McKinley, Commissioner

**ADMINISTRATION**

Gregory B. Murray, County Administrator  
Vicki C. Lumm, County Clerk  
John M. Martirano, County Attorney  
Debra S. Murray, C.P.A., Director of the Office of Budget and Finance

**COUNTY TREASURER**

Todd L. Hershey

**FINANCIAL ADVISOR**

Public Advisory Consultants, Inc.  
Owings Mills, Maryland

**BOND COUNSEL**

Funk & Bolton, P.A.  
Baltimore, Maryland

**INDEPENDENT AUDITOR**

SB & Company, LLC  
Hunt Valley, Maryland

**BOND REGISTRAR AND PAYING AGENT**

Manufacturers and Traders Trust Company  
Baltimore, Maryland  
and Buffalo, New York

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## I. The Bonds

### Introduction

The purpose of this Official Statement, including the cover page and appendices, is to provide information for prospective purchasers and others regarding County Commissioners of Washington County (the “County”), its \$17,765,000 Public Improvement Bonds of 2012 (the “Public Improvement Bonds”) and its \$7,740,000 Refunding Bonds of 2012 (the “Refunding Bonds”). The Public Improvement Bonds and the Refunding Bonds are referred to herein collectively as the “Bonds” and individually as a “Bond”.

All estimates and assumptions herein have been based upon information believed to be reliable and correct; however, statements made involving estimates and assumptions, whether or not expressly so stated, are intended merely as such and not as representations of facts. Figures herein relating to tax collections, assessed value of property and the financial position of the County have been taken from official records of the County.

The County has provided the material and information contained in this Official Statement and has authorized the execution and distribution of this Official Statement.

Any questions concerning this Official Statement or the Bonds should be addressed to the Director of the Office of Budget and Finance (the “Finance Director”), Washington County Administration Building, 100 West Washington Street, Room 304, Hagerstown, Maryland 21740; telephone: (240) 313-2300; email: dmurray@washco-md.net.

### Description of Bonds

The Bonds will be dated the date of their delivery. The Bonds will be issued in the principal amounts and will mature on the dates in the years and in the amounts set forth on the inside cover page hereof. The Bonds will be legally binding general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County are pledged. (See “THE BONDS—Sources of Payment” herein.)

Interest on each series of the Bonds, calculated on the basis of a 30-day month/360-day year factor, will be payable at the interest rates specified on the inside cover page of this Official Statement on January 1, 2013, and semiannually thereafter on the first day of July and January of each year until the date of maturity unless redeemed prior to that date. Interest payments will be made to the persons who are registered owners of record as of the 15th day of the month next preceding each such interest payment date. Each Bond shall bear interest from the most recent date to which interest has been paid or, if no interest has been paid, from its date of delivery.

The Bonds will be issued in fully-registered form without coupons, in denominations of \$5,000 and integral multiples thereof. Each series of the Bonds initially will be issued in book-entry form without any physical distribution of certificates made to the public. The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for each series of the Bonds and the Bonds will be registered in the name of DTC’s partnership nominee, Cede & Co. (See “THE BONDS—DTC and Book-Entry Only System” herein).

So long as the Bonds of either series are maintained in book-entry form, payments of principal of and interest on the Bonds of such series will be made as described below under “DTC and Book-Entry Only System.” At any other time the principal amount of the Bonds of such series will be payable at the designated corporate trust office of Manufacturers and Traders Trust Company (the “Bond Registrar and Paying Agent”).

Interest on the Bonds will be payable by check of the Bond Registrar and Paying Agent mailed to the registered owners thereof. The principal of and interest on the Bonds will be paid in lawful money of the United States of America in the manner and at the places hereinabove described.

So long as the Bonds of a series are maintained in book-entry form, transfers of ownership interests will be made as described below under “DTC and Book-Entry Only System.” At any other time, any Bond may be exchanged for a Bond or Bonds of the same series in authorized denominations of \$5,000 or integral multiples thereof in aggregate principal amount equal to the principal amount of the Bond transferred or exchanged and maturing on the same date and bearing interest at the same rate. The transfer of any Bond may be registered upon presentation and surrender of such Bond at the office of the Bond Registrar and Paying Agent, together with a written instrument of transfer duly executed by the registered owner or his attorney

or legal representative. The Bond Registrar and Paying Agent may require the person requesting any such exchange or transfer to reimburse it for any tax, fee or other governmental charge, shipping charges and insurance payable in connection therewith.

## **DTC and Book-Entry Only System**

Initially, DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (as DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each series of the Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from (over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfer of ownership interests in the Bonds are to be accomplished by entries made on the books of the Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry only system is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the

Omnibus Proxy).

Redemption proceeds, payments of the principal of, redemption premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Bond Registrar and Paying Agent on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant, and not of DTC, the Bond Registrar and Paying Agent or the County, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Bond Registrar and Paying Agent; disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository for either series of the Bonds at any time by giving reasonable notice to the County or the Bond Registrar and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds of the applicable series are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers for either series of the Bonds through DTC (or a successor securities depository). In that event Bond certificates for the applicable series will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

### **Book-Entry Only System - Miscellaneous**

**THE COUNTY AND THE BOND REGISTRAR AND PAYING AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OF THE BONDS WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT OF ANY AMOUNT DUE TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BONDS TO BE GIVEN TO BOND OWNERS; (5) THE SELECTION OF BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.**

In the event the County determines to discontinue a book-entry only system of registration of the Bonds of either series, payments of interest, principal and redemption price and transfer and exchange of the Bonds of such series will be made as described above under "THE BONDS—Description of Bonds".

### **Authorization**

The Public Improvement Bonds are issued pursuant to the authority of Chapter 392 of the Laws of Maryland of 2007 ("Chapter 392") and Title 6 of the Code of Public Local Laws of Washington County, Maryland (2007), as amended (the "Water and Sewer Act").

The Refunding Bonds are issued pursuant to the authority of Chapter 110 of the Laws of Maryland of 1999, as amended ("Chapter 110"), and Section 24 of Article 31 of the Annotated Code of Maryland, as amended (the "Refunding Act"), as applicable, and in accordance with a resolution adopted by the Board of County Commissioners of Washington County (the "Board") on April 24, 2012, as supplemented (the "Resolution"), copies of which are available at the office of the Finance Director.

Chapter 392, the Water and Sewer Act, Chapter 110 and the Refunding Act are collectively referred to in this Official Statement as the "Act".

## Application of Proceeds

Proceeds of the Public Improvement Bonds, less any premium paid by the successful bidder therefor, will be applied to costs of the following projects:

Use	Amount
Infrastructure Projects	\$ 7,984,400
Environmental Projects	5,696,900
Public Facilities	2,233,100
Education Projects	1,751,300
Issuance Costs	99,300
	<u>\$ 17,765,000</u>

A portion of the proceeds of the Refunding Bonds, including any premium paid by the successful bidder therefor, will be used to refund (i) that portion of the County's outstanding Public Improvement Bonds of 2003, dated January 1, 2003 (the "2003 Bonds"), identified below, and (ii) that portion of the County's outstanding Public Improvement and Refunding Bonds of 2003, Series A, dated October 15, 2003 (the "2003A Bonds") identified below. A portion of the proceeds of the Refunding Bonds also will be used to prepay in whole outstanding amounts of (i) the June 6, 1991 loan from the Maryland Department of Economic and Employment Development (now known as the Department of Business and Economic Development) to the County in the adjusted principal amount of \$1,906,691.70 (the "1991 MICRF Loan") made pursuant to the authority of Article 83A, Section 5-507 of the Annotated Code of Maryland (as then codified) and related regulations, and (ii) the October 20, 1993 loan from the Maryland Department of Economic and Employment Development to the County in the original principal amount of \$1,000,000 (the "1993 MILA Loan") made pursuant to the authority of Article 83A, Sections 5-401 through 5-414 of the Annotated Code of Maryland (as then codified) and related regulations. Proceeds of the Refunding Bonds will also be applied to pay related costs of issuance. The refunded portions of the 2003 Bonds and the 2003A Bonds are collectively referred to in this Official Statement as the "Refunded Bonds". The refunded portions of the 2003 Bonds, the 2003A Bonds, the 1991 MICRF Loan and the 1993 MILA Loan are collectively referred to in this Official Statement as the "Refunded Obligations".

The Refunded Obligations are as follows:

Bond Issue	Principal Amount Outstanding	Amount Refunded	Maturities Refunded	Redemption or Prepayment Date	Optional Redemption/Prepayment Price
2003 Bonds	\$3,820,000	\$3,470,000	2014-2021	January 1, 2013	101%
2003A Bonds	\$6,235,000	\$3,450,000	2016-2024	January 1, 2014	100
1991 MICRF Loan	\$ 652,186	\$ 652,186	2012-2016	May 24, 2012	100
1993 MILA Loan	\$ 579,532	\$ 579,532	2012-2023	May 24, 2012	100

## Refunding Plan

A portion of the proceeds of the Refunding Bonds, together with other available funds, if applicable, will be applied to refund the Refunded Obligations. The refunding method being used as to the Refunded Obligations is frequently termed a "net defeasance" in that provision is made to set aside immediately, from the proceeds of a refunding bond issue and other funds then available, monies for investment which, together with the interest to be received thereon, and any cash held uninvested, shall be sufficient to satisfy all payments of interest on the Refunded Obligations to and including the dates on which such obligations are redeemed or prepaid, as applicable and the principal of and any premium due upon the redemption or prepayment of such Refunded Obligations.

That portion of the proceeds of the Refunding Bonds used to refund the Refunded Bonds, together with other available funds, if applicable, will be applied to the purchase of non-callable direct obligations of or obligations the principal and interest on which are guaranteed by the United States of America (the "Restricted Acquired Obligations"). The Restricted Acquired Obligations, together with any cash held uninvested, will be held in trust in an escrow fund (the "Escrow Deposit Fund") by Manufacturers and Traders Trust Company (the "Escrow Agent") pursuant to an Escrow Deposit Agreement between the Escrow Agent and the County. The Restricted Acquired Obligations will mature at such times and in such amounts and will bear interest payable at such times and in such amounts, together with any cash held uninvested, so that sufficient money will be



available to pay when due, interest on the Refunded Bonds to and including their respective dates of redemption and to redeem the Refunded Bonds on their respective dates of redemption. (See “MISCELLANEOUS--Verification of Mathematical Computations” herein.) The Escrow Agent will apply the maturing principal of and interest on the Restricted Acquired Obligations and any cash held uninvested to the payment of the principal of and interest on the Refunded Bonds prior to their respective redemption dates and has been irrevocably instructed to redeem the Refunded Bonds on their respective redemption dates at a price including a premium on the principal amount thereof plus accrued interest. The Restricted Acquired Obligations will be pledged only to payment of the principal, interest, and premium of the Refunded Bonds and are not available for the payment of principal and premium, if any, or interest on the Bonds or any other obligations of the County.

The County shall use a portion of the proceeds of the Refunding Bonds in order to prepay the 1991 MICRF and the 1993 MILA Loans.

## Redemption

### *Optional Redemption*

The Public Improvement Bonds that mature on or before July 1, 2022 are not subject to redemption at the option of the County prior to their maturities. The Public Improvement Bonds that mature on or after July 1, 2023 are subject to redemption at the option of the County as a whole or in part at any time on or after July 1, 2022, in any order directed by the County, at a redemption price of the principal amount of the Public Improvement Bonds (or portions thereof) to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium or penalty.

The Refunding Bonds are not subject to redemption prior to maturity at the option of the County.

### *Mandatory Sinking Fund Redemption*

The Public Improvement Bonds maturing on July 1, 2029 are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount to be redeemed, together with interest accrued to the date fixed for redemption, on the dates and in the principal amounts set forth below:

Redemption Date (July 1)	Principal Amount	Redemption Date (July 1)	Principal Amount
2028	\$1,045,000	2029*	\$1,080,000

\*Maturity.

### *Selection of Public Improvement Bonds for Redemption; Notice of Redemption*

If less than all of the Public Improvement Bonds of any one maturity shall be called for optional or mandatory sinking fund redemption, as applicable, the particular Bonds or portions of Bonds of such series to be redeemed shall be selected by the Bond Registrar and Paying Agent in such manner as in its discretion it shall determine; provided that, so long as the Public Improvement Bonds are maintained in book-entry form, the selection of individual ownership interests in the Public Improvement Bonds to be credited with such partial redemption shall be made by DTC in accordance with DTC's then existing procedures.

If all or a portion of the Public Improvement Bonds outstanding are to be redeemed by optional or mandatory sinking fund redemption, the County shall give a redemption notice by first class mail, postage prepaid, at least 30 days prior to the date fixed for redemption to the registered owner of each Public Improvement Bond to be redeemed in whole or in part at the address of such registered owner appearing on the applicable Bond Register maintained by the Bond Registrar and Paying Agent, provided, however, that the failure to mail the redemption notice or any defect in the notice so mailed shall not affect the validity of the redemption proceedings. The County may, but shall not be obligated to, also publish such notice of redemption at least once not less than thirty (30) days prior to the date fixed for redemption in a newspaper circulating in the City of Baltimore, Maryland, and also in a financial journal or daily newspaper of general circulation in the City of New York, New York. The redemption notice shall state (i) whether the Public Improvement Bonds are to be redeemed in whole or in part and, if in part, the maturities and numbers of the Public Improvement Bonds to be redeemed, (ii) in the case of a partial redemption of any Public Improvement Bond, the portion of the principal amount which is to be redeemed, (iii) that the interest on the Public

Improvement Bonds to be redeemed shall cease on the date fixed for redemption, (iv) the date fixed for redemption and the redemption price, (v) the address of the Bond Registrar and Paying Agent with a contact person and phone number, and (vi) that the Public Improvement Bonds to be redeemed shall be presented for redemption and payment on the date fixed for redemption at the designated corporate trust office of the Bond Registrar and Paying Agent. Any such notice may be conditioned upon receipt by the Bond Registrar and Paying Agent of sufficient funds to effect such redemption.

From and after the date fixed for redemption, if notice has been duly and properly given and if funds sufficient for payment of the redemption price plus accrued interest thereon to the date fixed for redemption are held by the Bond Registrar and Paying Agent on such date, the Public Improvement Bonds so called for redemption shall become due and payable at the redemption price provided for redemption of such Bonds on such date, interest on such Bonds shall cease to accrue and the registered owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof plus accrued interest thereon to the date fixed for redemption from the monies so held by the Bond Registrar and Paying Agent. Upon presentation and surrender for redemption in compliance with the redemption notice, the Public Improvement Bonds to be redeemed shall be paid by the Bond Registrar and Paying Agent at the redemption price plus accrued interest thereon to the date fixed for redemption. If Public Improvement Bonds so called for redemption are not paid upon presentation and surrender, the Public Improvement Bonds designated for redemption shall continue to bear interest at the rates stated therein until paid.

## **Sources of Payment**

The Act provides that the Bonds constitute an irrevocable pledge of the full faith and credit and unlimited taxing power of the County to the payment of the maturing principal of and interest on the Bonds as and when they become payable. The Act further provides, and the County has covenanted in the Resolution, that in each and every fiscal year that any of the Bonds are outstanding, the County shall levy or cause to be levied ad valorem taxes upon all assessable property within the corporate limits of Washington County in rate and amount sufficient to provide for or assure the payment, when due, of the principal of and interest on all Bonds maturing in each such fiscal year and, if the proceeds from the taxes so levied in such fiscal year prove inadequate for such payment, additional taxes shall be levied in the succeeding fiscal year to make up any deficiency.

## **Bondholders' Remedies**

It is the opinion of Funk & Bolton, P.A., Baltimore, Maryland, Bond Counsel, that the County may be sued in the event that it fails to perform its obligations under the Bonds and the Resolution to the registered owners and that any judgments resulting from such suits would be enforceable against the County. Nevertheless, a registered owner of a Bond who has obtained any such judgment may be required to seek additional relief to compel the County to assess, levy and collect such taxes as may be necessary to provide the funds from which such judgment may be paid. Although there is no Maryland law with respect to this issue, it is the opinion of Bond Counsel that the appropriate courts of Maryland have jurisdiction to entertain proceedings and power to grant additional relief, such as a mandatory injunction, if necessary, to enforce the levy and collection of such taxes and payment of the proceeds thereof to the holders of general obligation bonds, *pari passu*, subject to the inherent constitutional limitations referred to below.

It is also the opinion of Bond Counsel that, while remedies would be available to the registered owners of the Bonds and while the Bonds are entitled to constitutional protection against the impairment of the obligation of contracts, such constitutional protection and the enforcement of such remedies would not be absolute.

Enforcement of a claim for payment of the principal of or interest on the Bonds could be made subject to the provisions of Federal bankruptcy laws or of any statutes that may hereafter be constitutionally enacted by the United States Congress or the Maryland General Assembly extending the time for payment or imposing other constraints upon enforcement.

## **Tax Matters**

### ***State of Maryland and Local Income Tax***

In the opinion of Funk & Bolton, P.A., Bond Counsel, under existing law, the Bonds, their transfer, the interest payable thereon, and any income derived therefrom in the hands of the holders thereof from time to time (including any profit made in the sale thereof) shall be and are declared to be at all times exempt from State of Maryland, county, municipal, or other taxation of every kind and nature whatsoever within the State, but no opinion is expressed as to Maryland estate or inheritance taxes or any other Maryland taxes not levied directly on the Bonds, their transfer or the income therefrom.

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Interest on the Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Bonds should consult their tax advisors regarding the taxable status of the Bonds in a particular state or local jurisdiction other than the State of Maryland.

### ***Federal Income Tax***

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations and decisions as enacted and construed on the date of initial delivery of the Bonds, assuming the accuracy of certain certifications of the County and continuing compliance with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the Bonds is not a tax preference item directly subject to the alternative minimum tax imposed on individuals, corporations or other taxpayers pursuant to the Code; however, interest on the Bonds held by certain corporations may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Interest on the Bonds may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States of America.

Bond Counsel will issue a separate opinion with respect to each series of the Bonds. Bond Counsel’s opinions will be given in reliance (without independent investigation) on certifications, covenants and agreements by representatives of the County as to certain facts material to both the opinions and the requirements of the Code. The County will covenant and agree to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds, the use of the Bond-financed projects and the timely payment to the United States of America of any arbitrage rebate amounts with respect to the Bonds or payments in lieu thereof. Bond Counsel assumes no responsibility for, and will not monitor, compliance with the covenants and agreements of the County. In the event of noncompliance with such covenants and agreements, available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes retroactively to the date of issue.

Ownership of the Bonds may result in other federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty companies, certain recipients of social security or railroad retirement benefits and certain S corporations. Prospective purchasers of the Bonds should consult with their own tax advisors as to any collateral federal income tax consequences.

Certain of the Bonds may be offered and sold at a discount (“original issue discount”) equal generally to the difference between their public offering price and principal amount. For federal income tax purposes, original issue discount on a Bond accrues periodically over the term of the Bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the purchaser’s tax basis in the Bond for determining taxable gain or loss upon disposition (including sale, redemption or payment at maturity). Purchasers of Bonds at a discount should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes, and with respect to any state or local tax consequences of owning such Bonds.

Certain of the Bonds may be offered and sold at an issue price over the stated redemption price of such Bonds at maturity. This excess constitutes premium on such Bonds. For federal income tax purposes, original issue premium is amortizable periodically over a Bond’s term through reductions in the owner’s tax basis for the Bond for determining taxable gain or loss upon disposition (including sale, redemption or payment at maturity). An owner of a premium Bond cannot deduct amortized original issue premium relating to that premium Bond. Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes, and with respect to any state or local tax consequences of owning such Bonds.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete or to identify all aspects of federal income taxation that may be relevant to a particular purchaser of the Bonds in light of his or its particular circumstances and income tax situation. Prospective purchasers of the Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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*Effects of Future Enforcement, Regulatory or Legislative Actions*

The Internal Revenue Service (the “Service”) has a program to audit state and local government obligations to determine whether the interest thereon is includable in gross income for federal income tax purposes. If the Service does audit the Bonds, under current Service procedure, the Service will treat the County as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate in the process. Any selection by the Service of the Bonds or of tax-exempt obligations similar to the Bonds for audit could affect the marketability or market value of the Bonds.

The Service and the U.S. Department of the Treasury have ongoing programs to promulgate regulations to interpret and apply the provisions of the Code. In addition, from time to time regulatory actions are announced or proposed and litigation is threatened or commenced which, depending on its conclusion, could modify or impact federal or state tax treatment of tax-exempt obligations such as the Bonds and could have an adverse effect on the marketability or market value of the Bonds.

From time to time, there are legislative proposals in the United States Congress or various state legislatures that, if enacted, could alter or amend the federal tax matters referred to above, state treatment of the tax status of the Bonds or adversely affect the market value of the Bonds. Furthermore, such proposals may affect the marketability or market value of the Bonds merely by virtue of being proposed. It cannot be predicted whether or in what form any such proposal may be enacted or whether, if enacted, it would apply to tax-exempt obligations issued prior to enactment. In addition, legislation enacted after issuance of the Bonds may directly or indirectly cause interest on the Bonds to be subject to federal or state income taxation or reduce the benefit of the excludability of interest on the Bonds under existing law. Each purchaser of the Bonds should consult with his or its own tax advisor regarding any pending or proposed federal or state tax legislation. Bond Counsel will not express any opinion regarding pending or proposed federal or state enforcement actions, regulations, litigation or legislative actions.

See Appendix B hereto for the proposed forms of opinions of Bond Counsel to be delivered with respect to the Bonds upon issuance.

## **II. Government and Administration**

### **Location**

Washington County is situated in northwestern Maryland, bordered by Pennsylvania to the north and West Virginia to the south. It is bordered on the east by Frederick County, Maryland and on the west by Allegany County, Maryland. Washington County is approximately 460 square miles in area. The County Seat, Hagerstown, is 70 miles northwest of Washington, D.C. and 72 miles west of Baltimore, Maryland. Two major highways, Interstate 81 – running north and south, and Interstate 70 – running east and west, cross within Washington County’s borders.

The major part of Washington County is fertile valley with rolling terrain. The lowland belt known as the Hagerstown Valley lies between the Blue Ridge Mountains to the east and the Appalachian Highlands to the west.

### **Form of Government**

The County is a body corporate and politic, which performs all local governmental functions in Washington County except those performed by the nine incorporated municipalities within Washington County. The executive offices of the County are located at 100 West Washington Street, Hagerstown, Maryland 21740. The County’s central telephone number is (240) 313-2210 and its website is [www.washco-md.net](http://www.washco-md.net).

Under the Code of the Public Local Laws of Washington County (2007 Edition), as amended, being Article 22 of the Code of Public Local Laws of Maryland (the “County Code”), both the executive and legislative functions of the County are vested in the elected, five-member Board of County Commissioners of Washington County (the “Board”). The Board may only exercise such powers as are conferred upon it by the General Assembly of Maryland, including authorization to issue debt to finance its capital projects. County Commissioners are elected on a countywide basis and serve four-year terms.

Each member of the Board has one vote and a simple majority of the Board is sufficient to take action subject to the authority vested in the Board by the County Code. Emergency action also requires a simple majority vote. The Board elects its own officers. The General Assembly of Maryland must authorize powers not specifically authorized by the County Code.

As authorized by the County Code, the Board appoints a County Administrator. The County Administrator is selected on the basis of his or her executive and administrative abilities, including his or her knowledge and experience in public administration. The County Administrator is responsible for the proper administration of the Board’s affairs. He is charged with the supervision of the departments and agencies of the County, and is responsible for the day-to-day operations of the County government in conformity with public local laws and other laws applying to the County.

County financial matters are administered in part through the office of the Treasurer of Washington County. The County Code establishes the elective office of County Treasurer. The County Treasurer is constituted the collector of County and State taxes, charges and assessments and is charged with the enforcement of collection of taxes in the manner provided by law.

As authorized by the County Code, the Board appoints a Director of the Office of Budget and Finance (the “Finance Director”). The Finance Director is appointed on the basis of his or her experience in financial administration. The Finance Director is charged with assisting the Board in the preparation and administration of the County budgets and other accounting and fiscal matters as the Board deems necessary. In addition, the Finance Director is responsible for the study of the organization, methods and procedures of each office, department, board, commission, institution, and agency of County government.

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**Legislative and Administrative Officials*****Board of County Commissioners***

TERRY L. BAKER, a second-term County Commissioner, was first elected in 2006, and serves as President of the Board of County Commissioners. He is a 1973 graduate of Williamsport High School, a 1975 graduate of Hagerstown Community College and a 1978 graduate of Auburn University, with a Bachelor's degree in Education. Mr. Baker is employed as a trade's instructor (carpentry) at the Washington County Technical High School. Prior to being elected a County Commissioner he served from 2002 to 2004 as a member of the Council for the municipality of Clear Spring and as Assistant Mayor for such municipality from 2004 to 2006.

JOHN F. BARR, a second-term County Commissioner, was first elected in 2006 and serves as Vice-President of the Board of County Commissioners. He was raised in Boonsboro, Maryland and is a Master Electrician in five states. In high school, Mr. Barr worked for his father as a field electrician at M/L Electric, Inc., which began in 1927. In 1979 he formed the management team overseeing the service department. In 1984 Mr. Barr bought the company from his father and changed the name to Ellsworth Electric, Inc. He has built the company from 75 to 150 employees. Mr. Barr is active in various service organizations and community projects.

RUTH ANNE CALLAHAM, a first-term Commissioner, has lived in Washington County since 1977. Retiring in 2003 from the federal government after 23 years of service, she joined Food Resources, a local non-profit, as Executive Director, and retired from that organization in 2011. Ms. Callaham was elected to serve on the Washington County Board of Education (2006-2010), and was appointed to the Board of Commissioners of the Housing Authority of Washington County (1999-2004), and to the Washington County Commission for Women (2007-2010). She holds a Bachelor of Science degree from Texas State University and a Master of Business Administration degree from Mount St. Mary's University.

JEFFREY A. "JEFF" CLINE, a first-term Commissioner, is a Williamsport resident. Mr. Cline is a graduate of Williamsport High School and Hagerstown Community College, and is currently seeking a Bachelor of Science degree in Organizational Leadership from Mountain State University. He has been a realtor since 2003 and is affiliated with Roger Fairbourn Real Estate. He graduated from the Maryland Association of Realtors' 2008 Leadership Academy and received the Graduate of Realtor Institute (GRI) designation. Mr. Cline served on the Williamsport Town Council (2005-2009), and is an affiliate member of the Williamsport Lions Club.

WILLIAM B. "BILL" MCKINLEY, a first-term County Commissioner, was an educator in Washington County Public Schools for 36 years, retiring in 2002 as Executive Director of Support Service. He has served as President of Saint Maria Goretti High School and Chairman of the Washington County Gaming Commission. He is a member of the Williamsport Lions Club and President of the Hagerstown Community College Hawk Booster Club.

***County Treasurer***

TODD L. HERSHEY, County Treasurer, was first elected to his position in November 1986. He holds a Bachelor of Science degree, majoring in Sociology, from Guilford College and a Master of Science degree in Management and Administration from Hood College. He was formerly a commercial banker.

***Administrative Officials***

GREGORY B. MURRAY, County Administrator, is a summa cum laude graduate with a B.S. degree in Business Administration and is currently enrolled in the Master of Public Administration program at the University of Baltimore, a University System of Maryland college. He is a native of Washington County, a credentialed manager through the International City/County Management Association (ICMA-CM), and was appointed County Administrator on February 27, 2007 after 10 years as the Director of the County's Department of Water Quality. Mr. Murray has 29 years of public administration service and leadership, giving him an extensive knowledge of the County's infrastructure needs, planning and regulatory issues. He is a member of the American Society of Public Administration, the American Public Works Association, the County Engineers Association of Maryland, the American Water Works Association, and the Water Environment Federation as well as numerous advisory boards and commissions. Mr. Murray also holds several environmental licenses for management of public utilities and was appointed by Maryland's Governor as Chair of the Chesapeake Bay Restoration Fund Advisory Committee. He has worked closely with the Environmental Protection Agency, the Maryland Department of the Environment, and the Maryland Department of Planning to help guide policy decisions that improve the quality of available resources in the State.

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DEBRA S. MURRAY, C.P.A., Director of the Office of Budget and Finance, holds a B.S. degree in Accounting from Frostburg State University. She was appointed Finance Director in 1995. She served as Assistant Director of the Office of Budget and Finance from 1993 until her appointment as Director. Prior to her employment with Washington County she held the position of audit manager with a regional public accounting firm. She is a member of the American Institute of Certified Public Accountants, the Maryland Association of Certified Public Accountants, the Government Finance Officers Association of the United States and Canada ("GFOA") and the Maryland Government Finance Officers Association.

JOHN M. MARTIRANO, County Attorney, attended West Virginia University and the University of Pittsburgh. He holds a B.A. degree, *cum laude*, from West Virginia University and a J.D. degree from the University of Pittsburgh. He was admitted to the Maryland Bar in 1990 and to the West Virginia Bar in 1994. He was in private practice with Miles & Stockbridge from 1990 to 1993 and with Steptoe & Johnson from 1993 to 1996. He was a Senior Surety Claim Attorney with The St. Paul Companies, Inc. (formerly USF&G) from 1996 to 1999. He was appointed Assistant County Attorney for Washington County in 1999 and Deputy County Attorney in 2004. He was appointed County Attorney in 2005. He is active in numerous community organizations and is a member of the American, Maryland and Washington County Bar Associations and the International Municipal Lawyers Association.

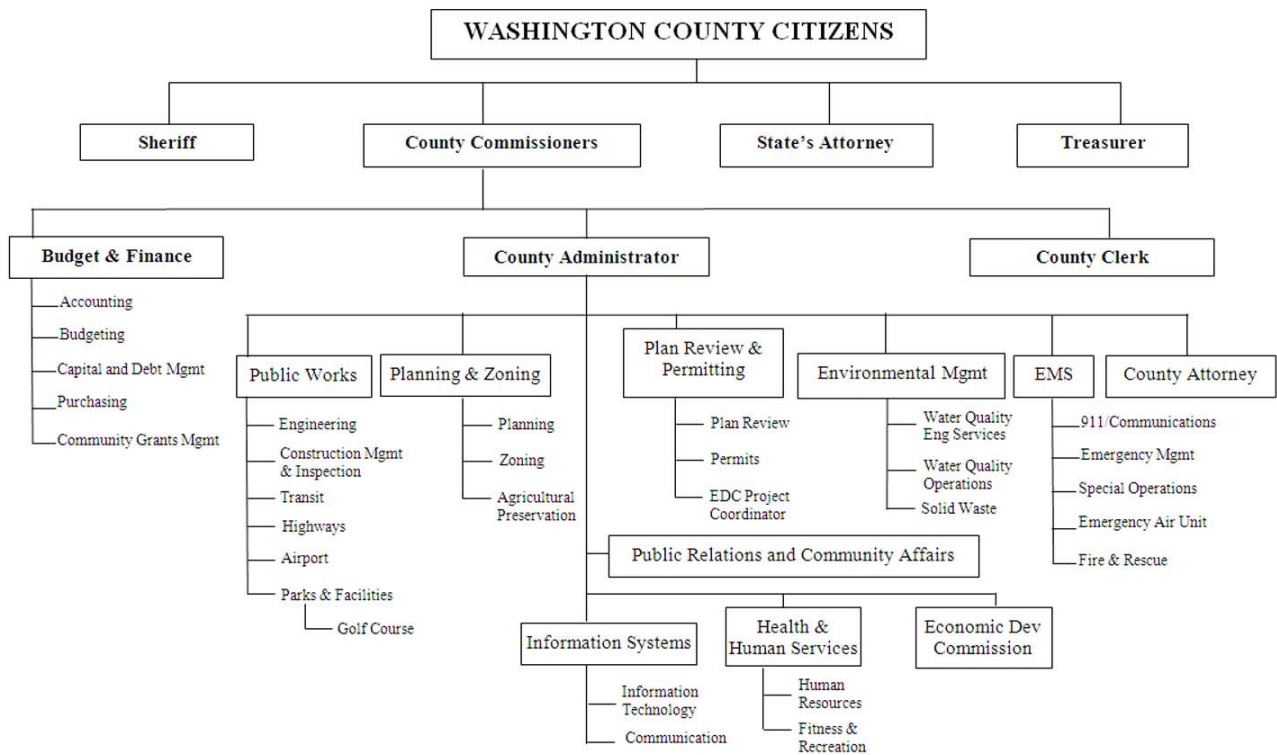
KEVIN L. LEWIS, Director of Emergency Management Services, is a career Paramedic with over 25 years of volunteer firefighting and medic experience. Mr. Lewis was hired by Washington County in August 2006 as Deputy Director of Fire and Emergency Services and was promoted to Director in July 2008. He graduated from Hagerstown Community College ("HCC") as a Radiologic Technologist and is currently enrolled in the management program from HCC and Frostburg State University at the Hagerstown Campus of University of Maryland. Mr. Lewis is also a field instructor at University of Maryland, Maryland Fire and Rescue Institute, teaching fire and emergency medical services courses. Mr. Lewis continues to volunteer with the Williamsport Fire and Emergency Medical Services.

JENNIFER M. SMITH, P.E., Director of the Division of Plan Review and Permitting, is a Maryland Registered Professional Engineer with over 24 years of experience in the field of environmental and civil engineering, specializing in stormwater management and land development regulation. Ms. Smith holds a Bachelor of Science degree and a Master of Science degree in Engineering from the Virginia Polytechnic Institute & State University (Virginia Tech). Ms. Smith served as the Deputy Director for the Division of Public Works, Land Development Engineering prior to becoming the Director of the Division of Plan Review and Permitting in 2011. She is a member of the County Engineers Association of Maryland, the American Water Resources Association, the Maryland Stormwater Association, the Maryland Association of Floodplain and Stormwater Managers and the Washington County Transportation Advisory Committee. Ms. Smith is a former and founding member of the Board of Directors for the Low Impact Development Center and currently sits on the Streets and Roads Commission for the Town of Mount Airy.

JOSEPH KROBOTH, III, P.E., Director of Public Works, is a Professional Land Surveyor, Federal Highway Administration Bridge Inspector, and a certified Fire Protection Specialist. Mr. Kroboth holds an M.B.A. degree from Frostburg State University, a B.S. degree in Civil Engineering from the University of Maryland, College Park and A.A. degrees in Engineering Science and Engineering Technology from Hagerstown Community College. Mr. Kroboth served as Deputy Director of the Department of Public Works until becoming the Director in 2007. He was the Director of the Department of Emergency Services from 2001-2005. He was formerly the assistant city engineer for Hagerstown, Maryland, prior to being hired by the County in 1990 as Assistant Engineer. Mr. Kroboth is a member of numerous professional associations and groups, and past-President of the County Engineers Association of Maryland.

JULIE A. PIPPEL, Director of Environmental Management, is a licensed Water and Wastewater Operator in Maryland and a certified Manager of Landfill Operations with the Solid Waste Association of North America. Ms. Pippel holds an A.A. degree in Ecology and Environmental Technology from Paul Smith College and a B.S. degree in Business Administration from the University of Maryland University College. She is currently pursuing a Master's degree in Public Administration from the University of Baltimore. Ms. Pippel was promoted to the Director position in July of 2007 after 18 years of experience with the Washington County Department of Water Quality. Ms. Pippel is the Chair of the Maryland Upper Potomac Tributary Team, President of the Maryland Association of Municipal Wastewater Authorities, Treasurer of the Stormwater Association of Maryland, and a member of various other professional associations.

## Washington County Government Organizational Chart



### County Employment

As of June 30, 2011 the County employed 746 full-time permanent employees and 355 part-time permanent employees. The County has a compensation and classification plan, which is complemented by a performance evaluation system. There are 147 employees of the County's Division of Public Works, Division of Emergency Services, and Division of Environmental Management represented by a collective bargaining agreement that expires on June 30, 2013. The County has not experienced a work stoppage due to labor relation disputes and considers its relationships with employees to be good.

### Pension and Retirement System

Employees of the County government are provided retirement benefits through a pension plan (the "Plan"). Participation in the Plan is mandatory and there were 996 participants as of June 30, 2011. All full-time County employees are eligible to participate in the Plan. The Plan also provides death and disability benefits. The employees and the County fund the guaranteed allowance. Non-uniformed participants contribute to the Plan at the rate of 5.5% of their annual salary and uniformed employees contribute 6% of their annual salary.

The County's contribution is comprised of two parts: (i) contribution to cover current service costs and (ii) annual accrued liability contribution to liquidate the County's unfunded accrued liability by June 30, 2029. Contributions for items (i) and (ii) above are based on an assumed investment rate of 7.75% compounded annually. Contributions for items (i) and (ii) are currently funded at 14.20% of total salary expense. Salaries are assumed to increase at an annual rate of 4.0%. Contributions from participants and from the County are pooled to provide the guaranteed allowance for each member.



The following table presents the pension and retirement contributions and unfunded liabilities of the County and certain County agencies for the five most recent fiscal years.

<b>As of July 1</b>	<b>Current Service Costs</b>	<b>Recommended Payment for Unfunded Accrued Liability</b>	<b>Total</b>	<b>Unfunded Accrued Liability</b>
2007	\$2,241,885	\$ 898,257	\$3,140,142	\$10,457,559
2008	2,503,710	1,755,572	4,259,282	21,850,376
2009	2,517,527	1,768,561	4,286,088	21,298,099
2010	2,872,075	2,062,728	4,934,803	24,036,755
2011	2,940,903	2,151,124	5,092,027	24,178,332

Source: CBIZ Benefits & Insurance Services, Inc.

### Other Post-Employment Benefits

The County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 43, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans (OPEB) and GASB 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions in fiscal year 2008.

The County's OPEB plan is a single employer defined benefit healthcare plan. The County established a trust for administering the plan assets and paying healthcare costs and death benefits on behalf of the participants.

There is no vesting in the post-employment health benefits and they are subject to change at any time. All employees who retire from the County may participate in the program. In order to be eligible, the retiree must have (i) a minimum of five years of County service, and (ii) immediately preceding retirement, been enrolled in a medical, vision, or prescription drug insurance plan offered to active employees in the County. The retirees pay 50% of the health insurance premium. Retirees are also covered by a death benefit equal to their final annual salary, not to exceed \$100,000. These benefits cease when the retiree attains age 65 or becomes Medicare eligible. As of June 30, 2011, 41 retirees were receiving OPEB benefits and 71 employees were retirement-eligible.

The OPEB plan's funding policy provides for the County to contribute to the trust the actuarially determined annual required contribution (ARC). For the fiscal year ended June 30, 2011, the County contributed \$1,561,700 to the trust and for the fiscal year ending June 30, 2012, it has budgeted \$1,623,800. The required contribution amount and OPEB expense per the most recent Actuarial Valuation Report (provided every two years) as of June 30, 2010 are presented below:

<b>OPEB Information</b>	
Actuarial Unfunded Accrued Liability	\$18,970,739
Amortization of Actuarial Unfunded Accrued Liability	840,395
Normal Cost	726,028
Annual Required Contribution	1,566,423
ARC Funding	1,757,147
Net OPEB Obligation	(34,498)

Source: CBIZ Benefits & Insurance Services, Inc.

Actuarial Factors	
Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected Unit Credit
Amortization method	30 years using level percentage of pay
Asset valuation method	Standard balanced portfolio expectation for plan assets
Actuarial trend assumption	An annual healthcare cost trend of 12% initially, reduced by decrements to an ultimate rate of 5% after three years
Interest assumption	7.75% investment rate of return (net of administrative expenses)
Salary assumption	4% increase

Source: CBIZ Benefits & Insurance Services, Inc.

## Insurance

The County maintains commercial insurance for general liability, automobile, excess workers' compensation, law enforcement, public officials' liability, and catastrophic coverage. The County is required to provide unemployment insurance coverage for County employees.

## Certain Services and Responsibilities

### Education

The Board of Education of Washington County (the "Board of Education") implements all educational policies and programs for public schools in Washington County under the administration of the State Board of Education. The Board of Education, composed of seven members elected for four-year terms, oversees 22,235 students (including 485 in pre-kindergarten), in 47 elementary and secondary schools, which include middle and combined schools. The staff to student ratio in 2010-11 averaged better than one staff member for every 21.5 pupils; the average unrestricted pupil expenditure was \$10,657 for the 2010-11 school year.

The largest General Fund appropriation by the County in its adopted budget for fiscal year 2012 is \$92,828,890 for the Board of Education, which represents 45.3% of the General Fund budget. The appropriation is for all operating expenditures, including amounts for one-time costs and school health nurses. In addition, the County appropriated \$1,782,900 in its capital budget for fiscal year 2012 for Board of Education projects.

The following table presents the percentage of eighth grade students who attained the advanced proficiency level in the Maryland School Assessment ("MSA") functional tests for selected peer group counties and the State of Maryland for 2011.

MSA Tests	Washington County	Frederick County	Cecil County	Carroll County	Charles County	St. Mary's County	State of Maryland
Mathematics	<b>43.5%</b>	40.6%	28.7%	40.9%	39.1%	40.3%	32.4%
Reading	<b>50.6%</b>	56.6%	40.4%	51.6%	41.2%	48.5%	45.9%

Source: Maryland Board of Education

Washington County's high school graduation rate for the 2010-2011 school year as compared to other selected peer group counties and the State of Maryland is as follows:

Washington County	Frederick County	Cecil County	Carroll County	Charles County	St. Mary's County	State of Maryland
<b>91.70%</b>	93.87%	86.64%	95.00%	90.21%	87.68%	87.01%

Source: Maryland Board of Education

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## *Training/Higher Education*

Within a 70-mile radius of the County seat, the City of Hagerstown, there are more than 30 institutions of higher learning. There are numerous opportunities in Washington County for residents to obtain education and training beyond high school level. The following describes certain programs and schools within Washington County.

### **Training**

The *Western Maryland Consortium* provides a wide range of workforce development services for jobseekers and employers. Employer services include referral of applicants, customized training, financial aid for on-the-job training, recruitment, and screening assistance. Services are generally provided at no cost to employers.

The *Maryland Industrial Training Partnership* and the *Partnership for Workforce Quality Program* are funded by the State of Maryland. The staff works directly with businesses, reviewing operational plans, and designs or identifies appropriate training. Companies have complete control over the programs and can modify or extend program design. Matching training grants are available to upgrade skills.

*Washington County Technical High School* is a two-year public high school that is under the administration of the Board of Education. It offers 32 academic courses and 17 career and technology programs. These programs prepare students for professional/technical careers based on current industry skill standards. Enrollment is open to qualified 11<sup>th</sup> and 12<sup>th</sup> grade students, and tuition paying adults.

*Barr Construction Institute*, an education division of Associated Builders and Contractors, Inc., offers management education and professional industrial, commercial and apprenticeship trade training. Construction and maintenance training is recognized by the U.S. Department of Labor, Bureau of Apprenticeship & Training, and is accredited by the National Center for Construction Education and Research (affiliate of the University of Florida).

### **Higher Education**

*Kaplan University-Hagerstown*, a private institution since 1938, offers four bachelor degrees, 12 associate degrees and three certificate programs in the areas of business, allied health, criminal justice, para-legal studies, graphic design, human services and information technology. Online and traditional, on-ground courses are available.

*Hagerstown Community College ("HCC")*, founded in 1946, offers more than a hundred programs of study for university transfer or for immediate career preparation, as well as continuing education courses, workforce development, and adult basic education. Associate degrees, certificates and letters of recognition are awarded, including degrees and certificates in biotechnology, alternative energy technology and cybersecurity. HCC's business incubator, the **Technical Innovation Center (TIC)**, is the largest, most comprehensive technology-based business incubator in Western Maryland. It provides space and other services and amenities to entrepreneurs, start-ups, and existing companies. TIC's facilities consist of office space, conference rooms and 4,000 square feet of biotech research labs. The college recently opened a five-story, 65,000 square foot Science, Technology, Engineering and Math (STEM) Building, renovated the Kepler Theater and added a Performing and Visual Arts Education Center.

The County appropriated \$8,865,010 in its fiscal year 2012 operating budget for HCC. HCC receives the balance of its funding from student tuition, State grants, and other miscellaneous sources. In addition, the County appropriated \$1,275,800 in its capital budget for fiscal year 2012 for HCC projects.

*University System of Maryland at Hagerstown ("USMH")* opened in January 2005 and is located in historic downtown Hagerstown. USMH offers more than 20 undergraduate and graduate degree programs from Coppin State University, Frostburg State University, University of Maryland University College, University of Maryland, College Park, Towson University, and Salisbury University.

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*Planning and Zoning*

The Washington County Planning Commission was created in 1957. The Planning Commission consists of seven members appointed by the Board and is supported by the County's Planning Department with a staff of 10. The Planning Commission also has authority to approve subdivision and site development plans. The plans are required by the County's Division of Plan Review and Permits. One of the primary responsibilities of the Commission is the Comprehensive Plan for the County. The Planning Commission first recommended the adoption of a Comprehensive Plan for Washington County in 1971. Major updates to the Comprehensive Plan were completed in 1981 and in 2002. The adoption of the updated Comprehensive Plan in August 2002 was the culmination of a multi-year effort.

In 1973, a Zoning Ordinance was adopted which provides five classifications for industrial development: (i) "Industrial General" which encompasses heavy manufacturing plants requiring extensive transportation, water and sewerage facilities; (ii) "Industrial Restricted" which encompasses light manufacturing such as processing or assembly or previously processed materials; (iii) "Planned Industrial" which encompasses the planned development of industrial park locations; (iv) "Airport" which is a heavy industrial type classification with height limitations located around the Hagerstown Regional Airport; and (v) "Highway Interchange District" which allows light industrial uses areas in the vicinity of interstate interchanges to take advantage of transportation needs and opportunities. In October 2002 the Board adopted a new zoning classification, "Office, Research and Technology", which is geared toward the development of corporate offices, research facilities, and high-tech communication land uses. The zoning regulations as well as the 2009 edition of the International Building Code administered by the Division of Plan Review and Permits govern the development of these areas.

The Planning Department is continuing to work on updates to the Subdivision Ordinance and the Zoning Ordinance as they relate to development within Washington County. In keeping with the recommendations of the 2002 Comprehensive Plan, major revisions were made in July 2005 to the zoning regulations that related to the rural areas of Washington County. Since 2008 the Planning staff has been developing major revisions to the zoning map of the Urban and Town Growth areas to implement the recommendations of the Comprehensive Plan. Those revisions, which are designed to create a more desirable and efficient urban living environment are expected to be adopted in mid 2012. The proposed amendments include improvements to the design guidelines in the industrial districts mentioned above as well as a new zone called Office, Research and Industry with strict emission standards. Another new zone called Education, Research and Technology that is designed specifically to allow Hagerstown Community College to partner with emerging high tech industries and expand its role as business partner in the community is included in the proposed amendments. In an effort to coordinate development and infrastructure needs, staff is continuing to review the Adequate Public Facilities and Excise Tax Ordinances for possible improvement.

The Water and Sewerage Plan, the Solid Waste Plan and the Land Preservation, Parks and Recreation Plan are other plans prepared and administered by the Planning Department to assist in the development of the County in an orderly fashion. The State of Maryland requires the County to update each of these plans, as well as the Comprehensive Plan, at regular intervals.

Land use control and planning within the County's nine incorporated municipalities is under the jurisdiction of the municipalities. Each of the municipalities has adopted its own zoning and land development regulations.

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*Hospital and Medical Care*
**Meritus Health**

Meritus Health, located in Hagerstown, Maryland, is the largest healthcare provider in Western Maryland. Its programs span the continuum of healthcare, ranging from inpatient care to occupational health services to physician practices and outpatient care.

Meritus Medical Center, opened in 2010, is an acute care hospital with 272-single patient rooms. Services offered include a regional trauma center, a cardiac catheterization lab, and a nationally recognized joint replacement program. State-of-the-art medical technologies at Meritus Medical Center include advanced 3T magnetic resonance imaging (MRI), single-photo-emission computed tomography (SPECT) scanners, and cardiac interventions. Hospital services that address outpatient needs include the John R. Marsh Cancer Center, Total Rehab Care, the Center for Clinical Research, and the Center for Bariatric Surgery.

Meritus Health provides complementary branches of care including primary care physicians practices, specialists in disciplines ranging from obstetrics to cardiology and satellite services including diagnostics and durable medical equipment.

**Washington County Health Department**

The Washington County Health Department, which provides various health services to the citizens of Washington County, is budgeted to receive a total of \$5,649,850 in fiscal year 2012 from the County, including \$3,310,580 for its school health program. Along with the main headquarters, it has staff and programs based at eight other sites and 46 schools. The Health Department employs a total of 286 full-time and part-time personnel in five divisions.

The Environmental Health Division of the Health Department engages in food inspection, sanitation and water testing, rabies control, air quality investigation, outbreak investigation and other programs. The Nursing Division is responsible for maternal and child health programs, school health services, school-based health centers, communicable disease surveillance and control, tuberculosis control, refugee and migrant health services, reproductive health services, STD screening and treatment, HIV and AIDS services, immunizations, Maryland Children's Health Insurance Program, cancer screening, vision screening, and other programs. The Health Services/Public Information Division provides community outreach programs, nutrition services including the federally funded WIC program, dental services, tobacco cessation classes, geriatric evaluation services, hearing screening, relay of public information and other services. The Division of Behavioral Health Services provides a comprehensive system of care, including prevention, intervention, referral and treatment services for substance use and mental health disorders in a variety of settings. The Administration Division, which includes Personnel, Information Technology, Health Officer Staff, and Office of Health Policy and Planning, provides management support for all programs. In addition, the Office of Health Policy and Planning coordinates planning for the agency, provides oversight for public health emergency preparedness planning, and ensures that all Health Department staff are prepared to respond to a natural disaster, man-made event, or public emergency affecting the health of the residents of Washington County and the general population.

**Other Medical Facilities**

The George W. Comstock Center for Public Health Research and Prevention is a facility of the Johns Hopkins Bloomberg School of Public Health and was established in 1962 as a joint enterprise of the Maryland Department of Health and Mental Hygiene and the Washington County Health Department. The center has expertise and capacity in the conduct of large community health surveys, as well as a close working relationship with the County Health Department. Funding, sponsored through research grants by the National Institute of Health as well as private foundations, supports 20 to 30 staff members in the Comstock Center. Research includes heart disease surveillance and epidemiology of cancer, heart disease, lung disease, diabetes, sleep and other conditions. Prevention research results are disseminated nationally and internationally primarily through numerous journal publications.

There are nine privately owned licensed nursing homes with more than 1,047 beds and one State-owned licensed nursing home with 63 beds in Washington County. In addition there are 26 privately owned senior-assisted living facilities with a total of 776 beds. Other medical facilities include the Western Maryland Center, a 123 bed State-owned, chronic care facility, and the Brook Lane Psychiatric Center, a privately-owned psychiatric facility. None of these facilities receives funds from the County.

## *Safety*

### **Law Enforcement**

The Washington County Sheriff's Office, the Maryland State Police, and municipal police agencies provide police protection, in Washington County. The Sheriff's Office has 95 sworn personnel and 92 radio-dispatched vehicles. The Sheriff's Office is responsible for the operation of the Detention Center, which has a capacity of 450 inmates. The State Police has 42 troopers assigned to the local barrack, which is located just south of Hagerstown. The Hagerstown Police Department has a full-time force of 105 officers. In addition, the Hancock Police Department, the Smithsburg Police Department, and the Boonsboro Police Department each employ four police officers in their respective departments.

### **Fire and Rescue**

Fire and rescue protection is coordinated through the County's Division of Emergency Services ("DES"). DES oversees the Emergency Communication/911 Center, Emergency Management, Fire Department Special Operations, Fire Department Support Services, and the Emergency Medical Services Operations Program. DES is led by a full-time career Director and a full-time Deputy Director and together they oversee a staff of 55 full-time or part-time employees and approximately 40 volunteers. Working collaboratively with the Washington County Volunteer Fire and Rescue Association (the "WCVFRA"), DES coordinates the services provided by 14 volunteer fire companies and eight volunteer ambulance companies throughout Washington County. All volunteer companies belong to the WCVFRA. The association has approximately 700 volunteers who provide a combination of firefighting, rescue, and administrative services to the community. Several volunteer companies have hired career personnel to supplement the volunteer staff during times of low volunteer availability.

Fire protection within the City of Hagerstown is provided by a combination career and volunteer fire department. The department includes six stations with five engines and two ladder trucks. The department is led by a career Fire Chief, Training/Safety Officer, Fire Marshall, two Assistant Fire Marshalls, Public Education Officer and six Shift Commanders. The department has 84 full-time career firefighters and 43 trained volunteer firefighters.

### **Emergency Management**

Emergency management activities include mitigation, planning, response and recovery from natural and technical disasters. Washington County has a Local Emergency Planning Committee, overseen by DES that coordinates disaster planning, conducts drills to exercise the County Emergency Operations Plan, and oversees a community outreach program consisting of home chemical safety training, citizen preparedness, and pertinent educational programs.

### **Emergency Communications Center**

Consolidation of the personnel of the fire, emergency medical services, and law enforcement dispatch centers took place in July 2009 and all personnel physically moved into one Emergency Communications Center in January 2010. Throughout 2010, new, state-of-the-art, interoperable communication systems were implemented.

The new Emergency Communications Center is the first in Maryland combining city, county and state 911 and non-emergency calls into one central dispatch location. The improved call center and new digital radio system enables first responders to communicate in a safe, seamless and compatible way, enhancing their ability to respond to emergencies and save lives. The improved call center also integrates Hagerstown's and Washington County's non-emergency responders, allowing them to serve the community quickly and efficiently.

### ***Environmental Management***

The Division of Environmental Management ("DEM"), which includes the Department of Water Quality, the Environmental Engineering Department, and the Solid Waste Department, was created in fiscal year 2007. The State and Federal environmental initiatives as they pertain to water, wastewater, solid waste and nutrients are all jointly related. DEM is responsible for integrating the regulations and applying them to the operations of these departments.

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**Solid Waste**

The Washington County Solid Waste Department is responsible for a solid waste disposal system that protects the environment and public health. The opening of the 40 West Landfill in 2000 assures the County will meet its estimated disposal needs until 2112. The Department operates five solid waste convenience centers that are strategically located throughout Washington County. Supporting and strengthening individual and community self-reliance and responsibility in the areas of waste reduction, recycling, and proper disposal of solid waste is the mission of the Solid Waste Department. The Department operated as a special revenue fund until fiscal year 2002, when it was reclassified as an enterprise fund.

**Water Supply and Wastewater Facilities**

The County has a master water and wastewater plan, which assigns service priority designations for all areas within Washington County. These designations range from “No Planned Service” to “Existing and Under Construction”. The plan serves as a guide for the orderly development and expansion of water and wastewater facilities, both within Washington County and in those incorporated municipalities owning and operating their own systems, requiring the County or incorporated municipality to obtain a proper service designation before constructing or expanding water or wastewater services.

The County is authorized to provide public water and wastewater service to areas outside the incorporated municipalities and may provide service within the municipal corporations of Washington County with the consent of the municipality. The County currently provides water and/or wastewater services to nearly all of the immediate densely populated area surrounding the City of Hagerstown (except the Dual Highway corridor), the areas of Highfield, Elk Ridge, Sandy Hook, and the towns of Sharpsburg and Smithsburg. The incorporated municipalities of Hagerstown, Boonsboro, Clear Spring, Funkstown, Hancock, Keedysville, Smithsburg and Williamsport all own their water/wastewater facilities, or portions thereof. In addition to providing the wastewater service described above, the County operates the water and wastewater systems for the Town of Clear Spring, and provides operational assistance to the Town of Williamsport.

Five treatment plants serve the water system with an aggregate capacity of 419,000 gallons per day, with individual plant capacities from 4,000 to 230,000 gallons per day. The wastewater system is served by five treatment plants with an aggregate capacity of 5,393,000 gallons per day, with individual plant capacities from 21,000 to 4.1 million gallons per day. The County completed the upgrade of the Conococheague Treatment Plant for the biological nutrient removal process in November 2001. The County is in the process of upgrading its wastewater facilities to comply with the State’s enhanced nutrient removal strategy.

Usage of water and wastewater systems is measured in Number of Services and Number of Equivalent Dwelling Units (“EDUs”). Number of Services refers to the number of actual connections and EDU is a unit of measure, which equates the consumption, or flow of commercial or industrial connections, to the average flow of a residential dwelling unit.

The County bills its customers quarterly except for those for which wastewater treatment service is provided by the City of Hagerstown, in which case the County’s charges are billed and collected on its behalf by the City of Hagerstown. The following table shows the total Number of Services and EDUs of the County’s water and wastewater systems and the annual residential user rates effective July 1, 2010. For customers receiving County collection services only, treatment is provided by the City of Hagerstown.

**WATER SYSTEM**

	<b>No. of Services</b>	<b>No. of EDUs</b>	<b>Residential Annual (Avg) User Rate</b>
Full Service.....	1,327	1,550	\$567.20

**WASTEWATER SYSTEM**

	<b>No. of Services</b>	<b>No. of EDUs</b>	<b>Residential Annual (Avg) User Rate</b>
Full Service .....	6,768	10,314	\$524.48
Collection Service Only .....	3,497	4,448	\$208.00
Wholesale .....	5	4,206	
Total.....	10,270	18,968	

Source: Washington County Department of Budget and Finance

The County provides wastewater “treatment only” services to its wholesale customers, which are the towns of Williamsport and Smithsburg, the Conococheague Pretreatment Facility (the “Pretreatment Facility”), Fort Ritchie and the City of Hagerstown. The only major wastewater treatment facility for public use in Washington County other than those operated by the County is the Hagerstown Wastewater Treatment Plant, owned and operated by the City of Hagerstown, which has a capacity of 10.5 million gallons per day (“mgd”).

The Pretreatment Facility serves all of Washington County by providing pretreatment of non-hazardous industrial wastewater, landfill leachate and metals-bearing waste streams, and has a capacity of 125,000 gallons per day (current average usage is 50,000 gallons per day). The Pretreatment Facility was privatized in 2006 through a long-term lease to a private corporation.



### III. Economic and Demographic Information

#### Economic Development Commission

The Hagerstown-Washington County Economic Development Commission (the “EDC”) is dedicated to expanding economic opportunities for the citizens of Washington County. It works to promote the County as a place of business and improve the overall business climate of the community.

The Board of Directors is comprised of 12 unpaid volunteers and six *ex-officio* members. As representatives of the local business community, the Board of Directors is responsible for evaluating, recommending, and implementing policies affecting the County’s ability to attract, nurture, and sustain employment, and further promote economic growth and change in a managed environment.

The EDC has a staff of seven full-time employees to conduct the day-to-day operations of the office, with both the Executive Director and Deputy Director having been awarded the distinction of Certified Economic Community Developer. The staff works to fulfill the strategic priorities that are put in place by the EDC.

Throughout the year the EDC meets with representatives of existing companies in need of assistance. Discussions include appropriate funding programs, enterprise zone benefits, training, and other sources of business support. The EDC has formed strategic partnerships with such organizations as the Maryland Department of Business and Economic Development, the Tri-County Council for Western Maryland, the Small Business Development Center, the Western Maryland Consortium, and the Maryland One Stop Job Center in order to better serve the needs of businesses in Washington County.

The EDC distributes the following publications to promote economic development by providing current, relevant information to the business community: Available Buildings and Sites Lists, Business & Industry Directory, Business Development Guide, Economic Data Summary, and an Annual Report.

The EDC maintains a web page, [www.hagerstownedc.org](http://www.hagerstownedc.org), an online reference guide for economic development allies, partners, site selection consultants, clients, and the general public. The site includes statistical data on Hagerstown-Washington County’s Community Demographics, Quality of Life, Business Climate, Incentives, Property Search, Maps, and Recent News. Online publications include the EDC’s **Economic Data Summary**, the **Business and Industry Directory**, and the Annual Report. Visitors to [www.hagerstownedc.org](http://www.hagerstownedc.org) can access a database that highlights available commercial/industrial buildings and sites within Washington County. The database includes each property’s pertinent information and describes its development potential.

The EDC administers the Enterprise Zone Program, identifying eligible businesses that qualify for local real property tax credits and State income tax credits in the City of Hagerstown, the Town of Hancock, and elsewhere in Washington County. For tax year 2011-12, the City of Hagerstown, the Town of Hancock, and the County granted \$222,300, \$1,563, and \$651,203, respectively, in real property tax credits for private capital investment. The State of Maryland is expected to reimburse \$111,150 to the City of Hagerstown, \$781 to the Town of Hancock, and \$325,601 to the County for these credits.

#### Economic Development

##### *New and Expanding Businesses*

In 2011 the County experienced new and expanding businesses highlighted by the creation of more than 1,176 new jobs, known new investments of approximately \$124.2 million, and more than 653,000 square feet of space either under construction or leased. Many of these achievements are a result of incentive packages provided through partnerships of the County and State to provide training programs, State financing, and Enterprise Zone tax credits. Significant projects announced in 2011 are noted in the following table:

## ECONOMIC AND DEMOGRAPHIC INFORMATION

### Hagerstown-Washington County, Maryland -- Significant Business Activity for 2011

Company Name	Business Type	Expected Completion	Project Cost <sup>(1)</sup>	#New Jobs <sup>(1)</sup>	Type of Activity
<b>Completed Projects Announced in 2011</b>					
Blue Goose Market, LLC	Bakery/Garden Center/Gift Shop	4Q11	\$2.3 M	15	expansion
Bright Eyes Child Care	Early Childhood Services	4Q11	\$ .9 M	10	new jobs
Cinetic Landis	Precision Grinding Systems	3Q11	n/a	40	new jobs
Citi	Mortgage Processing	4Q11	n/a	120	new jobs
Dynamark Monitoring LLC	Security System Monitoring	4Q11	\$1.5 M	35	revovation/expansion
FedEx Ground	Express Freight Delivery	4Q11	n/a	460	new jobs
Fil-Tec	Technical Fibers	4Q11	n/a	16	new jobs/lease
GBC Films Group	Laminated Plastic	1Q11	n/a	5	lease
Go Green Recycling	Recycling	4Q11	\$ .5 M	12	new jobs/lease
National Golden Tissue	Paper Products	4Q11	n/a	n/a	lease
Parker Plastics	Plastic Bottle Manufacturing	4Q11	\$1.70 M	3	new construction
ProBuild	Building Products	1Q11	n/a	n/a	lease
Seven Ten Bowling Facility	Entertainment	3Q11	\$4.8 M	56	renovation/new jobs
Telford Aviation	Support for Air Transport	2Q11	n/a	2	lease
<b>Projects Under Development Announced in 2011</b>					
Citi	Finance	1Q12	n/a	200	new jobs
Evolve Composites, Inc.	Concrete Pads/Piers	3Q12	\$3 M	60	new jobs/lease
Fountainhead One	Class A Office Building	3Q12	\$6.5 M	n/a	new construction
Freightliner	Transportation/Warehousing	4Q12	\$4.0 M	30	new jobs/construction
Lehigh Phoenix	Book Printing	4Q12	\$4.0 M	20	expansion
Maryland Solar LLC	Solar Panel Farm	4Q12	\$70 M	2	solar panels
Parkway Neurosciences	Professional Office Building	1Q12	\$8.84 M	n/a	new construction
Potomac Edison	Electric Service	4Q12	\$3.2 M	40	new jobs/expansion
Eyecare Specialists	Professional Office Building	1Q12	\$1.0 M	n/a	new construction
Trilogy Professional Center	Professional Office Condos	4Q12	\$5.0 M	n/a	new construction
Volvo Powertrain North America	Heavy Duty Trucks	4Q12	\$7.0 M	50	new jobs/expansion
<b>Totals for Projects Announced in 2011:</b>			<b>\$124.2 M</b>	<b>1,176</b>	

Source: Hagerstown-Washington County Economic Development Commission

(1) Estimates based on company announcements.

***Business Parks and Sites***

Through the EDC, the County promotes the development of both private and non-profit business parks and sites. The County also successfully obtains financing for necessary infrastructure through various State and Federal agencies to support these developments as locations for new and expanding businesses. The County offers prospective businesses a selection of sites in planned industrial/business parks, which include:

<i>Park</i>	<i>Total Acreage</i>	<i>Available Acreage</i>	<i>Ownership</i>
<b>Airport Enterprise Zone:</b>			
Washington County Business Airpark .....	67	30	County
<b>City of Hagerstown—Washington County Enterprise Zone:</b>			
Valley Business Park .....	188	125	Private
<b>Other Locations:</b>			
Airport Business Park .....	39	39	Nonprofit
Friendship Business Park .....	450	340	Private
Gateway Business Park.....	65	12	Private
Hancock Industrial Park.....	38	38	Town
Hub Business Park.....	80	80	Private
Hunter's Green Business Center.....	631	187	Private
Light Business Park .....	27	14	Private
Newgate Industrial Park.....	245	20	Nonprofit
Showalter Business Park.....	162	162	Private
Showalter Road Center.....	88	88	Private
Westgate Industrial Complex.....	175	175	Private
Mount Aetna Technology Park.....	179	179	Nonprofit

Source: Hagerstown-Washington County Economic Development Commission

***New Jobs Tax Credit Program***

The “New Jobs Tax Credit” is a program initiated by the County in November 2002. The credit was created to help attract companies to the local business community that are involved in a high-tech industry and that offer well-paying jobs. The program provides a six-year tax credit for businesses that either expand or relocate in Washington County and qualify under the program’s guidelines. The credit applies to Washington County’s real property tax that is imposed on real property owned or leased by the business and on personal property owned by that business.

***Enterprise Zones***

Approximately 3,600 acres in Washington County are within three State-designated Enterprise Zones. Local and State incentives are available to new or expanding companies in these zones to promote growth of the industrial and commercial base. Qualified businesses can receive local property tax credits for capital investment and State income tax credits for the creation of new jobs. Each Enterprise Zone is approved by the State for a 10 year period.

***Pad-Ready Commercial Stimulus Program***

The Board adopted the “Pad-Ready” Commercial Stimulus Program on October 25, 2011. The program is designed to encourage developers/builders to bring undeveloped land to a shovel-ready state, but is also intended for sites with existing buildings in need of redevelopment. Under the program, undeveloped parcels of land, demolitions, renovations and expansions of existing buildings qualify for the incentives. Qualifying projects are entitled to priority plan review by the Washington County Development Advisory Committee, deferral of County site-plan application and review fees, and a real-estate tax credit issuance

once buildings are constructed and occupied. The tax credit is to be 0.4 of one percent (.004) of the construction cost of the new improvement as determined by the EDC and will apply for three consecutive years.

### ***High Performance Building Tax Credit Program***

On February 7, 2012, the Board established the High Performance Tax Credit Program. Under the program, property tax credits are available for buildings that receive silver, gold or platinum certification in the national LEED (Leadership in Energy and Environmental Design) ranking system. The amount of the credit will depend on which level of certification the building receives and the increase in its assessed value after construction. Silver buildings will be credited 20 percent of the taxes due on that increase; gold buildings, 25 percent; and platinum, 30 percent.

### **Foreign Trade Zone**

Washington County's Foreign Trade Zone ("FTZ") status was approved by the United States Department of Commerce's Foreign Trade Zone Board on July 3, 2002. More than 1,866 acres from seven different sites throughout Washington County are eligible. The sites are ideally zoned for manufacturing, distribution, and warehousing activities. FTZs have been shown to provide direct benefits to local businesses involved in foreign trade. Through the reduction, elimination, and deferral of tariffs, firms located within Washington County's FTZ are able to be more competitive in international markets.

### **Utilities, Transportation and Communication**

#### ***Utilities***

**Electricity:** Potomac Edison, a FirstEnergy Company, serves Washington County with a system of transmission and distribution lines of various voltages connected to its generating stations. The City of Hagerstown distributes electricity to many parts of the City.

**Telecommunications:** State-of-the-art communications infrastructure, including digital, fiber optic, wireless data, and cellular technologies are provided via public and private local and regional vendors. AT&T, Sprint, T-Mobile, and Verizon operate within Washington County.

**Natural Gas:** Columbia Gas of Maryland serves the area with natural gas. Propane is also readily available.

#### ***Transportation***

**Highways:** Washington County is served by Interstate Highways I-81, I-70, and I-68, complemented by U.S. 40 and U.S. 11, and State Routes 60, 64, 65 and 68. These highways put Washington County businesses within a day's drive of one-third of the U.S. population and half of all retail trade. The Baltimore and Washington, D.C. beltways are an hour's drive from central Washington County.

**Air:** Hagerstown Regional Airport is a Part 139 Facility which provides scheduled commercial service on Cape Air. The airfield also offers fixed base operation services to general aviation, corporate and military aircraft. Over 20 businesses offer clients a variety of aviation services for all types of aircraft. The airport is part of the Washington County Foreign Trade Zone and is located in a County Enterprise Zone. More than 600 people are employed at the airport in various aviation-related businesses. In addition, Dulles International, Baltimore/Washington Thurgood Marshall International, and Ronald Reagan Washington National airports are located within 70 miles of Hagerstown.

**Rail:** CSX Transportation and Norfolk Southern Corporation Railways provide economical shipment anywhere on the Atlantic seaboard. CSX, with a public siding, operates daily trains and connects with other major carriers for long-distance shipping. The Norfolk Southern mainline is just outside of Hagerstown and a CSX interchange with Norfolk Southern is in Hagerstown for nationwide access. In 2011, Norfolk Southern Rail broke ground on a 200 acre intermodal terminal that is scheduled to be operational in 2012 in Greencastle, Pennsylvania, immediately adjacent to Washington County. The County is also only 19 miles from CSX's 115 acre intermodal terminal in Chambersburg, Pennsylvania. Daily Amtrak and weekday MARC passenger services are available from Martinsburg, West Virginia (23 miles south of Hagerstown). MARC passenger service from neighboring Frederick County to Washington, D.C. is also available.

**Local Transportation:** Washington County Commuter provides local bus service throughout Washington County. Local taxi service and auto rental and leasing services are available within Washington County.

### Communication

**Newspapers:** The daily newspaper, The Herald-Mail, has a circulation of 25,677. Two weekly local newspapers, The Hancock News, with a weekly circulation of 2,000, and The Picket News, with a weekly circulation of 10,000, also service Washington County. Several metropolitan newspapers, including the Washington Post and The Baltimore Sun, are available daily to residents.

**Television:** WHAG provides local news, weather, community information, sports coverage and programming to the tri-state area. Antietam Cable Television and Comcast offer cable and digital television services. Satellite television is available through private vendors.

**Internet:** There are numerous private vendors providing local dial-up, wireless, and broadband Internet access. The Washington County Free Library provides access to the Internet through SAILOR, the State of Maryland's Online Public Information Network. Information about Washington County, including economic data, can be accessed on the World Wide Web:

www.washco-md.net (Washington County)  
 www.hagerstownmd.org (City of Hagerstown)  
 www.washcolibrary.org (Washington County Free Library)

## Demographic Information

### Population

The following table illustrates the population growth of Washington County, the State of Maryland, and the United States from 1970 to 2011.

**Population Growth**

Year	<u>Washington County</u>		<u>State of Maryland</u>		<u>United States</u>	
	Population	Percent Change	Population	Percent Change	Population	Percent Change
1970	102,829	—	3,924,000	—	203,302,000	—
1980	113,086	9.9	4,216,000	7.4	226,505,000	11.4
1990	121,393	7.3	4,781,468	13.4	249,633,000	10.2
2000	131,923	8.7	5,296,486	10.8	281,421,906	12.7
2010	147,430	11.8	5,773,552	9.0	308,845,538	9.7
2011	149,560	1.4	5,828,289	0.9	311,591,917	0.9

Source: Bureau of the Census, U.S. Department of Commerce for 1970, 1980, 1990, 2000, and 2010.

Bureau of the Census, U.S. Department of Commerce for 2011 estimates for the State of Maryland and the United States.  
 Maryland Department of Planning for 2011 estimate for Washington County.

### Income

Median household Effective Buying Income ("EBI") in Washington County was estimated at \$40,614 for the year 2011. The median household EBI for Washington County, the State of Maryland and the United States are estimated to be as follows:

	<b>Median Household Effective Buying Income</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Washington County	\$40,614	\$42,775	\$41,995	\$42,327	\$43,415
State of Maryland	52,627	55,983	54,640	53,914	53,064
United States	41,368	43,252	42,413	42,303	41,792

Source: Demographics USA®, a publication of ACNielsen Trade Dimensions, Wilton, CT for 2007 and 2008 data; and Nielsen-Claritas, Inc. for 2009, 2010 and 2011 data.

Comparative statistics relating to the distribution of 2011 EBI are presented in the following table:

**2011 Distribution of Effective Buying Income**

<b>Households By EBI Group</b>	<b>Washington County Percent</b>	<b>State of Maryland Percent</b>	<b>United States Percent</b>
Under \$25,000	27.3	18.7	27.8
\$25,000-74,999	56.8	51.1	52.4
\$75,000-149,999	13.9	24.6	16.2
\$150,000 +	2.0	5.6	3.6

Source: Nielsen-Claritas, Inc.

**Area Labor Supply**

Washington County has an available civilian labor force of approximately 66,920. In addition, businesses can pull workforce from Allegany and Frederick counties in Maryland; Franklin and Fulton counties in Pennsylvania; and portions of Berkeley, Jefferson and Morgan counties in West Virginia. The civilian labor force for all these counties totals more than 387,930.

**Employment**

Within Washington County there are approximately 3,500 businesses providing employment opportunities. The following table shows the employment statistics for the 15 largest employers in Washington County, as of January 2012.

<b>Employer</b>	<b>Employment</b>
Washington County Public Schools.....	2,965
Meritus Health, Inc.....	2,860
Citi.....	2,500
State of Maryland.....	2,304
First Data.....	2,214
Volvo Powertrain.....	1,391
Washington County Government.....	1,134
Hagerstown Community College.....	813
Bowman Group, LLP (The).....	753
FedEx Ground.....	648
Federal Government.....	637
Staples Distribution Center.....	567
Merkle Response Management Group.....	520
City of Hagerstown.....	461
Lehigh Phoenix.....	417
Sierra Nevada Corporation.....	417

Source: Hagerstown - Washington County Economic Development Commission

## Unemployment Rate

Unemployment in Washington County has averaged 7.9% over the five years 2007 to 2011. The following table indicates the County's average unemployment rate as compared with the State of Maryland for the years 2007 through 2011:

### Unemployment Rate – Annual Average

	2011	2010	2009	2008	2007
Washington County	9.5%	10.3%	9.8%	5.6%	4.5%
State of Maryland	7.0%	7.4%	7.1%	4.3%	3.6%

Source: Maryland Department of Labor, Licensing and Regulation  
2011 data are not seasonally adjusted.

## Construction Activity

Construction activity in Washington County is indicated by the following statistics:

### Building Permits (Value in Thousands)

Year Ended Dec. 31	Residential New		Other Permits		Total	
	Number	Value	Number	Value	Number	Value
2011	159	\$26,941	1,632	\$ 57,509	1,791	\$ 84,450
2010	161	33,372	1,766	71,463	1,927	104,835
2009	133	27,721	1,881	73,869	2,014	101,590
2008	178	37,040	2,160	344,130 <sup>(1)</sup>	2,338	381,170
2007	313	73,439	2,655	99,674	2,968	173,113

Source: Washington County Department of Permits and Inspections

(1) Significant increase due to new hospital valued at \$265M.

## Housing Starts

The number of single family housing starts in Washington County for the past five years is listed below:

Year Ended December 31	Single Family (One and Two-Unit Structures)
2011.....	128
2010.....	137
2009.....	104
2008.....	104
2007.....	224

Source: Washington County Department of Permits and Inspections

Multi-family housing starts in the County were nominal during the same periods.

## Agriculture

Agriculture is an important part of Washington County's economy. Approximately 114,065 of Washington County's 293,223 acres (39%) are considered farmland by the USDA Agricultural Statistical Service. By far the greatest contributors to agriculture are the livestock and dairy industries. Livestock and dairy products account for approximately 78% of the total farm sales.

Washington County is the heart of the fruit industry in Maryland. Apple and peach growers harvest nearly 1,700 acres annually producing approximately 61% of the State's apple crop and 27% of the State's peach crop each year. Dairy is the principal livestock enterprise. The average number of milk cows is 14,000 head, ranking second in the State. In addition to milk and fruit, the other chief agricultural commodities are beef cattle and cereal grains. Selected agricultural statistics for Washington County for calendar year 2007 are as follows:

### Washington County Agriculture Statistics

Number of farms.....	844
Average acres/farm.....	135
Total farm income.....	\$83.7 mil
Livestock income.....	\$63.28 mil
Average income/farm.....	\$99,160

Source: U.S.D.A. Agriculture Census 2007

The U.S.D.A. conducts a census every five years.



## **IV. Financial Information**

### **Accounting System**

The accounts of the County are organized on the basis of funds, each of which is considered a separate fiscal and accounting entity. The financial position and operations of each fund are accounted for with a self-balancing set of accounts, recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

### **Fund Structure**

The revenues and receipts of the County are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent. The various funds are identified in the financial statements of the County. The fund types used by the County are Governmental Funds (General, Special Revenue and Capital Projects), Proprietary Funds (Enterprise and Internal Service) and Fiduciary Funds (Trust and Agency). Details of the County's fund structure are set forth in the notes to the financial statements, which are included in Appendix A to this Official Statement.

The County's general fixed assets and general long-term obligations are reported in the applicable governmental or business-type activity columns in the government-wide financial statements.

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

Basis of accounting refers to the time at which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the County conform to generally accepted accounting principles as applicable to governments.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues 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 for the General Fund, Special Revenue Fund and Capital Projects Fund are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are 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 revenues 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.

Taxpayer-assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

### **Accounting Enterprise System**

The County utilizes an integrated financial, human resource, and budget enterprise system. This enterprise system has a web-based platform that streamlines workflow, which allows the County to automate numerous processes including real-time reporting. All County departments have access to the system for requisitioning, reporting, and inquiries for information concerning accounts and project status at any time. The system provides an excellent means for control of finances, and allows for efficient use of resources. It also promotes accountability by generating timely reports and allowing budgetary controls for management.

## Capital Budget Preparation Software

The County uses a web-based capital budget preparation and monitoring system. It allows all departments and outside agencies to access the system and input their capital budget requests, including funding sources, cost categories and operational costs. The County set up a priority-ranking matrix system within the software. The ranking system is composed of 14 scored and weighted criteria, which is the basis for assigning projects into one of the five priority ranking categories. The ranking system provides management with the information required to make decisions regarding scheduling and funding for each project. The capital budget system provides multiple reporting options and allows for continuous monitoring of activities of existing projects.

## Distinguished Budget Presentation Award

The County received the Distinguished Budget Presentation Award for its 2012 Budget Document from the GFOA. The award is given to those entities that satisfy nationally recognized guidelines for effective budget presentation. Those guidelines are designed to assess how well an entity's budget serves as a policy document, a financial plan, an operations guide, and a communication device. The County has received the award for eight consecutive years. The award reflects the commitment of the County to meet the highest standards in governmental budgeting.

## Budget Process and Schedule

The County's budgetary practices focus on long-term financial planning to ensure that budget decisions are understood over multiple years and to assess whether program and service levels can be sustained over those years. Practices require the development of organizational goals, policies, and procedures to achieve the goals, and making the allocation of resources available to accomplish the goals.

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 phases of the budget process.

### *Financial Capacity and Analysis Phase*

The County develops statistical analysis of major revenue sources through various available resources. The County prepares and annually updates a long-range (five year) financial forecasting system, which includes projections of revenues, expenditures, future costs, and financing of capital improvements that are included in the Capital Improvement Budget, 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, mortgage 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 Landfill Enterprise Funds.

The County annually undertakes a detailed analysis of its financial position. The County then plots and converts its financial position into certain financial ratios and examines its performance trend. Most of the financial trend analysis includes 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 to determine debt capacity and creates ratios, which it compares to the ratios of other counties within its peer group, rating agency standards, and Washington County's historical ratios 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.

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***Budget Development Start***

The development of the budget starts with notice to departments and agencies that the capital and operating budget programs are ready for input. Instructions for completing the budgets, due dates, and updated information on budgetary numbers, personnel positions, and goals are included with the notification.

***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 (the “CIP”) provides a comprehensive approach to planning and impacts all facets of County operations. The County Administrator, the Finance Director, the Planning Director, and the Director of Public Works comprise the Capital Improvements Program Committee (the “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 among 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 in conjunction with the results of the priority ranking system.

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

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

***Review/Modification Phase***

The County Administrator presents the Operating and Capital Improvement Budgets to the Board. Preliminary recommendations are reviewed to ensure that preliminary budgets address the County’s goals and fiscal management policies. The County Administrator and the Finance Director work with the Board on the proposed budget documents for adoption.

***Adoption Phase***

Proposed budgets are voted on by the Board to take to a public hearing to communicate to the general public for all operating and capital funds. Advertisement is disseminated through the local newspaper, handouts, and the County web site. Documents and handouts are prepared for the public.

Public hearings are held on the proposed budgets along with the current tax levy. A 10 day waiting period is held for public comment. Local law requires a balanced budget to be adopted by July 1st.

***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 Board have real-time budgeting reports available on-line, as well as updates on major events and/or issues.

The County’s Operating Budget is adopted at the program/service level and the Capital Improvement Budget is adopted at the project level. Transfers between programs or projects in excess of \$25,000 require Board approval. Any transfer out of contingency requires the approval of the Board.

The Finance Director reviews the project status and revenues before any issuance of debt. Any modification to a project and/or the total debt to be issued based upon this review is required to be approved by the Board either for an increase or decrease in total borrowing amount or for a change in the total borrowing source.

## General Fund Revenues and Expenditures

The General Fund's major function is to provide funding for education, public safety, courts, planning, permits, public works, parks and recreation, general operations, and economic development. The major revenue sources to provide these programs and services for the public are: Real and Personal Property Tax, Income Tax and Recordation Tax. The following table displays the County's General Fund actual revenues and expenditures compared to the final budget for fiscal year 2011, budgeted revenues and expenditures for fiscal year 2012, and the proposed budget for fiscal year 2013.

County Commissioners of Washington County				
Budget Comparison				
General Fund				
Fiscal Years 2011, 2012 and 2013				
	Fiscal Year 2011		Fiscal Year 2012	Fiscal Year 2013
	Final Budget	Actual Amounts	Original Budget <sup>(1)</sup>	Proposed Budget
<b>REVENUES</b>				
Property Tax				
Real Property Tax.....	\$ 112,529,230	\$ 112,692,882	\$ 111,560,210	\$ 109,381,770
Personal Property Tax.....	13,642,880	12,868,276	13,580,270	12,801,340
Property Tax Interest Income.....	510,000	599,714	580,000	580,000
Other Property Tax.....	587,750	821,912	670,640	629,610
Property Tax Discounts, Credits, and Fees.....	(1,461,600)	(1,519,794)	(2,106,590)	(2,390,760)
Total Property Taxes.....	\$ 125,808,260	\$ 125,462,990	\$ 124,284,530	\$ 121,001,960
Other Local Taxes				
Income Tax.....	\$ 59,580,000	\$ 59,279,436	\$ 59,380,000	\$ 61,661,090
Admissions and Amusement Tax.....	390,000	324,210	360,000	325,000
Recordation Tax.....	4,550,000	4,108,107	4,550,000	4,550,000
Trailer Tax.....	425,000	459,335	440,000	440,000
Total Other Local Taxes.....	\$ 64,945,000	\$ 64,171,088	\$ 64,730,000	\$ 66,976,090
Other Revenues				
Licenses and Permits.....	\$ 1,382,450	\$ 1,173,403	\$ 1,304,860	\$ 1,430,100
Court Costs and Fines.....	240,000	164,928	244,400	362,250
Charges for Services.....	403,440	388,337	458,680	303,340
Revenues from Use of Property.....	1,443,960	1,280,462	1,073,700	926,430
Reimbursed Expenses.....	1,104,250	1,063,968	992,050	1,001,870
Miscellaneous Revenues.....	298,260	288,238	1,451,340	1,068,180
Grant and Shared Revenues.....	5,048,789	3,624,317	1,713,790	1,520,800
Highway Revenues <sup>(2)</sup> .....	639,060	1,337,205	8,614,960	8,658,800
Total Other Revenues.....	\$ 10,560,209	\$ 9,320,858	\$ 15,853,780	\$ 15,271,770
TOTAL REVENUES.....	\$ 201,313,469	\$ 198,954,936	\$ 204,868,310	\$ 203,249,820
<b>EXPENDITURES</b>				
General Government.....	\$ 18,933,445	\$ 17,985,815	\$ 20,417,910	\$ 20,234,010
Public Safety.....	36,367,223	34,183,751	33,210,870	34,336,780
Health.....	2,389,270	2,389,270	2,339,270	2,339,270
Social Services.....	2,929,441	2,400,068	1,732,760	1,728,760
Education.....	101,360,380	101,360,380	101,693,900	102,680,080
Parks, Recreation, and Culture.....	5,417,670	5,351,051	5,238,490	5,489,910
Conservation of Natural Resources.....	614,720	541,918	518,390	518,480
Highway <sup>(2)</sup> .....	8,495,080	8,095,183	8,614,960	8,658,800
General Operations.....	399,950	404,532	459,030	423,220
Unallocated Employee Insurance and Benefits.....	2,018,310	1,683,373	1,922,480	1,451,850
Intergovernmental.....	9,265,480	10,073,929	15,362,630	11,159,880
Debt Service.....	13,122,500	13,066,760	13,357,620	14,228,780
TOTAL EXPENDITURES.....	\$ 201,313,469	\$ 197,536,030	\$ 204,868,310	\$ 203,249,820
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ 1,418,906	\$ -	\$ -

Source: Washington County Department of Budget and Finance

(1) Budget revisions are possible until the close of the year on June 30, 2012.

(2) Effective for fiscal years beginning July 1, 2010, the County implemented GASB 54 and the Highway Fund was no longer considered a Special Revenue Fund by definition. Based on this GASB Statement, the Highway Fund was consolidated into the General Fund and is included in the above numbers.

The following table displays the County's General Fund revenues and expenditures for fiscal years 2007 through 2011.

County Commissioners of Washington County					
Statement of Revenues, Expenditures and Changes in Fund Balance					
General Fund					
Year Ended June 30					
	2011	2010	2009	2008	2007
<b>Revenues:</b>					
Taxes, interest and penalties .....	\$ 189,634,078	\$ 191,007,533	\$ 190,257,911	\$ 187,521,785	\$ 180,163,347
Shared taxes and grants .....	4,961,523	6,380,438	4,434,273	4,542,025	5,089,712
Licenses and permits .....	1,173,403	1,221,484	1,478,435	2,037,087	2,093,518
Revenues from use of money and property .....	1,280,462	1,096,492	3,732,024	7,950,234	7,892,305
Charges for services .....	388,337	389,192	428,735	720,672	744,967
Other revenue .....	1,517,133	1,804,558	1,487,826	1,606,602	1,443,695
Total revenues .....	\$ 198,954,936	\$ 201,899,697	\$ 201,819,204	\$ 204,378,405	\$ 197,427,544
<b>Expenditures:</b>					
General government .....	\$ 17,985,815	\$ 18,645,300	\$ 18,401,087	\$ 22,195,697	\$ 16,418,550
Public safety .....	34,183,751	34,105,397	29,072,606	26,893,371	26,266,988
Health .....	2,389,270	2,389,270	2,389,270	2,381,770	2,376,869
Social services .....	2,400,068	3,026,322	2,293,875	2,182,308	1,810,316
Education .....	101,360,380	102,109,070	99,740,838	96,558,230	93,213,430
Recreation and culture .....	5,351,051	5,394,998	5,103,958	4,980,043	4,650,784
Conservation of natural resources .....	541,918	511,966	599,285	543,570	434,861
Intergovernmental .....	38,543	2,026,798	1,945,466	1,860,049	1,600,243
General operations .....	2,087,905	2,064,718	3,890,730	3,022,990	1,134,853
Highway <sup>(1)</sup> .....	8,095,183				
Debt service:					
Principal .....	8,843,224	8,529,813	7,886,698	6,202,564	6,093,931
Interest .....	4,223,536	4,377,912	4,286,588	3,926,404	3,725,788
Total Expenditures .....	\$ 187,500,644	\$ 183,181,564	\$ 175,610,401	\$ 170,746,996	\$ 157,726,613
Excess of revenues over expenditures .....	\$ 11,454,292	\$ 18,718,133	\$ 26,208,803	\$ 33,631,409	\$ 39,700,931
<b>Other financing sources(uses):</b>					
Net bond proceeds .....	\$ -	\$ 30,254	\$ 121,053	\$ -	\$ -
Proceeds of capital leases .....	-	-	-	-	50,000
Operating transfers in .....	-	6,630	-	66,615	-
Operating transfers out .....	(10,035,386)	(18,674,313)	(26,104,971)	(32,769,003)	(36,052,427)
Total other financing sources(uses) .....	\$ (10,035,386)	\$ (18,637,429)	\$ (25,983,918)	\$ (32,702,388)	\$ (36,002,427)
Excess of revenues and other sources over expenditures and other uses .....	\$ 1,418,906	\$ 80,705	\$ 224,885	\$ 929,021	\$ 3,698,504
Consolidation of Highway Fund <sup>(1)</sup> .....	(644,789)	-	-	-	-
Fund balances at beginning of year .....	36,798,797	36,718,092	36,493,207	35,564,186	31,865,682
Fund balance at end of year .....	\$ 37,572,914	\$ 36,798,797	\$ 36,718,092	\$ 36,493,207	\$ 35,564,186
<b>Fund Balance:</b>					
As a percent of revenue .....	18.9%	18.2%	18.2%	17.9%	18.0%
As a percent of expenditures .....	20.0%	20.1%	20.9%	21.4%	22.5%
<b>Unassigned fund balance:</b>					
As a percent of revenue .....	1.9%	0.1%	0.0%	0.0%	0.0%
As a percent of expenditures .....	2.0%	0.1%	0.0%	0.0%	0.0%
<b>Debt Service:</b>					
As a percent of revenue .....	6.6%	6.4%	6.0%	5.0%	5.0%
As a percent of expenditures .....	7.0%	7.0%	6.9%	5.9%	6.2%

Source: Washington County Department of Budget and Finance

(1) Effective for fiscal years beginning July 1, 2010, the County implemented GASB Statement No. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions. Based on this GASB Statement, the Highway Fund did not meet the criteria of a special revenue fund and was consolidated into the General Fund.

## Anticipated Results for Fiscal Year 2012

Fiscal year 2012 final results are not available as of the date of this Official Statement. However, based on current review, the County's two largest revenue sources, real estate and income taxes, are holding to slightly above prior year actual results and the current year budget. All expenditures are in-line with the current budget. Overall the financial results for fiscal year 2012 are expected to end on the positive side, with total revenues in excess of total expenditures.

## Items Impacting Future Budget Years

The Maryland General Assembly adjourned on April 9, 2012. At the time of adjournment, the General Assembly was considering, but did not pass, legislation that would require counties to pay a share of pension costs for local school personnel who are members of the Teachers' Retirement System or the Teachers' Pension System. This pension cost shift, had it occurred, had the potential to impact the County's budget by the end of a proposed phase-in period (three to four years) by an estimated \$4,800,000. The Maryland General Assembly may be called into special session to address State revenue and expenditure issues that could include legislation that would shift a portion of teacher pension costs to the counties. Should a form of this legislation be passed, the County does not anticipate increasing tax rates in fiscal year 2013 to support the shift, though other options are being considered.

The Water and Wastewater Funds are not expected to require a General Fund subsidy after fiscal year 2012, as a result of long-term planning which began in 1997. The County uses a rate model that provides a tool to calculate annual rate increases that are needed to assure adequate funds are available for operations and to build cash reserves. Following the plan on an annual basis has allowed the County to structure rates so that water and wastewater services can be provided beginning in fiscal year 2013 without financial assistance from the General Fund. Between fiscal year 2001 and fiscal year 2012, the County was mandated under a State law to transfer \$2,770,000 from the General Fund to the Water and Wastewater Funds in each year. Such legislative mandate was repealed effective October 1, 2011.

## Sources of Tax Revenue

Ad valorem property taxes, the County's largest source of tax revenues, were 68% of total tax revenues in fiscal year 2010 and 66% in fiscal year 2011. During the same period, income tax revenues as a percentage of all tax revenues were 29.9% of the total tax revenues in fiscal year 2010 and 31.3% in fiscal year 2011. The following table presents the County's tax revenues by source for each of the last five fiscal years as well as the budgeted amounts for fiscal year 2012.

**Tax Revenues by Source**

<b>Fiscal Year Ended June 30</b>	<b>Total Taxes</b>	<b>Local Property Taxes<sup>(1)</sup></b>	<b>Local Income Taxes</b>	<b>Other Local Taxes<sup>(2)</sup></b>
Budgeted 2012	\$189,014,530	\$124,284,530	\$59,800,000	\$ 4,930,000
2011	189,634,078	125,462,990	59,279,436	4,891,652
2010	191,007,533	129,232,852	57,025,046	4,749,635
2009	190,257,911	121,717,428	63,540,483	5,506,605
2008	187,521,785	112,455,338	66,257,074	8,809,373
2007	180,163,347	101,968,710	66,488,879	11,705,758

Source: Washington County Department of Budget and Finance

(1) Includes payments in lieu of taxes, additions and abatements, interest on taxes, discounts on taxes and tax credits for the elderly and disabled.

(2) Includes trailer court fees, recordation taxes, admission and amusement taxes and hotel/motel taxes.

## Local Property Taxes

Property valuations and assessments are determined by the Maryland State Department of Assessments and Taxation, which maintains local offices in Baltimore City and each county. For State and County real property tax purposes real property is valued at full cash value ("Value"). All property is physically inspected once every three years and any increase in Value arising from such inspection is phased in over the ensuing three taxable years in equal annual installments.

For the tax year beginning July 1, 2001, property tax rates were applied to 100% of the value of real property. The County and municipal rates applicable to all personal property and operating real property of public utilities are 2.5 times the property tax rate for real property.

Tangible personal property is generally assessed at cost, less depreciation for each year held to a minimum of 25%. For most categories of personal property, depreciation is 10% per year subject to the minimum assessment of 25% of cost.

State law provides a credit against State, local and municipal real property taxes on certain owner-occupied residential property. The tax credit for each tax year is computed by multiplying the State, local or municipal real property tax rate by the amount by which (i) the current year's assessment on residential property exceeds (ii) the homestead percentage multiplied by the previous year's assessment. The State homestead percentage is 110%. The counties and municipalities set their own respective homestead percentage, but the credit percentage may not exceed 110% for any taxable year. The County adopted a homestead percentage of 105% effective July 1, 2007.

The State also provides a tax credit based on the ability of homeowners to pay property taxes. The credit is calculated by use of a scale, which indicates a maximum tax liability for various income levels. This tax credit for local property taxes for Washington County for fiscal year 2011 was \$1,692,922 and the credit for fiscal year 2012 is budgeted at \$1,614,809.

Pursuant to State law, the Board may grant a property tax credit against the County property tax imposed on, among other categories of property, certain property owned by nonprofit civic associations and real property that is subject to the County's agricultural land preservation program. Manufacturing and commercial inventories of businesses are exempt from County tax.

### Assessed Value, Tax Rates and Tax Levy

The following table sets forth the assessed value of all taxable property in Washington County for each of its five most recent fiscal years and the County and State tax rate applicable in each of those years. Assessed value of tax-exempt properties owned by Federal, State and County governments, churches, schools, fraternal organizations, cemeteries, disabled veterans and the blind, aggregating \$1,802,289,873 for the fiscal year ended June 30, 2011, is not included in the table. Under applicable law, there is no limit to the total tax levy for property taxes. In the opinion of the County, the tax rate established by it for each fiscal year, when applied to the property subject thereto, is sufficient to provide revenues to discharge the County's obligations to pay principal and interest maturing on its outstanding general obligation indebtedness in each fiscal year.

#### Assessments and Tax Rates of all Property by Class Fiscal Years Ended June 30 (Stated in Thousands)

	2011	2010	2009	2008	2007
Real property .....	\$13,650,208	\$14,283,690	\$13,202,837	\$11,349,194	\$9,569,982
Personal property:					
Railroads and public utilities .....	168,373	175,109	184,446	184,308	184,463
Business corporations .....	379,500	401,772	391,800	398,020	387,085
Total property	<u>\$14,198,081</u>	<u>\$14,860,571</u>	<u>\$13,779,083</u>	<u>\$11,931,522</u>	<u>\$10,141,530</u>
County tax rate (per \$100 assessed value)	\$0.948	\$0.948	\$0.948	\$0.948	\$0.948
State tax rate (per \$100 assessed value)	0.112	0.112	0.112	0.112	0.112

Source: Maryland State Department of Assessments and Taxation

There were no changes to the property tax rates for the County or the State in fiscal year 2012. As of the date of this Official Statement, there are no proposed changes to the County or State property tax rates for fiscal year 2013.

**Market Value**

The change in market value of property in Washington County over the last five years is illustrated in the following table.

**Market Value Trend**  
(Stated in Thousands)

<b>Fiscal Year Ending June 30</b>	<b>Market Value</b>	<b>Percentage Increase/(Decrease)</b>
2011	\$14,198,081	(4.5)
2010	14,860,571	7.8
2009	13,779,083	15.5
2008	11,931,522	17.7
2007	10,141,530	14.5

Source: Maryland State Department of Assessments and Taxation

**Tax Collection**

County taxes are due and payable as of July 1. Delinquent taxes are collected after nine months of delinquency by tax sales conducted by the County Treasurer, selling either real or personal property. Historically, the County has conducted tax sales on an annual basis.

The following table sets forth certain pertinent information with respect to the County's tax levies and tax collections for each of its five most recent fiscal years.

<b>Fiscal Year Ending June 30</b>	<b>Taxes Collected in Year of Levy</b>			<b>Total Taxes Collected (Current and Delinquent)</b>		<b>Taxes Receivable as a Percentage of Total Taxes Collected</b>	
	<b>Taxes Levied</b>	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>	<b>Taxes Receivable</b>	
2011	\$ 127,163,603	\$ 126,537,616	99.51	\$ 128,579,492	101.11	\$ 1,023,256	0.80
2010	131,684,166	129,501,507	98.34	129,767,019	98.54	2,439,147	1.88
2009	122,217,894	121,926,911	99.76	122,561,057	100.28	522,000	0.43
2008	113,038,344	112,371,965	99.41	113,009,423	99.97	865,162	0.77
2007	102,822,585	102,364,488	99.55	102,755,872	99.94	458,097	0.45

Source: Washington County Department of Budget and Finance



**Principal Taxpayers**

The 20 largest taxpayers in the County as of June 30, 2011, ranked by assessed value, are listed below.

<b>Name of Taxpayer</b>	<b>Assessed Value</b>	<b>Percentage of Assessed Value</b>
PR Valley Lmt'd Partnership (Valley Mall).....	\$ 100,843,746	
Outlet Village of Hagerstown LLC .....	92,734,566	
254 Hagerstown LLC (Citi).....	70,913,210	
Potomac Edison.....	65,456,230	
Bowman Group LLP.....	64,810,460	
Verizon-Maryland.....	62,900,710	
Fed EX Ground Package System Inc .....	58,120,056	
Staples of Maryland LLC .....	41,716,700	
Lowes Home Centers Inc.....	41,592,060	
GP Hagerstown Limited PTSP (First Data).....	40,244,232	
	<b>Sub-total</b>	<b>4.50%</b>
	<b>\$ 639,331,970</b>	
Mack Trucks Inc.....	\$ 29,842,530	
Rappaport, Jerome L. Jr (TruServ).....	28,325,300	
FR Hagerstown LLC (Lippincott & PetSmart).....	24,576,132	
WalMart Real Estate Business Trust.....	23,202,100	
Tractor Supply Company.....	23,146,412	
Bowman Railway.....	22,736,900	
WalMart Stores Inc.....	19,986,960	
Columbia Gas of Maryland.....	17,773,950	
Dot Foods Inc.....	17,127,100	
Bowman 2000.....	16,588,590	
	<b>Total</b>	<b>6.08%</b>
	<b>\$ 862,637,944</b>	

Source: Washington County Treasurer's Office

The information set forth above was compiled from tax rolls on which the names and owners are not always recorded in the same way.

**Local Income Tax**

Effective January 1, 2010, the personal State income tax rates for Maryland residents start at 2% on the first \$1,000 of taxable income and increase up to a maximum of 5.50% on incomes exceeding \$500,000. Pursuant to State law, each county and Baltimore City must levy a local income tax at the rate of at least 1.25%, but not more than 3.20%, of the State income tax liability of individuals domiciled in their respective jurisdictions.

The County currently levies a local income tax on Washington County residents at the rate of 2.8%. The County does not levy a local income tax on corporations.

**Other Local Taxes and Revenues**

In addition to general property taxes and income taxes, the County levies and collects miscellaneous taxes, the largest of which is the recordation tax on instruments conveying title to property and securing debt. Revenues from this tax in the fiscal year ended June 30, 2011 were \$4,108,107. The County also receives revenues from the amusement and admission tax and the trailer tax. Another significant source of local revenue is generated from the issuance of building and other permits. Revenues from all these sources, including recordation taxes, in the fiscal year ended June 30, 2011 were approximately \$6,062,055.

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***State and Federal Financial Assistance*****State Payment of Public School Capital Construction Costs**

Pursuant to State law, the State pays certain costs in excess of available Federal funds of all public school construction projects and public school capital improvements if the Board of Public Works approves the projects or improvements. The cost of acquiring land is not a construction cost that will be paid by the State.

The Board of Public Works is empowered to define by regulation what shall constitute an approved construction or capital improvement cost and to adopt rules, regulations, and procedures for program administration. Program regulations limit the amount of construction costs paid by the State by instituting a maximum State project allocation for each school construction project funded through the program. Under the formula, the State's share is computed by applying the applicable percentage to the eligible portion of school construction costs. For the County, the maximum State share will equal 71% of approved construction costs.

**State and Federal Grants**

During the County's fiscal year ended June 30, 2011, an aggregate of \$5,925,846 in Federal and State funds was received by all County departments for use in operations. The largest single categorical source was a Federal and State grant for \$668,723, which was for the Small Urban Area Public Transportation Grant. The County also received a total of \$10,646,360 in Federal and State funds for capital projects in the fiscal year ended June 30, 2012. The County projects that \$5,122,585 in Federal and State funds will be received in fiscal year 2012 for operations and \$9,300,000 in Federal and State funds will be received for capital projects.

During the fiscal year ended June 30, 2011, the Board of Education received \$136,794,141 in State funds and \$31,057,543 in Federal funds for operating and food service expenses. In fiscal year 2012, the Board of Education anticipates receiving \$153,134,327 in State funds and \$21,874,953 in Federal funds for operations.

## General Fund Balance Sheet

The following table indicates the County's General Fund balance sheet for each of the five most recent fiscal years.

### County Commissioners of Washington County

#### Balance Sheet General Fund

As of June 30

	2011 <sup>(1)</sup>	2010	2009	2008	2007
<b>ASSETS</b>					
Cash and short-term investments .....	\$ 42,231	\$ 41,556	\$ 35,563	\$ 51,493	\$ 51,772
Investment in U.S. Government					
Agency Securities .....	157,231,094	135,815,730	150,876,572	155,177,620	144,493,760
Property taxes receivable (net) .....	396,186	1,973,862	190,614	565,826	305,594
Accounts receivable .....	499,021	631,754	213,816	492,171	618,522
Due from other funds .....	125,943	227,672	325,372	419,220	627,145
Due from other governments .....	19,014,127	20,289,733	28,216,883	31,509,019	29,718,435
Inventories .....	675,242	32,801	43,296	40,348	25,737
Other assets .....	921,702	817,562	814,206	1,615,153	2,443,890
Total assets .....	<u>\$ 178,905,546</u>	<u>\$ 159,830,670</u>	<u>\$ 180,716,322</u>	<u>\$ 189,870,850</u>	<u>\$ 178,284,855</u>
<b>LIABILITIES</b>					
Accounts payable .....	\$ 1,707,908	\$ 1,298,727	\$ 1,744,186	\$ 3,420,090	\$ 3,267,636
Accrued expenses .....	1,018,396	3,325,481	1,737,431	1,458,013	1,353,756
Liabilities on unpaid claims .....	1,961,141	1,743,984	2,535,158	2,800,000	2,500,000
Due to other funds .....	122,242,678	100,396,027	113,650,265	118,230,707	108,011,998
Deferred revenue .....	12,630,582	14,130,595	21,361,282	23,248,827	20,714,576
Other liabilities .....	1,771,927	2,137,059	2,969,908	4,220,006	6,872,703
Total liabilities .....	<u>\$ 141,332,632</u>	<u>\$ 123,031,873</u>	<u>\$ 143,998,230</u>	<u>\$ 153,377,643</u>	<u>\$ 142,720,669</u>
<b>FUND EQUITY</b>					
Reserved fund balances:	\$ -	\$ 644,200	\$ 920,602	\$ 1,215,442	\$ 1,592,448
Unreserved fund balances:					
Designated	-	35,892,760	35,797,490	35,277,765	33,971,738
Undesignated	-	261,837	-	-	-
Total fund equity .....	<u>\$ -</u>	<u>\$ 36,154,597</u>	<u>\$ 35,797,490</u>	<u>\$ 35,277,765</u>	<u>\$ 33,971,738</u>
Total liabilities and fund equity .....	<u>\$ -</u>	<u>\$ 159,830,670</u>	<u>\$ 180,716,322</u>	<u>\$ 189,870,850</u>	<u>\$ 178,284,855</u>
Nonspendable .....	\$ 77,777				
Restricted .....	539,434				
Committed .....	33,246,307				
Assigned .....	22,181				
Unassigned .....	3,687,215				
Total fund equity .....	<u>\$ 37,572,914</u>				
Total liabilities and fund equity .....	<u>\$ 178,905,546</u>				

Source: Washington County Department of Budget and Finance

(1) Effective for fiscal years beginning July 1, 2010, the County implemented GASB Statement No. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions. Based on this GASB Statement, the fund balances for the General Fund were reclassified. Also, the Highway Fund did not meet the criteria of a special revenue fund and was consolidated into the General Fund.

## Key Financial Statistics

### *General Fund Cash Reserves and Fund Balance*

The following table illustrates the ratio of the General Fund fund balance as a percentage of total revenues for the last five fiscal years. Also included in the table are the ratios of cash reserves as a percentage of General Fund revenues. It is the intention of the County to maintain a minimum reserve level of 17 percent, which represents 60 days of working capital. It is anticipated that the County will meet or exceed the 17 percent reserve level in fiscal year 2012.

<b>Fiscal Year</b>	<b>Revenues</b>	<b>Fund Balance</b>	<b>Fund Balance as Percentage of Revenues</b>	<b>Reserves as Percentage of Revenues</b>
2007	\$197,427,544	\$ 35,564,186	18.01	17.02
2008	204,378,405	36,493,207	17.86	17.18
2009	201,819,204	36,718,092	18.19	17.60
2010	201,899,697	36,798,797	18.23	17.90
2011	198,954,936	37,572,914	18.89	18.56

Source: Washington County Department of Budget and Finance

### *Use of Year-End Surplus*

The table below shows the disposition of the General Fund's year-end surplus for fiscal years 1997 to 2011. In each fiscal year, part of the surplus was used to increase reserves. In addition to the increase in reserves, the surplus was used to fund capital projects, except in fiscal years 2009, 2010 and 2011. In those three years, pay go funds were reduced from the amounts originally budgeted.

### **Disposition of Year-End Surplus History (Fiscal Years 1997-2011)**

<b>Fiscal Year</b>	<b>Increase in Reserves</b>	<b>Increase/(Reduction) In Pay Go Funding for CIP</b>
1997	\$ 2,427,954	\$ 2,300,000
1998	1,997,846	3,100,000
1999	997,514	2,124,556
2000	431,506	3,400,000
2001	830,448	1,372,868
2002	1,075,946	1,412,756
2003	2,854,411	- 0 -
2004	3,953,712	2,600,000
2005	4,444,725	8,499,770
2006	6,021,624	10,730,260
2007	3,698,504	19,807,100
2008	929,021	7,780,790
2009	224,885	(1,500,000)
2010	80,705	(5,000,000)
2011	774,117	(800,000)

Source: Washington County Department of Budget and Finance

## V. Debt and Capital Requirements

### Debt Management Policy

The County adheres to its Debt Management Policy (the “DM Policy”), which sets forth the parameters for issuing new debt and managing outstanding debt. The DM Policy’s primary objective is to establish conditions for the use of debt and create procedures that minimize debt service and issuance costs, retain the highest credit rating, and maintain full and complete financial disclosure and reporting. The DM Policy addresses such things as: use of debt financing, capital planning, debt affordability measures, types of debt, and method of sale. Adherence to the DM Policy helps to ensure that the County maintains sound debt position and that credit quality is protected.

### General Obligation and Revenue Bonds

The County may only issue general obligation and revenue bonds under authority conferred by the Maryland General Assembly. No referendum is required.

The County is authorized to issue short-term tax anticipation notes to meet any estimated current fiscal year cumulative cash flow deficit. Such notes must be repaid within six months of their date of issue. The County has no short-term notes outstanding at this time. As of June 1, 1999 the County may use a line-of-credit for \$5,000,000 to meet a temporary cash flow deficit. The County has not used the line-of-credit as of this date.

The County may issue economic development revenue bonds under State law, which provides that such bonds shall not constitute an indebtedness or charge against the general credit or taxing power of the County. Pursuant to the County Code, the County may authorize long-term debt in the form of an installment purchase contract to pay for development rights or make certain other payments in connection with the Agricultural Land Preservation Program.

The County may issue general obligation bonds in an amount up to \$80,000,000 pursuant to Chapter 392. The principal amount of bonds issued pursuant to Chapter 392 at June 2011 was \$40,094,178. The unused authorization available under Chapter 392 prior to the issuance of the Bonds is \$39,905,822.

The County is authorized by State law to issue its bonds for the purpose of refunding any of its outstanding bonds, including the payment of any redemption premium and interest accrued to the date of redemption, purchase or maturity of the bonds being refunded.

As part of the annual budget process, an Annual Debt Affordability Analysis is prepared by the Finance Department. It is an effective tool for debt planning and management.

The Solid Waste operation was classified as a fund separate from the Highway Fund in 1996. It has paid for debt from generated revenues since that time. In 2002, the County reclassified the Solid Waste Fund as an enterprise fund. The debt paid out of revenues generated by that fund is considered self-supporting debt. In 2011, the County implemented GASB Statement No. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions. Based on this GASB Statement, the Highway Fund did not meet the criteria of a special revenue fund and was consolidated into the General Fund.

The following table sets forth the amount of the County’s general obligation bonded debt issued and outstanding as of June 30, 2011, exclusive of certain water and sewer bonds (see “Water and Sewer Bonds” herein). Outstanding bonds do not include those maturities of the Public Improvement Bonds of 2002 and 2003 for the payment of which non-callable direct obligations of the United States have been placed in escrow. Outstanding amounts have not been adjusted for discounts or premiums.

**Statement of General Obligation Bonded Debt  
Issued and Outstanding\*  
As of June 30, 2011**

	Date of Issue	Amount Issued	Amount Outstanding				
			General Fund	Solid Waste Fund	Airport Fund	Highway Fund	Total
Public Improvement Bonds .....	Mar 2002	10,700,000	972,833	7,167	-	-	980,000
Refunding Bonds .....	Mar 2002	11,085,000	4,034,945	365,055	-	-	4,400,000
Public Improvement Bonds .....	Jan 2003	7,450,000	4,104,614	50,386	-	-	4,155,000
Public Improvement and Refunding Bonds..	Oct 2003	16,570,000 <sup>(1)</sup>	7,049,268	355,732	615,000	-	8,020,000
Public Improvement Bonds .....	June 2005	30,740,000	21,636,147	643,853	-	-	22,280,000
Public Improvement Bonds .....	Mar 2006	10,500,000	8,540,000	-	-	-	8,540,000
Runway Extension Project Bonds .....	Mar 2006	15,000,000	-	-	12,225,000	-	12,225,000
Public Improvement Bonds .....	May 2007	16,000,000	11,941,324	2,433,676	-	-	14,375,000
Public Improvement Bonds .....	June 2008	18,539,530 <sup>(2)</sup>	13,712,954	-	-	2,647,368	16,360,322
Public Improvement and Refunding Bonds..	June 2009	18,371,300 <sup>(3)</sup>	13,186,291	2,926,606	-	-	16,112,897
Public Improvement Series A Bonds .....	May 2010	6,992,993 <sup>(4)</sup>	5,009,887	1,983,106	-	-	6,992,993
Taxable Build America Series B Bonds .....	May 2010	9,711,007 <sup>(5)</sup>	6,957,113	2,753,894	-	-	9,711,007
Public Improvement and Refunding Bonds..	May 2010	13,790,000	10,480,555	3,309,445	-	-	13,790,000
Public Improvement Bonds .....	May 2011	14,170,000	10,949,900	3,220,100	-	-	14,170,000
Maryland Industrial & Commercial Redev....	July 1992	1,906,692	-	-	790,811	-	790,811
Maryland Industrial Land Act Loan .....	Feb 1996	926,125	-	-	607,652	-	607,652
MWQFA <sup>(6)</sup> Financing Cell 3 .....	Nov 2004	2,498,427	-	1,877,136	-	-	1,877,136
MWQFA <sup>(6)</sup> Solid Waste Refinancing .....	Feb 2005	7,248,761	1,755,596	4,823,164	-	-	6,578,760
MWQFA <sup>(6)</sup> Resh Road Cap Phase I .....	Dec 2006	5,000,000	4,271,137	-	-	-	4,271,137
		<u>\$ 217,199,835</u>	<u>\$ 124,602,564</u>	<u>\$ 24,749,320</u>	<u>\$ 14,238,463</u>	<u>\$ 2,647,368</u>	<u>\$ 166,237,715</u>

Source: Washington County Department of Budget and Finance

\* Exclusive of Water and Sewer bonded debt.

(1) Total issue amount for all County funds was \$19,750,000.

(2) Total issue amount for all County funds was \$19,950,000.

(3) Total issue amount for all County funds was \$22,130,000.

(4) Total issue amount for all County funds was \$ 7,860,000.

(5) Total issue amount for all County funds was \$10,915,000.

(6) Maryland Water Quality Financing Administration.

## Water and Sewer Bonds

Pursuant to the Water and Sewer Act, the County is authorized to issue bonds secured by the full faith and credit and unlimited taxing power of the County to provide funds for the design, construction, establishment, purchase and condemnation of water systems, sewerage systems and surface water drainage systems in the service areas created by the County. To the extent that the special assessments and other charges imposed by the County with respect to a certain project are insufficient to pay that portion of the principal of and interest on any such bonds attributable to the cost of a project, the County is obligated to levy and to collect a tax upon all property subject to unlimited County taxation within the corporate limits of Washington County in rate and amount sufficient to provide funds as may be necessary to provide for the payment of such portion of the principal and interest as it becomes due.

By State law, the total bonded indebtedness of the County for these purposes, including bonded indebtedness previously issued by the former Washington County Sanitary District, may not exceed 25% of the assessed value of all property in Washington County subject to unlimited County taxation. At the time the State law was enacted the assessed value was equal to 40% of market value. Pursuant to legislation passed by the Maryland General Assembly, real property assessment law was altered to reflect the full market value assessments. Therefore, to maintain the intent of the State law, 25% of the 40% previous reduction of assessed value, or 10%, is used to calculate the legal debt margin.

The following table sets forth the amount of the County's water and sewer debt issued and outstanding as of June 30, 2011. Outstanding amounts have not been adjusted for discounts or premiums. Debt subject to the Water and Sewer Act is referred to as "Water and Sewer" debt herein.

**Statement of Water and Sewer Bonded Debt  
Issued and Outstanding  
As of June 30, 2011**

	<u>Date of Issue</u>	<u>Issued</u>	<u>Outstanding</u>
Series A Bonds .....	June 1996	\$ 9,606,968	\$ 5,274,827
Public Improvement Bonds.....	June 2008	1,410,470 <sup>(1)</sup>	1,244,678
Public Improvement & Refunding Bonds.....	June 2009	3,758,700 <sup>(2)</sup>	3,432,103
Public Improvement Series A Bonds.....	May 2010	867,007	867,007
Taxable Build America Series B Bonds.....	May 2010	1,203,993	1,203,993
MWQFA <sup>(3)</sup> Loan .....	May 1993	10,222,550	225,976
MWQFA <sup>(3)</sup> Loan .....	Mar 2000	3,620,697	1,941,804
MWQFA <sup>(3)</sup> Loan .....	May 2004	10,750,000	4,715,000
MWQFA <sup>(3)</sup> Loan .....	May 2004	8,091,063	5,146,063
MWQFA <sup>(3)</sup> Loan .....	Oct 2006	560,000	456,734
		<u>\$ 50,091,448</u>	<u>\$ 24,508,185</u>

Source: Washington County Department of Budget and Finance

(1) Total issue amount for all County funds was \$19,950,000.

(2) Total issue amount for all County funds was \$22,130,000.

(3) Maryland Water Quality Financing Administration.

**Water and Sewer Bonded Debt  
Schedule of Legal Debt Margin  
As of June 30, 2011**

Assessed Value of Property in Washington County	\$14,198,081,000
Debt Limit: % of Assessed Value <sup>(1)</sup>	10%
Water and Sewer Borrowing Limitation	1,419,808,100
Water and Sewer Debt	24,508,185
Debt Margin	1,395,299,915
Ratio of Water and Sewer Debt to Assessed Value	.17%

Source: Washington County Department of Budget and Finance

<sup>(1)</sup> Reduced from 25% to 10% - see "Water and Sewer Bonds" herein.

### Capital Lease Obligations and Other Contracts

The County has entered into several five-year capital lease agreements. The outstanding balance of these obligations as of June 30, 2011 was \$176,624. The lease agreements are primarily for heavy-duty equipment. The leases have been recorded as capital leases in the appropriate County funds in the financial statements.

In addition to contracts for goods and services incurred in the ordinary course of business of the County, the County is party to numerous other contracts, primarily with engineers, architects and contractors relating to capital projects. Funds necessary to meet the County's obligations in respect to such contracts have been appropriated in the related fund.

## Special Obligation Bonds

Certain Maryland counties, including Washington County, may create special taxing districts, levy ad valorem or special taxes and borrow money by issuing and selling bonds for the purpose of financing the cost of the design, construction, establishment, extension, alteration or acquisition of adequate storm drainage systems, sewers, water systems, roads, bridges, culverts, tunnels, streets, sidewalks, lighting, parking, parks and recreation facilities, libraries, schools, transit facilities, solid waste facilities and other infrastructure improvements, whether situated within or outside the special taxing district, and including infrastructure improvements located in or supporting a transit-oriented development or a State hospital development (within the meaning of the State law). The bonds shall be payable solely from the ad valorem or special taxes levied on the property within the special taxing district and neither the bonds, nor any interest thereon, shall ever constitute an indebtedness or a charge against the general credit or taxing powers of the County.

The County has approved one "Request for Creation of a Special Taxing District and Related Actions" from the owners of certain real property located in Washington County. In June 1998, November 1998 and May 2000 the County issued its \$3,100,000, \$1,517,000 and \$2,454,000 Washington County, Maryland Special Obligation Bonds (Barkdoll Tract Special Taxing District) Series 1998, Series 1998 B and Series 2000, respectively.

## Bonded Indebtedness of Incorporated Municipalities

Eight of the nine incorporated municipalities of Washington County have outstanding indebtedness estimated to be \$80,960,844 as of June 30, 2011. The County is not obligated to pay such debt or the interest thereon and neither the faith and credit nor taxing power of the County is pledged to the payment of principal or interest on such indebtedness.

### County Commissioners of Washington County Outstanding Underlying Debt As of June 30, 2011

Towns	Amount
Boonsboro.....	\$10,875,485
Clear Spring.....	990,021
Funkstown.....	1,650,169
Hagerstown.....	63,737,506
Hancock.....	2,033,299
Keedysville.....	1,922,000
Smithsburg.....	951,988
Williamsport.....	722,376
Total	<u>\$80,960,844</u>

Source: Washington County Department of Budget and Finance



## Direct and Underlying Debt

The following schedules present the County's bonded debt outstanding as of June 30, 2011, and the ratios of such debt to the County's population and real and personal property assessed market values.

**County Commissioners of Washington County**  
**Direct and Overall Bonded Debt**  
**As of June 30, 2011**  
**(Excludes this Issue)**

Direct Debt - Tax-Supported:		
General Government Debt (1).....	\$	127,249,932
Direct Debt - Self-Supported:		
Solid Waste (2).....		24,749,320
Water and Sewer (2).....		24,508,185
Airport (2).....		14,238,463
Total Direct Debt.....		190,745,900
Underlying Debt.....		80,960,844
Overall Bonded Debt.....	\$	271,706,744

Source: Washington County Department of Budget and Finance  
(1) Includes Highway debt which is currently considered tax-supported.  
(2) Solid Waste, Airport, and Water and Sewer debt are considered self-supporting.

**Washington County, Maryland**  
**Debt Per Capita and Ratio of Debt to Assessed Values**  
**As of June 30, 2011**  
**(Excludes this Issue)**

Per Capita (Estimated Population 149,560):

Direct Tax-Supported Debt (1).....	\$	851
Overall Bonded Debt.....	\$	1,817

Percentage of Assessed Value of \$14,198,081,000:

Direct Tax-Supported Debt (1).....	0.90%
Overall Bonded Debt.....	1.91%

Source: Washington County Department of Budget and Finance  
(1) Includes Highway debt which is currently considered tax-supported.

The following table presents the County's direct tax-supported debt per capita and ratios of direct tax-supported debt to assessed value for the last five fiscal years.

<b>Fiscal Year Ended June 30</b>	<b>Direct Tax- Supported Debt (000)</b>	<b>Estimated Population (000)</b>	<b>Assessed Value (000)</b>	<b>Per Capita</b>	<b>Direct Tax-Supported Debt As a Percentage of Assessed Value</b>
2011	\$127,250	150	\$14,198,081	150	.90
2010	125,143	148	14,860,571	847	.84
2009	123,273	148	13,779,083	836	.89
2008	119,888	146	11,931,522	821	1.00
2007	111,214	145	10,141,530	767	1.10

Source: Washington County Department of Budget and Finance

### Debt Service Requirements on County Debt

The following tables set forth the debt service requirements for the County's general obligation bonded debt as of June 30, 2011, adjusted to reflect issuance of the Bonds, and the rapidity of repayment for the County's direct tax-supported debt.

Washington County Schedule of Debt Service  
Requirements on Long-term Obligations  
As of June 30, 2011  
Adjusted to Relect Issuance of Bonds\*

Year Ending June 30	Tax-Supported Debt Service**			Self-Supporting Debt Service**			Total Debt Service**		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 9,325,997	\$ 4,440,151	\$ 13,766,148	\$ 4,703,741	\$ 2,293,008	\$ 6,996,749	\$ 14,029,738	\$ 6,733,159	\$ 20,762,897
2013	9,813,102	3,972,897	13,785,999	4,855,879	2,256,733	7,112,612	14,668,981	6,229,630	20,898,611
2014	9,225,290	3,625,427	12,850,717	4,808,319	2,237,195	7,045,514	14,033,609	5,862,622	19,896,231
2015	8,888,644	3,315,020	12,203,664	4,680,387	2,244,519	6,924,906	13,569,031	5,559,539	19,128,570
2016	8,041,384	2,986,402	11,027,786	3,772,545	2,691,161	6,463,706	11,813,929	5,677,563	17,491,492
2017	7,742,134	2,701,975	10,444,109	3,793,574	2,649,008	6,442,582	11,535,708	5,350,983	16,886,691
2018	6,945,719	2,420,848	9,366,567	4,292,481	2,607,069	6,899,550	11,238,200	5,027,917	16,266,117
2019	6,223,884	2,169,863	8,393,747	4,870,862	2,543,809	7,414,671	11,094,746	4,713,671	15,808,417
2020	6,237,182	1,951,619	8,188,801	4,386,262	2,476,577	6,862,839	10,623,444	4,428,196	15,051,640
2021	6,160,705	1,727,408	7,888,113	3,094,600	693,491	3,788,091	9,255,305	2,420,899	11,676,204
2022	5,676,964	1,522,484	7,199,448	3,228,653	608,515	3,837,168	8,905,617	2,130,999	11,036,616
2023	5,513,408	1,332,476	6,845,884	3,395,569	524,786	3,920,355	8,908,977	1,857,261	10,766,238
2024	5,435,906	1,137,786	6,573,692	2,275,020	436,292	2,711,312	7,710,926	1,574,078	9,285,004
2025	5,655,219	935,665	6,590,884	2,297,796	353,018	2,650,814	7,953,015	1,288,682	9,241,697
2026	5,079,441	722,802	5,802,243	2,270,462	266,124	2,536,586	7,349,903	988,926	8,338,829
2027	4,509,056	529,405	5,038,461	1,238,998	175,133	1,414,131	5,748,054	704,538	6,452,592
2028	4,393,987	358,312	4,752,299	1,256,010	128,583	1,384,593	5,649,997	486,895	6,136,892
2029	2,198,407	201,529	2,399,936	996,595	83,987	1,080,582	3,195,002	285,516	3,480,518
2030	1,476,280	116,428	1,592,708	648,720	45,885	694,605	2,125,000	162,313	2,287,313
2031	1,532,008	60,027	1,592,035	672,992	21,592	694,584	2,205,000	81,619	2,286,619
2032	757,296	15,619	772,915	222,703	4,594	227,297	979,999	20,213	1,000,212
2033	-	-	-	-	-	-	-	-	-
	<u>\$ 120,832,013</u>	<u>\$ 36,244,143</u>	<u>\$ 157,076,156</u>	<u>\$ 61,762,168</u>	<u>\$ 25,341,077</u>	<u>\$ 87,103,245</u>	<u>\$ 182,594,181</u>	<u>\$ 61,585,220</u>	<u>\$ 244,179,401</u>

Source: Washington County Department of Budget and Finance

\* Totals may not foot due to rounding.

\*\* Reflects refunding of 2003 and 2003A Bonds, and payoff of 1991 MICRF and 1993 MILA loans.

Washington County Schedule of Debt Service  
Requirements of Long-term Obligations

As of June 30, 2011

Adjusted to Reflect Issuance of the Bonds\*

Year Ending June 30	Outstanding Debt Service**			Bonds			Total Debt Service**		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 14,029,738	\$ 6,733,159	\$ 20,762,897	\$ -	\$ -	\$ -	\$ 14,029,738	\$ 6,733,159	\$ 20,762,897
2013	14,668,981	6,229,630	20,898,611	275,000	460,183	735,183	14,943,981	6,689,813	21,633,794
2014	14,033,609	5,862,622	19,896,231	1,200,000	751,538	1,951,538	15,233,609	6,614,160	21,847,769
2015	13,569,031	5,559,539	19,128,570	1,230,000	727,337	1,957,337	14,799,031	6,286,876	21,085,907
2016	11,813,929	5,677,563	17,491,492	1,590,000	702,487	2,292,487	13,403,929	6,380,050	19,783,979
2017	11,535,708	5,350,983	16,886,691	1,465,000	661,438	2,126,438	13,000,708	6,012,421	19,013,129
2018	11,238,200	5,027,917	16,266,117	1,530,000	624,287	2,154,287	12,768,200	5,652,204	18,420,404
2019	11,094,746	4,713,671	15,808,417	1,560,000	583,550	2,143,550	12,654,746	5,297,221	17,951,967
2020	10,623,444	4,428,196	15,051,640	1,635,000	522,163	2,157,163	12,258,444	4,950,359	17,208,803
2021	9,255,305	2,420,899	11,676,204	1,695,000	464,188	2,159,188	10,950,305	2,885,087	13,835,392
2022	8,905,617	2,130,999	11,036,616	1,270,000	403,025	1,673,025	10,175,617	2,534,024	12,709,641
2023	8,908,977	1,857,261	10,766,238	1,320,000	359,037	1,679,037	10,228,977	2,216,298	12,445,275
2024	7,710,926	1,574,078	9,285,004	1,305,000	314,463	1,619,463	9,015,926	1,888,541	10,904,467
2025	7,953,015	1,288,682	9,241,697	915,000	270,662	1,185,662	8,868,015	1,559,344	10,427,359
2026	7,349,903	988,926	8,338,829	945,000	242,763	1,187,763	8,294,903	1,231,689	9,526,592
2027	5,748,054	704,538	6,452,592	980,000	213,887	1,193,887	6,728,054	918,425	7,646,479
2028	5,649,997	486,895	6,136,892	1,010,000	184,038	1,194,038	6,659,997	670,933	7,330,930
2029	3,195,002	285,516	3,480,518	1,045,000	153,212	1,198,212	4,240,002	438,728	4,678,730
2030	2,125,000	162,313	2,287,313	1,080,000	121,337	1,201,337	3,205,000	283,650	3,488,650
2031	2,205,000	81,619	2,286,619	1,115,000	88,413	1,203,413	3,320,000	170,032	3,490,032
2032	979,999	20,213	1,000,212	1,150,000	54,437	1,204,437	2,129,999	74,650	2,204,649
2033	-	-	-	1,190,000	18,594	1,208,594	1,190,000	18,594	1,208,594
	\$ 182,594,181	\$ 61,585,220	\$ 244,179,401	\$ 25,505,000	\$ 7,921,039	\$ 33,426,039	\$ 208,099,181	\$ 69,506,259	\$ 277,605,440

Source: Washington County Department of Budget and Finance

\* Totals may not foot due to rounding.

\*\* Reflects refunding of 2003 and 2003A Bonds, and payoff of 1991 MICRF and 1993 MILA loans.

**Rapidity of Direct Tax-Supported Debt Principal Payment**  
**June 30, 2011**

Number of Years	<u>Before Issuance of Bonds</u>		<u>After Issuance of Bonds</u>	
	Principal Amount	Percent	Principal Amount	Percent
5	\$ 46,720,350	36.72	\$ 48,352,848	34.79
10	83,891,961	65.93	87,277,309	62.79
15	112,382,898	88.32	118,736,330	85.43
20	126,492,636	99.40	136,570,304	98.26
25	127,249,932	100.00	138,993,892	100.00

Source: Washington County Department of Budget and Finance

## Capital Requirements

### *Capital Improvement Program Summary*

The County has established a Capital Improvement Program (“CIP”) for establishing a Capital Budget to forecast future needs and set priorities. It is reviewed and updated during the annual budget process. The objectives of the CIP are to: (1) provide a means for coordinating and consolidating into one document all departmental and agency requests for capital funds; (2) establish a system by which the capital projects of the County can be examined and given priorities according to their relative importance; (3) provide a budgetary tool for the implementation of the Comprehensive Plan elements; (4) forecast future capital demands on local current revenue; and (5) allow projects to be scheduled over a long-term period, thereby providing adequate planning for both financial resources and project implementation. By applying the guidelines of the County’s DM Policy and the annual Debt Capacity Analysis, the Board is able to adopt a Capital Budget that provides maximum benefits from available public funds and assures sound fiscal planning. See “FINANCIAL INFORMATION – Budget Process and Schedule” herein.

## **VI. Miscellaneous**

### **Litigation**

The County is currently a defendant in several litigation matters involving various matters and claims. Most of these are covered by insurance, subject to a deductible. Since most of these disputes involve unliquidated damages, it is not possible to provide a reliable total of damages for which the County may become liable. In the opinion of the County Attorney, all such matters now pending or threatened are, collectively, unlikely to result in total liabilities that would have a material effect on the financial condition of the County.

### **Ratings**

Moody's Investors Service, Inc., Standard & Poor's Financial Services LLC, and Fitch Ratings have given the Bonds the ratings indicated on the cover page of this Official Statement. An explanation of the significance of any of such ratings may be obtained only from the agency furnishing the rating. The County furnished to such rating agencies the information contained in a preliminary form of this Official Statement and other materials and information pertaining to the Bonds. Generally, rating agencies base their ratings on such materials and information, as well as their own investigations, studies and assumptions. The ratings given the Bonds may be changed at any time and no assurance can be given that they will not be revised downward or withdrawn by one or more of such rating agencies if, in the judgment of any such rating agencies, circumstances should warrant such action. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on market prices for the Bonds.

### **Continuing Disclosure Undertaking**

In order to enable participating underwriters, as defined in Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") to comply with the requirements of paragraph (b)(5) of Rule 15c2-12, the County will execute and deliver a continuing disclosure agreement (the "Continuing Disclosure Agreement") on or before the date of issuance and delivery of the Bonds, the proposed form of which is attached to this Official Statement as Appendix D. Potential purchasers of the Bonds should note that the definition of Listed Events in Appendix D is intended to completely restate the events specified in Rule 15c2-12. It is noted that certain Listed Events are expected to have no applicability to the Bonds, such as the possibility of unscheduled draws on debt service reserves or credit enhancements, substitution of credit or liquidity providers or their failure to perform, and matters affecting collateral for the Bonds.

The County has not failed in the previous five years to comply, in all material respects, with any previous continuing disclosure undertaking entered into by the County pursuant to Rule 15c2-12.

### **Sale at Competitive Bidding**

Each series of the Bonds was offered by the County at competitive bidding on May 8, 2012, in accordance with the official Notice of Sale (a copy of which is attached as Appendix C). The interest rates shown on the inside cover page of this Official Statement are the interest rates resulting from the award of the Bonds of each series at the competitive bidding. The yields or prices shown on the inside cover page of this Official Statement for each series of the Bonds was furnished by the successful bidder for such series of the Bonds. All other information concerning the nature and terms of any re-offering should be obtained from the successful bidder for each series of the Bonds and not from the County.

### **Legal Matters**

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Funk & Bolton, P.A., Baltimore, Maryland, Bond Counsel. Delivery of each series of the Bonds is conditioned upon delivery by Bond Counsel of an opinion relating to such series substantially in the applicable form set forth in Appendix B to this Official Statement. The certified text of the applicable approving legal opinion for each series of the Bonds will be printed on or attached to the Bonds of such series.

### **Independent Auditors**

The financial statements as of June 30, 2011, and for the year then ended, included in this Official Statement, have been audited by SB & Company, LLC, independent auditors, as stated in their report appearing herein.

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**Financial Advisor**

Public Advisory Consultants, Inc., Owings Mills, Maryland (the “Financial Advisor”) serves as financial advisor in connection with the issuance of the Bonds and other matters related to the County’s finances. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to the County, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor makes no guaranty, warranty or other representation respecting the accuracy and completeness of this Official Statement or any other matter related to the Official Statement. The Financial Advisor does not engage in the underwriting, selling, or trading of securities.

**Verification of Mathematical Computations**

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor to the County, on behalf of the County relating to (a) computation of forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Bonds and the Restricted Acquired Obligations was examined by The Arbitrage Group, Inc. Such computations were based solely upon assumptions and information supplied by the Financial Advisor on behalf of the County. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

This Official Statement has been approved and authorized by the County for use in connection with the sale of the Bonds.

COUNTY COMMISSIONERS OF  
WASHINGTON COUNTY

By: /s/ Terry L. Baker  
President, Board of County Commissioners

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## **Appendix A**

### **General Purpose Financial Statements**

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**COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

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

**For the Year Ended June 30, 2011**



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

**JUNE 30, 2011**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

County Commissioners of Washington County  
Hagerstown, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County Commissioners of Washington County, Maryland (the County), as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of Washington County. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit presentation of the Board of Education of Washington County, is based on the report of the other auditor.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated October 26, 2011, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require the management's discussion and analysis, the required supplementary information and the budget and actual schedules as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*SB & Company, LLC*

Hunt Valley, MD  
October 26, 2011

This discussion and analysis of Washington County's (County) financial statements is designed to introduce the basic financial statements and provide an analytical overview of the County's financial activities for the fiscal year ended June 30, 2011. The basic financial statements are comprised of the government-wide financial statements, fund financial statements, and footnotes. We hope this, in conjunction with additional information provided within the statements, will assist readers in identifying significant financial issues and changes in the County's financial position.

## Overview of the Financial Statements

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

### **1) Government-wide Financial Statements**

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

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

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

- ❑ The *governmental activities* of the County include education, general government, parks and recreation, public safety, courts, health and social services, and highway maintenance.

**1) Government-wide Financial Statements** (continued)

- ❑ 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 itself (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 19-21 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 three categories: *governmental*, *proprietary*, or *fiduciary*.

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

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

The County maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General, Capital Project, Community Partnership, Inmate Welfare, Contraband, Agricultural Education, Foreign Trade Zone, Hotel Rental Tax, Gaming, Land Preservation and HEPMPO.



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

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 22-25 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 provide 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 26-28 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 29-30 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 31-85 of this report.

4) **Supplementary Information**

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

In addition to this MD&A, required supplementary information can be found on page 88-101 of this report.

Financial Analysis on Government-Wide Financial Statements

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$632.3 million as of the close of the most recent fiscal year.

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Total Percent Change</i>
	2011	2010	2011	2010	2011	2010	
<i>Current and other assets</i>	\$ 138,556,357	\$ 155,525,305	\$ 72,797,850	\$ 69,050,182	\$ 211,354,207	\$ 224,575,487	(6%)
<i>Capital assets</i>	424,970,363	434,180,212	262,902,280	264,666,036	687,872,643	698,846,248	(2%)
<i>Total Assets</i>	563,526,720	589,705,517	335,700,130	333,716,218	899,226,850	923,421,735	(3%)
<i>Current and other liabilities</i>	30,689,527	33,446,304	17,331,940	34,348,646	48,021,467	67,794,950	(29%)
<i>Long-term liabilities</i>	121,718,381	119,868,086	97,155,594	76,673,734	218,873,975	196,541,820	11%
<i>Total Liabilities</i>	152,407,908	153,314,390	114,487,534	111,022,380	266,895,442	264,336,770	1%
<i>Invested in Capital Assets,</i>							
<i>Net of Related Debt</i>	372,712,454	386,689,610	214,299,925	211,102,236	587,012,379	597,791,846	(2%)
<i>Restricted Net Assets</i>	15,838,952	9,984,171	14,378,508	12,019,120	30,217,460	22,003,291	37%
<i>Unrestricted Net Assets</i>	22,567,406	39,717,346	(7,465,837)	(427,518)	15,101,569	39,289,828	(62%)
<i>Total Net Assets</i>	\$ 411,118,812	\$ 436,391,127	\$ 221,212,596	\$ 222,693,838	\$ 632,331,408	\$ 659,084,965	(4%)

The largest portion of the County's net assets reflects its investments in capital assets (e.g., land, roads, and bridges); less related outstanding debt used to acquire those assets in the amount of \$587.0 million. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the County's net assets (\$30.2 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$15.1 million) may be used to meet the County's obligations to citizens and creditors.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY  
Management's Discussion and Analysis

June 30, 2011

**Governmental Activities (government-wide) – Net Assets:**

Unrestricted net assets in governmental activities have been reduced by \$53.2 million in long-term debt, resulting in unrestricted net assets of \$22.6 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 \$50.0 million and Hagerstown Community College of \$3.2 million. The capital assets acquired with these bonds are not reflected in the County's primary government financial statements.

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
<b>Program revenues:</b>						
<i>Charges for Services</i>	\$ 2,906,563	\$ 4,076,580	\$ 19,713,517	\$ 19,170,572	\$ 22,620,080	\$ 23,247,152
<i>Operating Grants and Contributions</i>	5,683,957	12,626,756	1,148,567	1,351,992	6,832,524	13,978,748
<i>Capital Grants and Contributions</i>	10,945,247	7,582,420	4,559,383	5,248,350	15,504,630	12,830,770
<b>General Revenues:</b>						
<i>Property Taxes</i>	125,409,839	129,349,007	-	-	125,409,839	129,349,007
<i>Local Taxes</i>	74,279,821	57,483,270	-	-	74,279,821	57,483,270
<i>Other</i>	5,105,385	2,752,810	594,870	556,497	5,700,255	3,309,307
<b>Total Revenues</b>	<b>224,330,812</b>	<b>213,870,843</b>	<b>26,016,337</b>	<b>26,327,411</b>	<b>250,347,149</b>	<b>240,198,254</b>
<b>Program Expenses:</b>						
<i>General Government</i>	39,136,319	17,759,157	-	-	39,136,319	17,759,157
<i>Public Safety</i>	39,804,734	61,793,870	-	-	39,804,734	61,793,870
<i>Health</i>	2,389,270	2,389,270	-	-	2,389,270	2,389,270
<i>Social Services</i>	2,400,068	3,026,322	-	-	2,400,068	3,026,322
<i>Education</i>	125,522,309	113,494,164	-	-	125,522,309	113,494,164
<i>Parks and Recreation</i>	6,075,518	6,010,014	-	-	6,075,518	6,010,014
<i>Natural Resources</i>	3,315,734	1,233,387	-	-	3,315,734	1,233,387
<i>Community Promotion</i>	4,047,615	4,039,694	-	-	4,047,615	4,039,694
<i>Highways and Streets</i>	17,325,648	12,819,731	-	-	17,325,648	12,819,731
<i>Interest on long-term debt</i>	4,441,225	4,367,670	-	-	4,441,225	4,367,670
<b>Business-type Activities:</b>						
<i>Water Quality</i>	-	-	11,614,072	11,818,147	11,614,072	11,818,147
<i>Solid Waste</i>	-	-	8,868,541	8,873,834	8,868,541	8,873,834
<i>Public Transit</i>	-	-	2,730,286	2,443,498	2,730,286	2,443,498
<i>Airport</i>	-	-	8,196,762	7,985,639	8,196,762	7,985,639
<i>Golf Course</i>	-	-	1,232,605	1,320,581	1,232,605	1,320,581
<b>Total Expenses</b>	<b>244,458,440</b>	<b>226,933,279</b>	<b>32,642,266</b>	<b>32,441,699</b>	<b>277,100,706</b>	<b>259,374,978</b>
<b>Change in net assets before transfers</b>	<b>(20,127,628)</b>	<b>(13,062,436)</b>	<b>(6,625,929)</b>	<b>(6,114,288)</b>	<b>(26,753,557)</b>	<b>(19,176,724)</b>
<b>Gain (Loss) on disposal of capital assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(206,995)</b>	<b>-</b>	<b>(206,995)</b>
<b>Transfers</b>	<b>(5,144,687)</b>	<b>(6,757,473)</b>	<b>5,144,687</b>	<b>6,757,473</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>(25,272,315)</b>	<b>(19,819,909)</b>	<b>(1,481,242)</b>	<b>436,190</b>	<b>(26,753,557)</b>	<b>(19,383,719)</b>
<b>Net Assets – beginning of year</b>	<b>436,391,127</b>	<b>456,211,036</b>	<b>222,693,838</b>	<b>222,257,648</b>	<b>659,084,965</b>	<b>678,468,684</b>
<b>Net Assets – End of year</b>	<b>\$ 411,118,812</b>	<b>\$ 436,391,127</b>	<b>\$ 221,212,596</b>	<b>\$ 222,693,838</b>	<b>\$ 632,331,408</b>	<b>\$ 659,084,965</b>

The County's total net assets decreased by \$26.7 million during fiscal year 2011. Total net assets as of June 30, 2011, were \$632 million representing a 4% decrease.

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

Net assets in governmental activities decreased by \$25.3 million. Key factors in this decrease are as follows:

- ❑ Property tax revenue fell short of projections by \$.3 million or .03%. This shortfall is related to personal property tax revenues mainly within corporate business accounts reflecting recent economic conditions.
- ❑ Income Tax revenue fell short of budget by \$.7 million or 1.2% as a result of continued higher than normal unemployment rates. However the average unemployment rate reflected a decrease from 10.12% to 9.99% in 2011. The unemployment rate continues to show a slow but decreasing trend.
- ❑ Recordation Tax revenue fell short of budget by \$0.4 million or 9.7% due to the trends in the housing market. Overall revenues are up from prior actual and housing activity indicators show marked improvement in 2011 and continue to show improvement in 2012.
- ❑ Other revenue such as permits, licenses and Highway User revenues exceeded budget by \$.5 million.
- ❑ Shortfalls in grants of \$1.6 million are reflective of unappropriated grant awards to be carried over to the next fiscal year. The shortfall in grants is offset by unappropriated grant funds in expenditure savings.
- ❑ Public safety savings of \$1.0 million was mainly due to the unused overtime, positions accounted for under other programs and delays in the opening of the new housing unit.
- ❑ Self insurance reserve savings of \$.4 million was due to favorable claim results.
- ❑ An additional capital transfer of \$.8 million was made to account for revenue shortfalls in Excise and Transfer tax revenue during 201 to allow for continued construction of school and road projects.
- ❑ Debt service savings of \$.3 million relates to savings on actual v. estimated bid price from bond sale and bidders payment coupon schedule.
- ❑ Remaining cost centers accounted for \$1.2 million in savings; \$.5 million from agencies and the remaining \$.7 million mainly from maintenance, legal costs and highway operations.
- ❑ Various government-wide entries including 1) recording of depreciation expense greater than capital outlay at a net difference of \$16.4 million; 2) accruals and gain and loss on sale of assets of \$5.0 million; and 3) recording of debt proceeds greater than debt principal payments by \$1.7 million. These activities are reported differently on the government-wide statements vs. the fund statements.

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

- ❑ Capital Improvement Projects had a net decrease of \$13.8 million. Capital Projects transactions are earmarked for specific capital related projects and its cash flow will vary depending on the construction schedule and grant reimbursements.

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

Business-type activities decreased the County's net assets by \$1.5 million, adding to the decrease in net assets attributable to governmental activities. Key elements of this increase are as follows:

- ❑ Water Quality's net assets increased by \$2.7 million, for a total of \$118.3 million. The increase resulted from increases in user rates, designed to provide resources to meet operational costs, projected debt service, capital requirements and to provide for stable reserves.
- ❑ Solid Waste's total net assets decreased by \$1.8 million for a total of \$14.2 million, mainly related to depreciation cost of \$3.1 million. The landfill closure and post-closure cost are in compliance with State financial assurance requirements as of June 30, 2011.
- ❑ Airport's total net assets are \$81.7 million as of June 30, 2011, representing a \$3.3 million decrease. The net decrease is mainly the result of increased depreciation related to the runway acquisition of which the majority of funding was federal and state grants.

Financial Analysis on Government Fund Financial Statements

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

**Governmental Funds:**

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

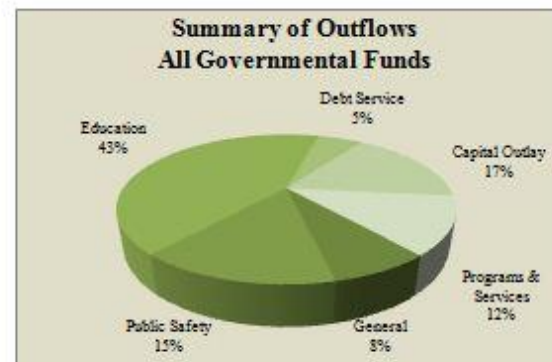
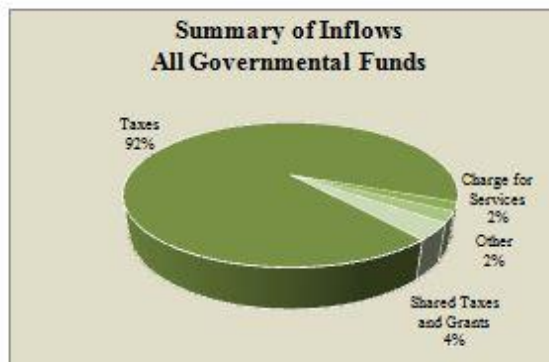
**Governmental Funds (continued):**

As of the end of the current fiscal year, the County's governmental funds reported combined fund balances of \$111.4 million, a decrease of \$12.2 million in comparison with the prior year. In fiscal year 2011, the Highway Fund was consolidated into the General Fund. Approximately \$35.7 million of this amount is designated for the General Fund cash reserve and \$73.7 million is restricted for construction projects and designated programs. The remaining amount is appropriated for uses such as long-term receivables and program services. In the combined governmental activities the County maintains twelve separate funds. Shown below are fund balances and net changes in fund balance for each.

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

Governmental Activities – Fund Statements	Fund Balance			Net Change in Fund Balance		
	2011	2010	% Change	2011	2010	% Change
<i>General Fund</i>	\$ 37,572,914	\$ 36,154,008	4%	\$ 1,418,906	\$ (5,633,441)	125%
<i>Capital Improvement Fund</i>	71,824,732	85,579,828	(16%)	(13,755,096)	1,779,647	(873%)
<i>Community Partnership Fund</i>	408,076	469,811	(13%)	(61,735)	-	(100%)
<i>Inmate Welfare Fund</i>	446,213	442,521	1%	3,692	16,563	(78%)
<i>Contraband Fund</i>	45,619	48,884	(7%)	(3,265)	(9,363)	65%
<i>Agricultural Education Fund</i>	120,131	174,090	(31%)	(53,959)	(40,228)	(34%)
<i>Foreign Trade Zone Fund</i>	-	(308)	100%	308	-	100%
<i>Hotel Rental Tax Fund</i>	562,998	362,513	55%	200,485	181,925	10%
<i>Gaming Fund</i>	(1,931)	19,790	(110%)	(21,721)	(17,696)	(23%)
<i>Land Preservation Fund</i>	397,632	319,288	25%	78,344	(276,735)	128%
<i>HEPMPO</i>	(749)	-	100%	(749)	-	(100%)
<i>Total</i>	\$ 111,375,635	\$ 123,570,425	(10%)	\$ (12,194,790)	\$ (3,999,328)	(205%)

The following reflects all inflows and outflows of the governmental funds in total for the fiscal year ending June 30, 2011.



**Governmental Funds (continued):**

- The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$33.2 million, while total fund balance reached \$37.6 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents \$33.2 million that is designated for cash reserve while \$0.6 million is reserved for specific program funds, for total fund balance of \$36.8 million.

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 fell just short of the 2011 projections by \$.3 million or .03%. The shortfall is related to personal property tax revenues mainly within corporate business accounts reflecting recent economic conditions.
- Income Tax revenue fell short of budget by \$.7 million or 1.2% as a result of continued higher than normal unemployment rates. However the average unemployment rate reflected a decrease from 10.12% in 2010 to 9.99% in 2011. The unemployment rate continues to show a slow but decreasing trend.
- Recordation Tax revenue fell short of budget by \$.4 million or 9.7% due to the trends within the housing market. Overall revenues are up from prior actual and housing activity indicators show marked improvement in 2011 and continue to show improvement in 2012.
- Other revenues such as permits, licenses, and Highway User revenues exceeded budget by \$.5 million.
- Shortfalls in grants of \$1.6 million are reflective of unappropriated grant awards to be carried over to the next fiscal year. The shortfall in grants is offset by unappropriated grant funds in expenditure savings.

**Major Expenditure Factors:**

- Public safety savings of \$1.0 million was due mainly to unused overtime, positions accounted for under other program costs and delays in the opening of the new housing unit.
- Self insurance reserve savings of \$.4 million was due to favorable claim results.
- An additional capital transfer of \$.8 million was made to account for revenue shortfalls in Excise and Transfer tax revenues during 2011 to allow for continued construction of school and road projects.



**Major Expenditure Factors (continued):**

- Shortfalls in grants of \$1.6 million are reflective of unappropriated grant awards to be carried over to the next fiscal year. The shortfall in grants is offset by unappropriated grant funds in expenditure savings.
  - Remaining cost centers accounted for \$1.2 million in savings; \$.5 million from agencies and the remaining \$.7 million mainly from maintenance, legal costs and highway operations.
- The **Capital Project Fund** is used to account for major capital acquisition and construction of County operations. At the end of the current fiscal year the Capital Project Fund has a total fund balance of \$71.8 million, all of which is designated for capital related projects. Major funding sources for projects are pay-go-funding, debt proceeds, fees and taxes, and grants. Fund balance increased by \$13.8 million for the current fiscal year. The change in fund balance is the result of timing differences in projects with funding proceeds and project expenditures.
- The County's **Community Partnership, Inmate Welfare, Contraband, Agricultural Education, Foreign Trade Zone, Hotel Rental Tax, Gaming, Land Preservation Funds and HEPMPO** combined have a fund balance of \$1.9 million. The net decrease in fund balance during the current year was \$141,000. These funds represent monies designated for specific programs and services.

**Proprietary Funds:**

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

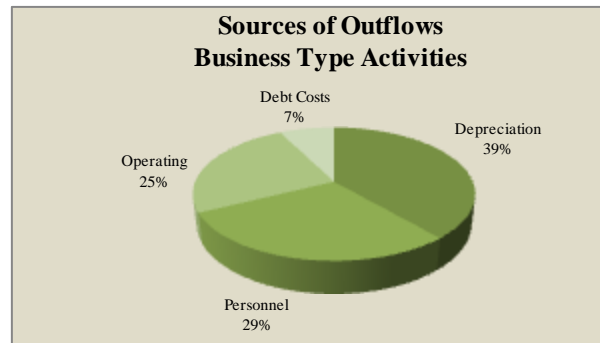
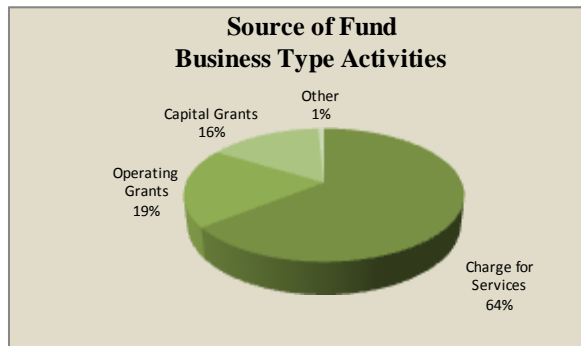
**Washington County, Maryland**  
**Net Assets and Net Income (Loss)**  
*(Fund Basis)*

<i>Business-type Activities – Fund Statements</i>	<i>Fund Balance</i>			<i>Net Change in Fund Balance</i>		
	2011	2010	% Change	2011	2010	% Change
<b>Water Quality</b>	\$ 118,268,385	\$ 115,521,278	2%	\$ 2,747,107	\$ 2,121,063	30%
<b>Solid Waste</b>	14,229,575	16,065,502	(11%)	(1,835,927)	(832,259)	(121%)
<b>Airport</b>	81,653,911	84,959,208	(4%)	(3,305,297)	(1,716,109)	(93%)
<b>Public Transit</b>	5,343,583	4,259,908	25%	1,083,675	1,010,576	7%
<b>BleckRock</b>	1,717,142	1,887,942	(9%)	(170,800)	(147,081)	(16%)
<b>Total</b>	\$ 221,212,596	\$ 222,693,838	(1%)	\$ (1,481,242)	\$ 436,190	(440%)



**Proprietary Funds (continued):**

The following reflects the inflows and outflows of the business-type activity funds for the fiscal year ending June 30, 2011.



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".

COUNTY COMMISSIONERS OF WASHINGTON COUNTY  
Management's Discussion and Analysis

June 30, 2011

General Fund Budgetary Analysis – Government Fund Financial Statement Basis

Washington County, Maryland  
General Fund Budgetary Analysis  
As of June 30, 2011  
(Government Fund Basis)

Category	Budgetary Amounts		Actual	Difference	
	Original	Final		Org. Budget vs. Final	Final Budget vs. Actual
<b>Revenues:</b>					
Property Tax	\$ 125,808,260	\$ 125,808,260	\$ 125,462,990	\$ -	\$ (345,270)
Local Tax	64,945,000	64,945,000	64,171,088	-	(773,912)
Other Revenue	5,457,000	5,511,420	4,359,335	54,420	(1,152,085)
Grant	1,571,390	5,048,789	4,961,523	3,477,399	(87,266)
<b>Total Revenues</b>	<b>197,781,650</b>	<b>201,313,469</b>	<b>198,954,936</b>	<b>3,531,819</b>	<b>(2,358,533)</b>
<b>Expenses:</b>					
General Government	18,693,350	18,933,445	17,985,815	240,095	947,630
Public Safety	34,270,170	36,367,223	34,183,751	2,097,053	2,183,472
Health and Social Services	4,122,030	5,318,711	4,789,338	1,196,681	529,373
Education	101,360,380	101,360,380	101,360,380	-	-
Parks, Recreation, Natural Resources	6,032,390	6,032,390	5,892,969	-	139,421
Highways and streets	8,489,090	8,495,080	8,095,183	5,990	399,897
General Operations	416,950	399,950	2,087,905	(17,000)	(1,687,955)
Intergovernmental	2,056,860	2,056,860	38,543	-	2,018,317
Debt Service	13,122,500	13,122,500	13,066,760	-	55,740
<b>Total Expenses</b>	<b>188,563,720</b>	<b>192,086,539</b>	<b>187,500,644</b>	<b>3,522,819</b>	<b>4,585,895</b>
<b>Other Financing Sources (Uses)</b>	<b>9,217,930</b>	<b>9,226,930</b>	<b>(10,035,386)</b>	<b>9,000</b>	<b>(808,456)</b>
<b>Net Increase in Assets - 06/30/11</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,418,906</b>	<b>\$ -</b>	<b>\$ 1,418,906</b>

**Original Budget vs. Final Budget:**

The net budgetary change of \$3.5 million resulted mainly from grant transactions. Increases in grants reflected as revenue were received or expended during the fiscal year from additional state or federal grants of \$3.5 million.

**Final Budget vs. Actual Results:**

Final actual results yielded a \$1.4 increase to cash reserves. Revenue was under by \$2.3 million offset by expenditures savings \$4.6 million. Property Tax experienced a .03% decrease over budget. Income Tax revenue was under budget by 1.2% or \$.7 million. Recordation Tax fell short of final budget by \$.4 million or 9.7%. Offsetting the net revenue shortfall were \$1.0 million in savings from public safety related to salary costs and later than expected opening of the new housing unit facility. Also attributable to net budgetary costs was the additional \$.8 million transfer of pay-go funds to cover 2011 shortfalls in excise and transfer tax revenues. Other major savings included insurance costs, debt service, and unappropriated grant funds of \$3.5 million.

**Capital Asset Administration – Government Wide Statements**

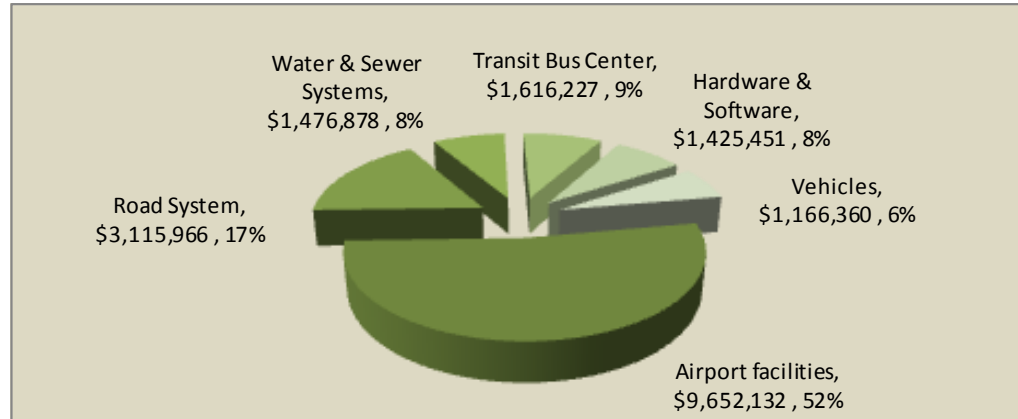
The County's investment in capital assets for its governmental and business-type activities as of June 30, 2011, is \$669 million (net of depreciation). This investment in capital assets includes land, buildings, bridges, roads, equipment, and operational facilities.

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

Description	Governmental Activities		Business-type Activities		Total		% Change
	2011	2010	2011	2010	2011	2010	
<i>Land and Land Improvement</i>	\$ 74,407,709	\$ 71,715,840	\$ 91,430,808	\$ 96,510,484	\$ 165,838,517	\$ 168,226,324	(1%)
<i>Building and Improvements</i>	43,300,255	44,294,603	42,955,528	34,844,911	86,255,783	79,139,514	9%
<i>Facilities, Lines, and Mains</i>	-	-	85,047,642	84,964,827	85,047,642	84,964,827	0%
<i>Vehicles</i>	1,757,125	2,532,430	3,052,749	3,294,426	4,809,874	5,826,856	(17%)
<i>Infrastructure</i>	268,316,842	281,924,495	-	-	268,316,842	281,924,495	(5%)
<i>Machinery and Equipment</i>	2,320,292	2,246,645	2,566,995	3,193,888	4,887,287	5,440,533	(10%)
<i>Office/Computer Equipment</i>	19,643,716	22,012,408	1,057,087	409,331	20,700,803	22,421,739	(8%)
<i>Treatment Plant</i>	-	-	32,719,634	33,691,257	32,719,634	33,691,257	(3%)
<i>Total</i>	\$409,745,939	\$ 424,726,421	\$258,830,443	\$ 256,909,124	\$668,576,382	\$ 681,635,545	(2%)

**Capital Asset Administration (continued):**

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 51-54 of this report.

**Debt Administration**

At the end of the current fiscal year, the County had total outstanding debt, excluding capital leases, of \$190 million. This amount was comprised of debt backed by the full faith and credit of the County and user fees. The County's outstanding debt remained approximately the same as the previous year. The new borrowings were \$14.1 million and principal payments were \$14 million. Funds borrowed were used for major projects such as environmental projects of \$3.2 million and road construction project of \$10.2 million.

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

Description	Governmental Activities		Business-type Activities		Total		% Change
	2011	2010	2011	2010	2011	2010	
<b>General Obligation Bonds</b>	\$ 121,333,576	\$ 118,601,267	\$ 42,219,899	\$ 40,924,141	\$ 163,553,475	\$ 159,525,408	3%
<b>Maryland State Loans</b>	-	-	1,398,463	1,572,889	1,398,463	1,572,889	(11%)
<b>Maryland Water Quality Bonds</b>	6,026,733	6,303,795	19,185,877	21,771,059	25,212,610	28,074,854	(10%)
<b>Total</b>	\$ 127,360,309	\$ 124,905,062	\$ 62,804,239	\$ 64,268,089	\$ 190,164,548	\$ 189,173,151	1%

**Debt Administration (continued):**

The County's credit ratings for fiscal year 2011 are as follows: 1) Standard and Poor's rated AA, 2) Fitch rated AA, and 3) Moody's Investors Service rated Aa2. All rated with stable outlook.

Under the Code of Public Local Law, the amount of general obligation debt the County may issue associated with water quality debt is limited to 10 percent of its total assessed valuation of all real estate in the County that is subject to taxation. The current estimated debt limitation for water quality is \$1.5 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 57-62 of this report.

Economic Factors and Fiscal Year 2012

- ❑ Washington County's current unemployment rate for August 2011 was 9.8% compared to 10.6% in August of 2010. Unemployment trends are showing a slow steady improvement. It is anticipated that the unemployment rate will take until the end of 2014 to recover due to permanent loss of certain industry jobs, re-entry/retraining of the current workforce, and new workforce entry.
- ❑ Housing industry trends are showing continued improvement. Foreclosure filings and foreclosure rates are down in 2012 and showed significant decreases in 2011. The average price of homes sold appears to be leveling off in 2012 as prior high inventory starts to decrease. This is reflective in the County's active inventory trend, which shows a decrease for 2012, decreasing for the fourth straight year.
- ❑ Water and sewer rates were increased for the 2012 budget year. The revenue requirements were increased 4%. This revenue increase is based on financial information formulated annually from the County's cost of service model.
- ❑ The County has approved the redemption of the 2006 Runway Bonds in whole, thereby reducing outstanding debt by \$12,225,000 in December 2011. This redemption will save the County an estimated \$4 million in interest cost. The County will use Grant funds on hand, together with, as needed, unexpended proceeds of the 2006 Runway Bonds and other available funds, to redeem the outstanding 2006 Runway Bonds in whole.

### Requests for Information

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Statement of Net Assets As of June 30, 2011

	Primary Government			Component Unit	
	Governmental activities	Business-type activities	Total	Board of Education	Total
<b>ASSETS</b>					
Cash and short-term investments	\$ 3,826,388	\$ 16,033,414	\$ 19,859,802	\$ 22,011,382	\$ 41,871,184
Investments	157,468,662	-	157,468,662	13,365,355	170,834,017
Property taxes receivable, net of allowance	396,186	-	396,186	-	396,186
Accounts receivable, net of allowance	1,840,474	1,435,648	3,276,122	-	3,276,122
Interest receivable	247,204	-	247,204	-	247,204
Unbilled receivables	224,730	1,732,754	1,957,484	-	1,957,484
Internal balances	(50,389,863)	50,389,863	-	-	-
Due from other governmental agencies	22,947,454	2,761,500	25,708,954	7,149,701	32,858,655
Other receivables	-	-	-	197,563	197,563
Inventories	675,242	301,174	976,416	329,564	1,305,980
Bond issue costs	710,096	143,497	853,593	-	853,593
Prepaid items	-	-	-	934,356	934,356
Other post employment benefits	-	-	-	5,069,600	5,069,600
Recoverable disbursements	340,103	-	340,103	-	340,103
Notes receivable	269,681	-	269,681	-	269,681
Projects under construction	15,224,424	4,071,837	19,296,261	1,130,485	20,426,746
Property, plant, and equipment, net	409,745,939	258,830,443	668,576,382	215,467,716	884,044,098
<b>TOTAL ASSETS</b>	<b>563,526,720</b>	<b>335,700,130</b>	<b>899,226,850</b>	<b>265,655,722</b>	<b>1,164,882,572</b>
<b>LIABILITIES</b>					
Current Liabilities:					
Current maturities of long-term obligations	9,325,997	4,712,863	14,038,860	-	14,038,860
Current maturities of capital lease obligations	-	111,123	111,123	728,077	839,200
Current maturities of installment purchase contracts	517,736	-	517,736	-	517,736
Accounts payable	8,647,208	1,760,149	10,407,357	4,070,259	14,477,616
Accrued expenses	1,031,348	338,080	1,369,428	13,927,473	15,296,901
Accrued interest	2,202,430	8,094,360	10,296,790	-	10,296,790
Deferred revenue	2,800,087	1,853,401	4,653,488	5,069,702	9,723,190
Compensated absences	1,831,368	389,249	2,220,617	546,780	2,767,397
Post retirement benefits	220,175	-	220,175	-	220,175
Landfill closure and post-closure costs	-	14,820	14,820	-	14,820
Other liabilities	2,152,037	57,895	2,209,932	-	2,209,932
Liabilities for unpaid claims	1,961,141	-	1,961,141	-	1,961,141
Total current liabilities	30,689,527	17,331,940	48,021,467	24,342,291	72,363,758
Non Current Liabilities:					
Deferred revenue	-	22,508,647	22,508,647	-	22,508,647
Compensated absences	431,581	172,914	604,495	5,364,588	5,969,083
Post retirement benefits	1,201,478	-	1,201,478	-	1,201,478
Long-term obligations, net	118,034,312	58,091,376	176,125,688	-	176,125,688
Capital lease obligations	-	65,501	65,501	8,011,087	8,076,588
Installment purchase contracts	2,051,010	-	2,051,010	-	2,051,010
Landfill closure and post-closure costs	-	16,317,156	16,317,156	-	16,317,156
Total noncurrent liabilities	121,718,381	97,155,594	218,873,975	13,375,675	232,249,650
<b>TOTAL LIABILITIES</b>	<b>152,407,908</b>	<b>114,487,534</b>	<b>266,895,442</b>	<b>37,717,966</b>	<b>304,613,408</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	372,712,454	214,299,925	587,012,379	207,859,037	794,871,416
Restricted for:					
John Howard Trust	239,094	-	239,094	-	239,094
Capital projects	15,599,858	14,378,508	29,978,366	-	29,978,366
Unrestricted	22,567,406	(7,465,837)	15,101,569	20,078,719	35,180,288
<b>TOTAL NET ASSETS</b>	<b>\$ 411,118,812</b>	<b>\$ 221,212,596</b>	<b>\$ 632,331,408</b>	<b>\$ 227,937,756</b>	<b>\$ 860,269,164</b>

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Statement of Activities For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 39,136,319	\$ 2,469,657	\$ 2,346,189	\$ 30,851
Public safety	39,804,734	436,906	-	1,114,746
Health	2,389,270	-	-	-
Social services	2,400,068	-	-	-
Education	125,522,309	-	-	5,341,414
Parks, recreation and culture	6,075,518	-	-	178,634
Natural resources	3,315,734	-	1,508,984	-
Community promotion	4,047,615	-	1,255,643	-
Highways and streets	17,325,648	-	573,141	4,279,602
Interest on long-term debt	4,441,225	-	-	-
Total governmental activities	<u>244,458,440</u>	<u>2,906,563</u>	<u>5,683,957</u>	<u>10,945,247</u>
Business-type activities				
Water quality	11,614,072	9,735,041	-	1,050,610
Solid waste	8,868,541	6,436,831	-	-
Public transit	2,730,286	391,500	1,148,567	1,510,144
Airport	8,196,762	2,162,599	-	1,998,629
Black rock golf course	1,232,605	987,546	-	-
Total business-type activities	<u>32,642,266</u>	<u>19,713,517</u>	<u>1,148,567</u>	<u>4,559,383</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u><u>\$ 277,100,706</u></u>	<u><u>\$ 22,620,080</u></u>	<u><u>\$ 6,832,524</u></u>	<u><u>\$ 15,504,630</u></u>
Component unit:				
Public school system	<u><u>\$ 299,753,288</u></u>	<u><u>\$ 12,424,190</u></u>	<u><u>\$ 70,399,238</u></u>	<u><u>\$ 314,544</u></u>

### General revenue:

#### Taxes

Property taxes

Income taxes

Income on investments

Reimbursed expenses

Miscellaneous

Special items- gain (loss) on disposal

Transfers

**TOTAL GENERAL REVENUE**

Change in Net Assets

Net Assets, beginning of year

Net Assets, end of year



# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Statement of Activities For the Year Ended June 30, 2011

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Board of Education	Total
\$ (34,289,622)	\$ -	\$ (34,289,622)	\$ -	\$ (34,289,622)
(38,253,082)	-	(38,253,082)	-	(38,253,082)
(2,389,270)	-	(2,389,270)	-	(2,389,270)
(2,400,068)	-	(2,400,068)	-	(2,400,068)
(120,180,895)	-	(120,180,895)	-	(120,180,895)
(5,896,884)	-	(5,896,884)	-	(5,896,884)
(1,806,750)	-	(1,806,750)	-	(1,806,750)
(2,791,972)	-	(2,791,972)	-	(2,791,972)
(12,472,905)	-	(12,472,905)	-	(12,472,905)
(4,441,225)	-	(4,441,225)	-	(4,441,225)
(224,922,673)	-	(224,922,673)	-	(224,922,673)
-	(828,421)	(828,421)	-	(828,421)
-	(2,431,710)	(2,431,710)	-	(2,431,710)
-	319,925	319,925	-	319,925
-	(4,035,534)	(4,035,534)	-	(4,035,534)
-	(245,059)	(245,059)	-	(245,059)
-	(7,220,799)	(7,220,799)	-	(7,220,799)
(224,922,673)	(7,220,799)	(232,143,472)	-	(232,143,472)
-	-	-	(216,615,316)	(216,615,316)
125,409,839	-	125,409,839	-	125,409,839
74,279,821	-	74,279,821	-	74,279,821
1,300,655	109,736	1,410,391	362,160	1,772,551
1,067,209	-	1,067,209	974,918	2,042,127
2,737,521	463,887	3,201,408	236,330,303	239,531,711
-	21,247	21,247	(117)	21,130
(5,144,687)	5,144,687	-	-	-
199,650,358	5,739,557	205,389,915	237,667,264	443,057,179
(25,272,315)	(1,481,242)	(26,753,557)	21,051,948	(5,701,609)
436,391,127	222,693,838	659,084,965	206,885,808	865,970,773
\$ 411,118,812	\$ 221,212,596	\$ 632,331,408	\$ 227,937,756	\$ 860,269,164

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Balance Sheet – Governmental Funds As of June 30, 2011

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash	\$ 42,231	\$ -	\$ 3,784,157	\$ 3,826,388
Investments	157,231,094	237,568	-	157,468,662
Property taxes receivable, net of allowance	396,186	-	-	396,186
Accounts receivable	499,021	1,056,469	284,984	1,840,474
Interest receivable	247,188	16	-	247,204
Unbilled receivables	224,730	3,752,190	181,137	4,158,057
Due from other funds	125,943	71,805,569	-	71,931,512
Due from other governmental agencies	19,014,127	-	-	19,014,127
Inventories	675,242	-	-	675,242
Recoverable disbursements	340,103	-	160,000	500,103
Notes receivable	109,681	-	-	109,681
<b>TOTAL ASSETS</b>	<b>\$ 178,905,546</b>	<b>\$ 76,851,812</b>	<b>\$ 4,410,278</b>	<b>\$ 260,167,636</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 1,707,908	\$ 4,918,517	\$ 2,020,783	\$ 8,647,208
Accrued expenses	1,018,396	592	12,360	1,031,348
Other liabilities	1,771,927	107,971	272,139	2,152,037
Liabilities for unpaid claims	1,961,141	-	-	1,961,141
Deferred revenue	12,630,582	-	48,310	12,678,892
Due to other funds	122,242,678	-	78,697	122,321,375
<b>TOTAL LIABILITIES</b>	<b>141,332,632</b>	<b>5,027,080</b>	<b>2,432,289</b>	<b>148,792,001</b>
<b>FUND BALANCES:</b>				
Nonspendable	77,777	-	-	77,777
Restricted	539,434	15,838,952	1,509,001	17,887,387
Committed	33,246,307	55,985,780	351,537	89,583,624
Assigned	22,181	-	120,131	142,312
Unassigned	3,687,215	-	(2,680)	3,684,535
<b>TOTAL FUND BALANCES</b>	<b>37,572,914</b>	<b>71,824,732</b>	<b>1,977,989</b>	<b>111,375,635</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 178,905,546</b>	<b>\$ 76,851,812</b>	<b>\$ 4,410,278</b>	<b>\$ 260,167,636</b>

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Assets As of June 30, 2011

Fund balance of governmental funds	\$ 111,375,635
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Capital assets, net	409,745,939
Projects under construction	15,224,424

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

Bond issue costs	710,096
Deferred revenue	9,878,805

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Long-term obligations	(127,360,309)
Installment purchase obligations	(2,568,746)
Accrued interest payable	(2,202,430)
Compensated absences and post-retirement benefits	(3,684,602)

Net assets of governmental activities	<u>\$ 411,118,812</u>
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# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds For Year Ended June 30, 2011

	General Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
<b>REVENUE</b>				
General property taxes	\$ 125,462,990	\$ -	\$ -	\$ 125,462,990
Other local taxes	64,171,088	8,472,374	3,004,272	75,647,734
Licenses and permits	1,173,403	-	2,043,644	3,217,047
Court costs and fines	164,928	-	-	164,928
Charges for services	388,337	-	436,906	825,243
Revenue from uses of property	1,280,462	-	20,193	1,300,655
Reimbursed expenses	1,063,968	-	3,241	1,067,209
Miscellaneous revenues	288,237	2,472,873	32,700	2,793,810
Shared taxes and grants	4,961,523	-	3,138,050	8,099,573
<b>TOTAL REVENUE</b>	<u>198,954,936</u>	<u>10,945,247</u>	<u>8,679,006</u>	<u>218,579,189</u>
<b>EXPENDITURES</b>				
Current:				
General government	17,985,815	-	-	17,985,815
Public safety	34,183,751	-	960,739	35,144,490
Health	2,389,270	-	-	2,389,270
Social services	2,400,068	-	-	2,400,068
Education	101,360,380	-	-	101,360,380
Parks, recreation and culture	5,351,051	-	177,393	5,528,444
Land preservation	-	-	2,755,541	2,755,541
Natural resources	541,918	-	-	541,918
Intergovernmental	38,543	-	-	38,543
General operations	2,087,905	-	1,017,462	3,105,367
Community promotion	-	-	4,049,320	4,049,320
Highways and streets	8,095,183	-	-	8,095,183
Debt Service:				
Debt service	13,066,760	-	-	13,066,760
Capital Outlay:				
General government	-	671,539	-	671,539
Public safety	-	5,275,713	-	5,275,713
Highways and streets	-	10,058,618	-	10,058,618
Education	-	24,161,929	-	24,161,929
Parks and recreation	-	290,136	-	290,136
<b>TOTAL EXPENDITURES</b>	<u>187,500,644</u>	<u>40,457,935</u>	<u>8,960,455</u>	<u>236,919,034</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<u>11,454,292</u>	<u>(29,512,688)</u>	<u>(281,449)</u>	<u>(18,339,845)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	5,258,200	422,849	5,681,049
Transfers out	(10,035,386)	(790,350)	-	(10,825,736)
Proceeds of bond sale	-	11,289,742	-	11,289,742
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(10,035,386)</u>	<u>15,757,592</u>	<u>422,849</u>	<u>6,145,055</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>1,418,906</u>	<u>(13,755,096)</u>	<u>141,400</u>	<u>(12,194,790)</u>
<b>CONSOLIDATION OF HIGHWAY FUND</b>	<u>(644,789)</u>	<u>-</u>	<u>644,789</u>	<u>-</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>36,798,797</u>	<u>85,579,828</u>	<u>1,191,800</u>	<u>123,570,425</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 37,572,914</u>	<u>\$ 71,824,732</u>	<u>\$ 1,977,989</u>	<u>\$ 111,375,635</u>

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

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For Year Ended June 30, 2011

Net changes in fund balances in governmental funds \$ (12,194,790)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. (16,382,536)

In the statement of activities, only the gain or loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold. (56,289)

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

Debt and lease proceeds	(11,289,742)	
Bond issuance cost - CY additions	49,010	
Payments of installment purchase principal	517,737	
Payments of lease principal	173,150	
Payments of debt principal	<u>8,843,225</u>	(1,706,620)

In the statement of activities, compensated absences and post-retirement benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used. This year, compensated absences and post-retirement benefits earned exceeded financial resources used. (468,210)

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. 5,536,130

Change in Net Assets of Governmental Activities \$ (25,272,315)

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Statement of Net Assets - Proprietary Funds For Year Ended June 30, 2011

	Business Type Activities - Enterprise Funds				
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	Total
<b>ASSETS</b>					
Current Assets:					
Cash and short-term investments	\$ 6,183,378	\$ 7,358,756	\$ 2,490,280	\$ 1,000	\$ 16,033,414
Accounts receivable	1,056,456	257,061	111,128	11,003	1,435,648
Unbilled receivables	1,280,395	451,170	144	1,045	1,732,754
Due from other governmental agencies	119,533	-	1,007,622	1,634,345	2,761,500
Due from other funds	19,686,598	24,349,213	7,771,025	-	51,806,836
Inventories	118,763	9,933	53,820	118,658	301,174
Total current assets	28,445,123	32,426,133	11,434,019	1,766,051	74,071,326
Noncurrent Assets:					
Bond issuance costs	99,015	44,482	-	-	143,497
Projects under construction	1,199,716	1,234,276	1,637,845	-	4,071,837
Property plant and equipment	171,141,065	53,538,132	139,460,787	11,231,993	375,371,977
Accumulated depreciation	(49,692,418)	(29,720,298)	(32,888,585)	(4,240,233)	(116,541,534)
Total noncurrent assets	122,747,378	25,096,592	108,210,047	6,991,760	263,045,777
<b>TOTAL ASSETS</b>	151,192,501	57,522,725	119,644,066	8,757,811	337,117,103
<b>LIABILITIES</b>					
Current Liabilities:					
Current maturities of long-term obligations	2,777,637	1,129,362	805,864	-	4,712,863
Current maturities of capital lease obligations	-	111,123	-	-	111,123
Accounts payable	287,597	1,199,193	73,628	199,731	1,760,149
Accrued expenses	214,178	41,525	16,231	66,146	338,080
Accrued interest	7,497,476	312,970	283,914	-	8,094,360
Due to other funds	-	-	105,943	1,291,030	1,396,973
Deferred revenue	711,503	483,695	655,453	2,750	1,853,401
Compensated absences	207,506	73,876	31,964	75,903	389,249
Landfill closure and post-closure costs	-	14,820	-	-	14,820
Other liabilities	7,300	-	37,088	13,507	57,895
Total current liabilities	11,703,197	3,366,564	2,010,085	1,649,067	18,728,913
Non Current Liabilities:					
Due to other funds	-	-	20,000	-	20,000
Deferred revenue	-	-	22,508,647	-	22,508,647
Compensated absences	76,843	29,228	18,824	48,019	172,914
Bonds and long-term debt	21,144,076	23,514,701	13,432,599	-	58,091,376
Capital lease obligations	-	65,501	-	-	65,501
Landfill closure and post-closure costs	-	16,317,156	-	-	16,317,156
Total noncurrent liabilities	21,220,919	39,926,586	35,980,070	48,019	97,175,594
<b>TOTAL LIABILITIES</b>	32,924,116	43,293,150	37,990,155	1,697,086	115,904,507
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	104,482,997	8,853,584	93,971,584	6,991,760	214,299,925
Unrestricted	8,029,041	(3,246,170)	(12,317,673)	68,965	(7,465,837)
Restricted - capital projects	5,756,347	8,622,161	-	-	14,378,508
<b>TOTAL NET ASSETS</b>	\$ 118,268,385	\$ 14,229,575	\$ 81,653,911	\$ 7,060,725	\$ 221,212,596

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds For Year Ended June 30, 2011

	Enterprise Funds				
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	Totals
<b>OPERATING REVENUE</b>					
Charges for services	\$ 9,735,041	\$ 6,436,831	\$ 2,162,599	\$ 1,379,046	\$ 19,713,517
Miscellaneous	348,418	45,961	61,611	7,897	463,887
<b>TOTAL OPERATING REVENUE</b>	<b>10,083,459</b>	<b>6,482,792</b>	<b>2,224,210</b>	<b>1,386,943</b>	<b>20,177,404</b>
<b>OPERATING EXPENSES</b>					
Salaries and wages	3,361,766	1,322,349	586,486	1,584,611	6,855,212
Fringe benefits	1,485,091	459,446	195,057	487,333	2,626,927
Utilities	947,915	73,048	203,546	93,454	1,317,963
Insurance	100,464	23,739	41,561	56,204	221,968
Repairs and maintenance	176,938	14	110,467	133,743	421,162
Supplies	233,346	98,595	6,221	122,778	460,940
Cost of goods sold	-	-	-	106,535	106,535
Contracted services	294,240	2,301,796	82,306	179,732	2,858,074
Rentals and leases	20,025	1,813	2,927	103,639	128,404
Other operating	1,010,008	891,322	257,946	386,686	2,545,962
Uncollectible accounts	1,332	5,132	2,348	303	9,115
Controllable assets	23,542	1,189	7,950	10,579	43,260
Depreciation	2,801,391	3,057,621	6,043,833	697,294	12,600,139
<b>TOTAL OPERATING EXPENSES</b>	<b>10,456,058</b>	<b>8,236,064</b>	<b>7,540,648</b>	<b>3,962,891</b>	<b>30,195,661</b>
<b>OPERATING LOSS</b>	<b>(372,599)</b>	<b>(1,753,272)</b>	<b>(5,316,438)</b>	<b>(2,575,948)</b>	<b>(10,018,257)</b>
<b>OTHER INCOME (EXPENSE)</b>					
Interest expense	(1,158,014)	(632,477)	(656,114)	-	(2,446,605)
Interest income	107,110	1,432	1,194	-	109,736
Gain (loss) on disposal of assets	-	-	22,092	(845)	21,247
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<b>(1,050,904)</b>	<b>(631,045)</b>	<b>(632,828)</b>	<b>(845)</b>	<b>(2,315,622)</b>
<b>LOSS BEFORE OPERATING TRANSFERS AND GRANTS</b>	<b>(1,423,503)</b>	<b>(2,384,317)</b>	<b>(5,949,266)</b>	<b>(2,576,793)</b>	<b>(12,333,879)</b>
<b>OPERATING TRANSFERS</b>	<b>3,120,000</b>	<b>548,390</b>	<b>645,340</b>	<b>544,157</b>	<b>4,857,887</b>
<b>GRANTS FOR OPERATIONS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,148,567</b>	<b>1,148,567</b>
<b>NET INCOME (LOSS) BEFORE CAPITAL TRANSFERS AND GRANTS</b>	<b>1,696,497</b>	<b>(1,835,927)</b>	<b>(5,303,926)</b>	<b>(884,069)</b>	<b>(6,327,425)</b>
<b>CAPITAL TRANSFERS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>286,800</b>	<b>286,800</b>
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>1,050,610</b>	<b>-</b>	<b>1,998,629</b>	<b>1,510,144</b>	<b>4,559,383</b>
<b>NET INCOME (LOSS)</b>	<b>2,747,107</b>	<b>(1,835,927)</b>	<b>(3,305,297)</b>	<b>912,875</b>	<b>(1,481,242)</b>
<b>NET ASSETS- BEGINNING OF YEAR</b>	<b>115,521,278</b>	<b>16,065,502</b>	<b>84,959,208</b>	<b>6,147,850</b>	<b>222,693,838</b>
<b>NET ASSETS- END OF YEAR</b>	<b>\$ 118,268,385</b>	<b>\$ 14,229,575</b>	<b>\$ 81,653,911</b>	<b>\$ 7,060,725</b>	<b>\$ 221,212,596</b>

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, 2011

	Enterprise Funds				
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	Total
<b>Cash Flows from Operating Activities</b>					
Receipts from customers	\$ 9,897,725	\$ 6,404,945	\$ 6,750,463	\$ 986,477	\$ 24,039,610
Payments to suppliers	(2,720,654)	(1,978,150)	(1,088,033)	(1,020,277)	(6,807,114)
Payments to employees	(4,983,359)	(1,821,957)	(808,537)	(2,130,122)	(9,743,975)
<b>Net Cash from Operating Activities</b>	<u>2,193,712</u>	<u>2,604,838</u>	<u>4,853,893</u>	<u>(2,163,922)</u>	<u>7,488,521</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Operating contributions	3,120,000	548,390	645,340	1,692,724	6,006,454
Increase (decrease) in due to/from other funds	(13,949,518)	(17,876,609)	(5,371,974)	590,309	(36,607,792)
<b>Net Cash from Noncapital Financing Activities</b>	<u>(10,829,518)</u>	<u>(17,328,219)</u>	<u>(4,726,634)</u>	<u>2,283,033</u>	<u>(30,601,338)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Interest paid on notes and bond payable	(984,800)	(524,148)	(678,797)	-	(2,187,745)
Acquisition and construction of capital assets	(1,530,190)	(814,554)	(6,576,432)	(2,225,239)	(11,146,415)
Contribution for capital acquisitions	1,050,610	-	1,998,629	2,106,973	5,156,212
Principal payments on notes and bonds payable	(2,921,764)	(1,321,769)	(784,426)	-	(5,027,959)
Proceeds from issuance of notes and bonds payable	-	3,320,039	-	-	3,320,039
Payments for bond issuance	12,953	(12,805)	-	-	148
Payments under capital lease obligations	-	-	-	-	-
Gain (Loss) on disposal	-	-	22,092	(845)	21,247
<b>Net Cash from Capital and Related Financing Activities</b>	<u>(4,373,191)</u>	<u>646,763</u>	<u>(6,018,934)</u>	<u>(119,111)</u>	<u>(9,864,473)</u>
<b>Cash Flows from Investing Activities</b>					
Interest on investments	107,110	1,432	1,194	-	109,736
Net change in cash	(12,901,887)	(14,075,186)	(5,890,481)	-	(32,867,554)
Cash, Beginning of Year	19,085,265	21,433,942	8,380,761	1,000	48,900,968
<b>Cash, End of Year</b>	<u>\$ 6,183,378</u>	<u>\$ 7,358,756</u>	<u>\$ 2,490,280</u>	<u>\$ 1,000</u>	<u>\$ 16,033,414</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>					
Operating loss	\$ (372,599)	\$ (1,753,272)	\$ (5,316,438)	\$ (2,575,948)	\$ (10,018,257)
Adjustments to reconcile operating income to net cash from operating activities					
Depreciation	2,801,391	3,057,621	6,043,833	697,294	12,600,139
Changes in assets and liabilities:					
Accounts receivable	(180,923)	(52,773)	(1,893)	2,707	(232,882)
Unbilled receivables	(51,469)	(2,619)	9,819	467	(43,802)
Prepaid expenses	-	-	-	6,961	6,961
Due to/from other government entities	32,448	13,410	588,035	(401,890)	232,003
Inventories	11,241	87	(3,926)	22,742	30,144
Accounts payable and other liabilities	75,915	993,571	(368,835)	144,856	845,507
Accrued expenses	(129,865)	(50,096)	(27,013)	(59,901)	(266,875)
Landfill closure	-	424,840	-	-	424,840
Deferred revenue	14,210	(35,865)	3,930,292	(1,750)	3,906,887
Compensated absences	(6,637)	9,934	19	540	3,856
<b>Net Cash from Operating Activities</b>	<u>\$ 2,193,712</u>	<u>\$ 2,604,838</u>	<u>\$ 4,853,893</u>	<u>\$ (2,163,922)</u>	<u>\$ 7,488,521</u>

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



# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Statement of Net Assets – Fiduciary Funds As of June 30, 2011

	<u>Agency</u>	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and short-term investments	\$ 2,791,653	\$ 1,737,390	\$ 66,450	\$ 305,813	\$ 63,221	\$ 4,964,527
Investments, at fair value						
US Government obligations	-	7,962,964	846,899	1,251,128	50,788	10,111,779
Municipal bonds	-	88,103	-	-	-	88,103
Corporate bonds and obligations	-	7,112,518	481,264	585,613	-	8,179,395
Fixed income securities	-	2,082,127	208,660	298,081	-	2,588,868
Corporate stock	-	20,190,733	1,777,154	1,907,663	-	23,875,550
Equity funds	-	22,418,248	1,717,632	2,846,665	-	26,982,545
Accounts receivable	-	131,817	12,308	17,297		161,422
Due from other funds	-	-	-	-	73	73
<b>TOTAL ASSETS</b>	<u>2,791,653</u>	<u>61,723,900</u>	<u>5,110,367</u>	<u>7,212,260</u>	<u>114,082</u>	<u>76,952,262</u>
<b>LIABILITIES</b>						
Accounts payable	32,400	-	-	-	-	32,400
Due to student groups	2,759,253	-	-	-	-	2,759,253
<b>TOTAL LIABILITIES</b>	<u>2,791,653</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,791,653</u>
<b>NET ASSETS</b>						
Assets held in trust for benefit payments	-	61,723,900	5,110,367	7,212,260	-	74,046,527
Assets held in trust for scholarships	-	-	-	-	114,082	114,082
<b>NET ASSETS</b>	<u>\$ -</u>	<u>\$ 61,723,900</u>	<u>\$ 5,110,367</u>	<u>\$ 7,212,260</u>	<u>\$ 114,082</u>	<u>\$ 74,160,609</u>

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Statement of Changes in Net Assets - Fiduciary Funds For Year Ended June 30, 2011

	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>	<u>Total</u>
<b>ADDITIONS</b>					
Contributions:					
Employer	\$ 4,379,473	\$ 598,620	\$ 1,561,700	\$ -	\$ 6,539,793
Plan members	1,950,806	-	-	-	1,950,806
Gifts and contributions	-	-	-	19,396	19,396
<b>TOTAL CONTRIBUTIONS</b>	<u>6,330,279</u>	<u>598,620</u>	<u>1,561,700</u>	<u>19,396</u>	<u>8,509,995</u>
 Investment Income:					
Realized and unrealized gain	10,223,599	825,604	1,018,374	11,000	12,078,577
Interest and dividends	975,299	87,951	151,554	-	1,214,804
Other income	416,993	31,724	3,288	-	452,005
<b>TOTAL INVESTMENT INCOME</b>	<u>11,615,891</u>	<u>945,279</u>	<u>1,173,216</u>	<u>11,000</u>	<u>13,745,386</u>
	<u>17,946,170</u>	<u>1,543,899</u>	<u>2,734,916</u>	<u>30,396</u>	<u>22,255,381</u>
 <b>DEDUCTIONS</b>					
Benefits	4,023,616	377,882	-	-	4,401,498
Scholarship expenses	-	-	-	23,177	23,177
Administrative expenses	160,816	29,222	8,301	-	198,339
<b>TOTAL DEDUCTIONS</b>	<u>4,184,432</u>	<u>407,104</u>	<u>8,301</u>	<u>23,177</u>	<u>4,623,014</u>
 <b>NET INCREASE IN ASSETS</b>	<u>13,761,738</u>	<u>1,136,795</u>	<u>2,726,615</u>	<u>7,219</u>	<u>17,632,367</u>
 <b>NET ASSETS - BEGINNING OF YEAR</b>	<u>47,962,162</u>	<u>3,973,572</u>	<u>4,485,645</u>	<u>106,863</u>	<u>56,528,242</u>
 <b>NET ASSETS - END OF YEAR</b>	<u>\$ 61,723,900</u>	<u>\$ 5,110,367</u>	<u>\$ 7,212,260</u>	<u>\$ 114,082</u>	<u>\$ 74,160,609</u>

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

### 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, 2011 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 includes 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, 2011

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

#### Reporting Entity (continued)

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

Washington County Board of Education  
P.O. Box 730  
Hagerstown, Maryland 21741

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

#### Government-Wide and Fund Financial Statements

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

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

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

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

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

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

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

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

The government reports the following major governmental funds:

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

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

### 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 Tax Sale Agency Fund is used to account for tax sales proceeds until distribution.

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

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

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

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

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

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

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

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

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

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

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

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

#### Capital Assets

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

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

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

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

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

#### Long-Term Obligations

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



# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

#### Long-Term Obligations (continued)

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

#### Investments

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

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

#### Inventories

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

#### Employee Benefit Programs

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

#### Employee Benefit Programs (continued)

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

Retirement plan costs for members of the County Retirement Plan are determined annually on an actuarial basis. Pension costs charged to expense equal the annual required contributions, calculated in accordance with GASB Statement No. 27. The County follows the practice of funding pension costs accrued. During the fiscal year ending June 30, 2008, the County adopted GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

#### Taxes and County Services

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

#### Real Estate and Personal Property Taxes

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

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

#### Real Estate and Personal Property Taxes (continued)

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

Rate of County Taxes:

Income tax	2.8% of Maryland taxable income (2010 and 2011 calendar years)
Recordation tax	\$3.80 per \$500
Trailer park	15% of gross rentals
Property taxes	\$0.948 per \$100 of assessable base

#### Cash Flows

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

#### Concentrations of Credit Risk

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

#### Unrestricted Net Assets

Governmental activities unrestricted net assets have been reduced by \$53.2 million in long-term debt, resulting in unrestricted net assets of \$22.6 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 \$50.0 million and Hagerstown Community College of \$3.2 million. The capital assets acquired with these bonds are not reflected in the primary government financial statements.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

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

#### Net Assets and Fund Equity

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

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

### 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### Budgetary Information

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

#### *Financial Capacity and Analysis Phase*

The County develops statistical analysis of major revenue sources through various resources available. The County prepares and annually updates a long-range (5 years) financial forecasting system which includes projections of revenue, expenditures, future costs, financing of capital improvements that are included in the Capital Improvement Budgets, Cost of Service Plans and the Operating Budget.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

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

##### *Financial Capacity and Analysis Phase (continued)*

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

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

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

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

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

##### *Budget Development Start*

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

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

##### *Budget Development Phase*

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

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

It is the CIP Committee's responsibility to review all requests that County departments and agencies submit. All projects are ranked based on established criteria for priority ranking. Considering current and future needs as developed in the six-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 five-year forecast. Operating impacts of current and proposed capital projects are also taken into consideration by staff when developing their Capital Improvement budget.

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

##### *Review and Modification Phase*

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

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

##### *Adoption Phase*

Proposed budgets are voted on by the County Commissioners to take to a public hearing to communicate to the general public for all operating and capital funds. Advertisement is placed in the local newspaper, handouts, 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. A 10-day waiting period is held for public comment. 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, 2011

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

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

##### *Amendment to the Budget*

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

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

### 3. CASH AND SHORT-TERM INVESTMENTS

#### **County**

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

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

##### *Deposits*

As of June 30, 2011, the carrying amount of the County's deposits was \$24,824,329 and the bank balances were \$26,823,137. All deposits are carried at cost plus accrued interest. There were no significant violations of the collateralization requirements during the year ended June 30, 2011. 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, 2011, the County's bank balance of \$26,823,137 was not exposed to custodial credit risk as \$250,000 of interest bearing accounts and \$250,000 of noninterest bearing accounts are insured by FDIC and \$60,000,000 is insured by a deposit surety bond issued by Harford Fire Insurance Company.



# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

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

#### Investments

As of June 30, 2011, 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. Federal Home Loan Bank discount notes	\$ 157,068,662	\$ 26,517,844	\$ 130,550,818	\$ -	\$ -
Certificates of Deposit	400,000	-	400,000	-	-
Total investments held in County's name	157,468,662	26,517,844	130,950,818	-	-
Investments held by trustee of					
Pension plan:					
U.S. government obligations, municipal and corporate bonds	15,163,585	1,964,162	3,313,825	3,240,391	6,645,207
Fixed income securities	2,082,127	2,082,127	-	-	-
Corporate stocks	20,190,733	20,190,733	-	-	-
Equity funds	22,418,248	22,418,248	-	-	-
Money market funds	1,737,390	1,737,390	-	-	-
Interest and dividends receivable	131,817	131,817	-	-	-
Total Investments held by trustee of pension plan	61,723,900	48,524,477	3,313,825	3,240,391	6,645,207
Investments held by trustee of					
LOSAP plan:					
U.S. government obligations and corporate bonds	1,328,163	16,437	457,398	269,415	584,913
Corporate stocks	208,660	208,660	-	-	-
Fixed income funds	1,777,154	1,777,154	-	-	-
Equity funds	1,717,632	1,717,632	-	-	-
Money market funds	66,450	66,450	-	-	-
Interest and dividends receivable	12,308	12,308	-	-	-
Total Investments held by trustee of LOSAP plan	5,110,367	3,798,641	457,398	269,415	584,913
Investments held by trustee of					
OPEB plan:					
U.S. government obligations and corporate bonds	1,836,741	337,401	375,147	375,516	748,677
Fixed income funds	298,081	298,081	-	-	-
Corporate stocks	1,907,663	1,907,663	-	-	-
Equity funds	2,846,665	2,846,665	-	-	-
Money market funds	305,813	305,813	-	-	-
Interest and dividends receivable	17,297	17,297	-	-	-
Total Investments held by trustee of OPEB plan	7,212,260	5,712,920	375,147	375,516	748,677
Total investments	\$ 231,515,189	\$ 84,553,882	\$ 135,097,188	\$ 3,885,322	\$ 7,978,797

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

#### *Investments (continued)*

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

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

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

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

Credit Risk: It is the County's investment policy to only invest in U.S. Government Treasury obligations, agencies and sponsored instrumentalities. Also the County's investment policy allows for investments in banks located in the State of Maryland (Certificates of Deposit) with the exception of Bankers Acceptances. Commercial banks must have a short-term rating of at least investment grade from the appropriate bank rating agencies. Bankers' Acceptances from domestic banks, which also include United States affiliates of large international banks, must have a rating of A1 from Standards and Poor's Corporation and P1 from Moody's Investor Services. As of June 30, 2011, the County's investments were 100% in U.S. Treasury and Agency obligations and certificates of deposit.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

#### *Investments* (continued)

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2011, none of the County's investments are exposed to custodial credit risk because they are held in the County's name.

#### **Board of Education**

Cash:

Credit Risk: Maryland State Law prescribed that local government units, such as the School System, must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2011, cash deposit in noninterest-bearing accounts and NOW accounts with interest rates no higher than 0.5% are fully insured under the FDIC's Temporary Liquidity Guarantee Program. This program will provide coverage through June 30, 2011. Beginning July 1, 2010, any cash deposit exceeding the FDIC insurance level will require collateralization. Additionally, a compensating balance agreement exists with the Board's primary financial institution. This non-interest bearing deposit is maintained in lieu of cash payments for standard bank services. The required average balance totaled \$250,000 as of June 30, 2011.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

#### Board of Education (continued)

Compliance is summarized as follows:

<u>June 30, 2011</u>	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Fiduciary</u> <u>Responsibilities</u>	<u>Total</u>
Carrying amount of cash deposits	\$ 22,009,682	\$ 1,700	\$ 2,854,874	\$ 24,866,256
Bank balance of cash deposits	23,325,041	1,367	2,979,250	26,305,658
Amount covered by FDIC	458,504	1,009	2,072,837	2,532,350
Amount collateralized with securities held by an agent of the pledging financial institution in the School system's name	22,866,537	358	906,413	23,773,308

#### Investments:

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

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

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

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

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

#### Board of Education (continued)

As of June 30, 2011, the School System had the following investments and maturities:

June 30, 2011	Governmental Activities	Business-Type Activities	Fiduciary Responsibilities	Total
Federal Home Loan Mortgage Corp. – 2.012%, matures November 24, 2014 (net of unamortized discount of \$358,262)	\$ 5,141,738	\$ -	\$ -	\$ 5,141,738
Federal Home Loan Bank – Step Up/Variable, matures January 28, 2016	3,000,000	-	-	3,000,000
Federal Home Loan Bank 1.5%, matures December 15, 2014	1,000,000	-	-	1,000,000
Federal Home Loan Mortgage Corp. - 1.29%, matures August 25, 2015 (net of unamortized premium of \$8,617)	2,508,617	-	-	2,508,617
Federal National Mortgage Association - 2.47%, matures April 13, 2016	1,715,000	-	-	1,715,000
Income Fund of America	-	-	50,788	50,788
	<u>\$ 13,365,355</u>	<u>\$ -</u>	<u>\$ 50,788</u>	<u>\$ 13,416,143</u>

Investment Type	Fair Value	Investment Maturities (in Years)			
	June 30, 2011	Less than 1	1-5	6-10	More than 10
U.S. Agencies	\$ 13,365,355	\$ -	\$ 13,365,355	\$ -	\$ -
Income Fund	50,788	50,788	-	-	-
	<u>\$ 13,416,143</u>	<u>\$ 50,788</u>	<u>\$ 13,365,355</u>	<u>\$ -</u>	<u>\$ -</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

### 4. RECEIVABLES

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

	Governmental Activities			
	General	Non-Major	Capital Projects	Total
Receivables:				
Taxes receivable	\$ 1,023,256	\$ -	\$ -	\$ 1,023,256
Accounts receivable	745,547	285,484	1,056,469	2,087,500
Gross receivables	1,768,803	285,484	1,056,469	3,110,756
Less: allowance for uncollectibles	873,596	500	-	874,096
Net Total Receivables	<u>\$ 895,207</u>	<u>\$ 284,984</u>	<u>\$ 1,056,469</u>	<u>\$ 2,236,660</u>

	Business-type Activities				
	Water Quality	Solid Waste	Airport	Non-major	Total
Accounts receivable	\$ 1,068,313	\$ 269,238	\$ 122,441	\$ 11,003	\$ 1,470,995
Less: allowance for uncollectibles	11,857	12,177	11,313	-	35,347
Net Total Receivables	<u>\$ 1,056,456</u>	<u>\$ 257,061</u>	<u>\$ 111,128</u>	<u>\$ 11,003</u>	<u>\$ 1,435,648</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of the end of the current fiscal year deferred revenue for delinquent property taxes receivable reported in the General Fund was \$74,307. 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, 2011

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

#### Primary Government

	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2011</b>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 66,908,795	\$ 2,568,189	\$ -	\$ 69,476,984
Capital assets, being depreciated:				
Land Improvements	9,070,168	461,660	(369,900)	9,161,928
Building and Improvements	63,593,159	1,044,327	(10,000)	64,627,486
Vehicles	11,218,657	515,157	(231,606)	11,502,208
Infrastructure	1,110,006,033	7,385,673	-	1,117,391,706
Machinery and Equipment	8,148,275	491,516	-	8,639,791
Office Furniture and Equipment	5,577,747	-	(22,302)	5,555,445
Computer Equipment	26,635,584	627,170	-	27,262,754
Total capital assets, being depreciated	1,234,249,623	10,525,503	(633,808)	1,244,141,318
<b>Total Capital Assets</b>	<b>1,301,158,418</b>	<b>13,093,692</b>	<b>(633,808)</b>	<b>1,313,618,302</b>
Accumulated depreciation for:				
Land Improvements	(4,263,123)	(316,574)	348,494	(4,231,203)
Building and Improvements	(19,298,556)	(2,028,904)	229	(21,327,231)
Vehicles	(8,686,227)	(1,265,350)	206,494	(9,745,083)
Infrastructure	(828,081,538)	(20,993,326)	-	(849,074,864)
Machinery and Equipment	(5,901,630)	(417,869)	-	(6,319,499)
Office Furniture and Equipment	(3,855,974)	(501,737)	22,302	(4,335,409)
Computer Equipment	(6,344,949)	(2,494,125)	-	(8,839,074)
Total Accumulated Depreciation	(876,431,997)	(28,017,885)	577,519	(903,872,363)
<b>Governmental Activities Capital Assets, net</b>	<b>\$ 424,726,421</b>	<b>\$ (14,924,193)</b>	<b>\$ (56,289)</b>	<b>\$ 409,745,939</b>
<b>Projects Under Construction</b>	<b>\$ 9,453,791</b>	<b>\$ 16,296,006</b>	<b>\$ (10,525,373)</b>	<b>\$ 15,224,424</b>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

### 5. CAPITAL ASSETS (continued)

#### Business-type Activities

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 11,701,454	\$ 58,721	\$ -	\$ 11,760,175
Capital assets, being depreciated:				
Land Improvements	124,924,118	2,482,099	(26,564)	127,379,653
Building and Improvements	45,511,267	9,262,599	(9,291)	54,764,575
Facilities	109,056,697	1,476,878	-	110,533,575
Vehicles	8,360,736	436,369	(1,849,869)	6,947,236
Machinery and Equipment	10,102,456	7,354	(194,819)	9,914,991
Office Furniture and Equipment	323,205	-	-	323,205
Computer Equipment	1,478,644	798,281	-	2,276,925
Treatment Plants	51,471,642	-	-	51,471,642
Total capital assets, being depreciated	351,228,765	14,463,580	(2,080,543)	363,611,802
<b>Total capital assets</b>	<b>362,930,219</b>	<b>14,522,301</b>	<b>(2,080,543)</b>	<b>375,371,977</b>
Land Improvements	(40,115,088)	(7,619,651)	25,719	(47,709,020)
Building and Improvements	(10,666,356)	(1,151,982)	9,291	(11,809,047)
Facilities	(24,091,870)	(1,394,063)	-	(25,485,933)
Vehicles	(5,066,310)	(678,045)	1,849,868	(3,894,487)
Machinery and Equipment	(6,908,568)	(634,247)	194,819	(7,347,996)
Office Furniture and Equipment	(318,006)	(2,165)	-	(320,171)
Computer Equipment	(1,074,512)	(148,360)	-	(1,222,872)
Treatment Plants	(17,780,382)	(971,626)	-	(18,752,008)
Total Accumulated Depreciation	(106,021,092)	(12,600,139)	2,079,697	(116,541,534)
<b>Business-type activities capital assets, net</b>	<b>\$ 256,909,127</b>	<b>\$ 1,922,162</b>	<b>\$ (846)</b>	<b>\$ 258,830,443</b>
<b>Projects Under Construction</b>	<b>\$ 7,756,909</b>	<b>\$ 6,013,188</b>	<b>\$ (9,698,260)</b>	<b>\$ 4,071,837</b>



# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

### 5. CAPITAL ASSETS (continued)

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

#### Governmental Activities:

General Government	\$ 22,435,553
Public Safety	4,187,041
Recreation	388,983
Conservation of Natural Resources	9,211
Highway	572,431
Total Depreciation Expense - Governmental Activities	<u>\$ 27,593,219</u>

#### Business-Type Activities:

Transit Fund	\$ 607,839
Airport Fund	6,043,832
Golf Course Fund	89,455
Water Quality Fund	2,801,392
Solid Waste Fund	3,057,621
Total Depreciation Expense – Business-Type Activities	<u>\$ 12,600,139</u>

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

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
<b>Government activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 4,500,513	\$ -	\$ -	\$ 4,500,513
Facilities under construction	16,792,186	23,765,101	(39,426,802)	1,130,485
	<u>21,292,699</u>	<u>23,765,101</u>	<u>(39,426,802)</u>	<u>5,630,998</u>
Capital assets, being depreciated:				
Building and Improvements	252,673,440	37,196,184	(30,037)	289,839,587
Furniture and equipment	31,860,737	5,958,688	(1,412,614)	36,406,811
Equipment under capital leases	10,745,365	-	(23,325)	10,722,040
	<u>295,279,542</u>	<u>43,154,872</u>	<u>(1,465,976)</u>	<u>336,968,438</u>
Accumulated depreciation				
Building and Improvements	(99,971,974)	(6,114,869)	24,833	(106,062,010)
Furniture and equipment, including equipment under capital leases	(19,188,124)	(3,526,580)	1,359,519	(21,355,185)
	<u>(119,160,098)</u>	<u>(9,641,449)</u>	<u>1,384,352</u>	<u>(127,417,195)</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 197,412,143</u>	<u>\$ 57,278,524</u>	<u>\$ (39,508,426)</u>	<u>\$ 215,182,241</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

### 5. CAPITAL ASSETS (continued)

#### Board of Education (continued)

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

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
<b>Business-type activities</b>				
Capital assets, being depreciated:				
Furniture and equipment	<u>\$ 3,986,547</u>	<u>\$ 367,063</u>	<u>\$ (125,752)</u>	<u>\$ 4,227,858</u>
Accumulated depreciation				
Furniture and equipment	<u>(2,740,320)</u>	<u>(193,026)</u>	<u>121,448</u>	<u>(2,811,898)</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u><u>\$ 1,246,227</u></u>	<u><u>\$ 174,037</u></u>	<u><u>\$ (4,304)</u></u>	<u><u>\$ 1,415,960</u></u>
Governmental activities:				
Other instructional costs		\$ 1,751,649		
Student transportation services		1,051,830		
Operation of plant		138,349		
Depreciation - unallocated		<u>6,699,621</u>		
Total governmental activities depreciation expense		<u><u>\$ 9,641,449</u></u>		
Business-type activities:				
Food services		<u><u>\$ 193,026</u></u>		

### 6. INTERFUND RECEIVABLES AND PAYABLES

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

### 6. INTERFUND RECEIVABLES AND PAYABLES (continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Airport	\$ 125,943
Water Quality	General Fund	19,038,538
	Highway	127,563
	Golf Course	167,960
	Public Transit	322,631
	HEPMPO	29,905
Solid Waste	General Fund	23,547,666
	Highway	157,776
	Golf Course	207,740
	Public Transit	399,044
	HEPMPO	36,988
Airport	General Fund	7,515,212
	Highway	50,354
	Golf Course	66,300
	Public Transit	127,355
	HEPMPO	11,804
Capital Projects	General Fund	71,805,569
Total		<u>\$ 123,738,348</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	<u>\$ 778,486</u>

The General Fund receivable from the Airport has a June 30, 2011, balance of \$125,943 of which \$95,943 bears interest at a rate of 4.5% and is being paid over a remaining 1 year period and \$30,000 is an interest free loan and is being paid over a remaining 3 year period. All other interfund payables are without interest.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

### 7. INTERFUND TRANSACTIONS

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

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

Fund	Operating Transfers In	Operating Transfers Out	Capital Transfers In	Capital Transfers Out
General Fund:				
Capital Projects	\$ -	\$ -	\$ -	\$ 5,300,000
Solid Waste	-	548,390	-	-
Public Transit	-	483,010	-	-
Water Quality	-	3,120,000	-	-
Airport	-	99,990	-	-
Community Partnership	-	286,382	-	-
Agricultural Education Center	-	100,000	-	-
Golf Course	-	70,780	-	-
Foreign Trade Zone	-	308	-	-
HEPMPO	-	8,537	-	-
Land Preservation	-	17,989	-	-
Capital Projects Fund:				
General Fund	-	545,350	5,258,200	245,000
Solid Waste:				
General Fund	548,390	-	-	-
Public Transit:				
General Fund	483,010	-	-	-
Capital Project Fund	-	-	41,800	-
HEPMPO	-	9,733	-	-
Water Quality:				
General Fund	3,120,000	-	-	-
Airport :				
General Fund	99,990	-	-	-
Capital Project Fund	545,350	-	245,000	-
Golf Course				
General Fund	70,780	-	-	-
Community Partnership:				
General Fund	286,382	-	-	-
Foreign Trade Zone				
General Fund	308	-	-	-
Agricultural Education Center:				
General Fund	100,000	-	-	-
HEPMPO				
General Fund	8,537	-	-	-
Public Transit Fund	9,733			
Land Preservation				
General Fund	17,989	-	-	-
Total	<u>\$ 5,290,469</u>	<u>\$ 5,290,469</u>	<u>\$ 5,545,000</u>	<u>\$ 5,545,000</u>

# **COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

## **Notes to the Financial Statements**

**June 30, 2011**

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

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. During the year, general obligation bonds totaling \$14,170,000 were issued for new projects. General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as 20-year serial bonds with different amounts of principal maturing each year. General obligation bonds and capital lease obligations currently outstanding are as follows:

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

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

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b><i>Governmental Activities</i></b>						
Bonds payable:						
General obligation bonds	1.5-5.5%	\$ 118,839,462	\$ 10,949,900	\$ 8,566,163	\$ 121,223,199	\$ 9,045,151
Deferred amount on refunding		(1,175,965)	-	(114,438)	(1,061,527)	-
Unamortized bond premium		976,176	339,842	108,663	1,207,355	-
Unamortized bond discount		(38,406)	-	(2,955)	(35,451)	-
Total bonds payable		<u>118,601,267</u>	<u>11,289,742</u>	<u>8,557,433</u>	<u>121,333,576</u>	<u>9,045,151</u>
Other loans payable						
Maryland Water Quality loans	1.0%	<u>6,303,795</u>	<u>-</u>	<u>277,062</u>	<u>6,026,733</u>	<u>280,846</u>
Total bonds and loans payable		<u>124,905,062</u>	<u>11,289,742</u>	<u>8,834,495</u>	<u>127,360,309</u>	<u>9,325,997</u>
Agricultural Land Preservation	3.0%	<u>3,086,483</u>	<u>-</u>	<u>517,737</u>	<u>2,568,746</u>	<u>517,736</u>
Capital lease obligations	4.0%	<u>173,150</u>	<u>-</u>	<u>173,150</u>	<u>-</u>	<u>-</u>
Governmental Activity Long-term Liabilities		<u>128,164,695</u>	<u>11,289,742</u>	<u>9,525,382</u>	<u>129,929,055</u>	<u>9,843,733</u>
<b><i>Business-type Activities</i></b>						
Bonds payable:						
General obligation bonds	1.5-5.5%	41,854,288	3,220,100	2,162,761	42,911,627	2,328,025
Deferred amount on refunding		(1,189,099)	-	(161,696)	(1,027,403)	-
Unamortized bond premium		294,962	99,939	29,487	365,414	-
Unamortized bond discount		(36,010)	-	(6,271)	(29,739)	-
Total bonds payable		<u>40,924,141</u>	<u>3,320,039</u>	<u>2,024,281</u>	<u>42,219,899</u>	<u>2,328,025</u>
Other loans payable:						
Maryland Water Quality loans	.40-3.4%	<u>21,771,059</u>	<u>-</u>	<u>2,585,182</u>	<u>19,185,877</u>	<u>2,208,974</u>
State loans	5.5-6.4%	<u>1,572,889</u>	<u>-</u>	<u>174,426</u>	<u>1,398,463</u>	<u>175,864</u>
Other loans payable		<u>23,343,948</u>	<u>-</u>	<u>2,759,608</u>	<u>20,584,340</u>	<u>2,384,838</u>
Total bonds and loans payable		<u>64,268,089</u>	<u>3,320,039</u>	<u>4,783,889</u>	<u>62,804,239</u>	<u>4,712,863</u>
Capital lease obligations	3.8-5.4%	<u>420,694</u>	<u>-</u>	<u>244,070</u>	<u>176,624</u>	<u>111,123</u>
Business-type Activity Long-term Liabilities		<u>64,688,783</u>	<u>3,320,039</u>	<u>5,027,959</u>	<u>62,980,863</u>	<u>4,823,986</u>
<b><i>Total Combined Activities</i></b>						
Long-term Liabilities		<u>\$ 192,853,478</u>	<u>\$ 14,609,781</u>	<u>\$ 14,553,341</u>	<u>\$ 192,909,918</u>	<u>\$ 14,667,719</u>
Board of Education	4.5-8.04%	<u>\$ 9,562,062</u>	<u>\$ -</u>	<u>\$ 822,898</u>	<u>\$ 8,739,164</u>	<u>\$ 728,077</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

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

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

Year ending June 30	Governmental Activities		Business-type Activities		Combined Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 9,325,997	\$ 4,440,151	\$ 4,703,741	\$ 2,293,008	\$ 14,029,738	\$ 6,733,159
2013	9,813,102	4,256,905	5,042,980	2,346,588	14,856,082	6,603,493
2014	9,590,803	3,902,907	5,011,863	2,315,621	14,602,666	6,218,528
2015	9,268,975	3,577,217	4,896,838	2,310,705	14,165,813	5,887,922
2016	8,721,473	3,232,774	4,047,780	2,744,231	12,769,253	5,977,005
2017-2021	37,171,611	11,760,753	20,984,532	11,125,612	58,156,143	22,886,365
2022-2026	28,490,937	5,764,163	13,772,214	2,214,293	42,263,151	7,978,456
2027-2031	14,109,738	1,265,702	4,813,316	455,180	18,923,054	1,720,882
2032	757,296	15,619	222,703	4,594	979,999	20,213
Total	127,249,932	<u>\$ 38,216,191</u>	\$ 63,495,967	<u>\$ 25,809,832</u>	190,745,899	<u>\$ 64,026,023</u>
Less:						
Deferred amount on refunding	(1,061,527)		(1,027,403)		(2,088,930)	
Unamortized discount	(35,451)		(29,739)		(65,190)	
Unamortized premium	1,207,355		365,414		1,572,769	
	<u>\$ 127,360,309</u>		<u>\$ 62,804,239</u>		<u>\$ 190,164,548</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, 2011, the unused authorization was \$39,905,822.

### 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, 2011, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$50,621,774.

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2011

#### 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, 2011, are as follows:

As of June 30,	Principal	Interest	Total Requirement
2012	\$ 517,736	\$ 77,063	\$ 594,799
2013	517,736	61,530	579,266
2014	517,737	45,998	563,735
2015	517,737	30,466	548,203
2016	351,794	14,934	366,728
2017	146,007	4,380	150,387
	<u>\$ 2,568,747</u>	<u>\$ 234,371</u>	<u>\$ 2,803,118</u>

For the year ended June 30, 2011, total principal and interest incurred related to agricultural land preservation installments was \$517,736 and \$92,595, respectively.

##### Capital Leases

On June 9, 2008, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$50,075 and expires June 9, 2012. On October 3, 2008, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$37,846 through October 3, 2012. On May 26, 2009, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$30,370 through May 26, 2013.



# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

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

#### Capital Leases (continued)

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

<u>Year ending June 30,</u>	
2012	\$ 118,292
2013	68,217
Total minimum lease payments	186,509
Less: amounts representing interest	9,885
Present value of net minimum lease payments	<u>\$ 176,624</u>

The following is an analysis of the capital assets acquired under capital leases as of June 30, 2011.

	<u>Capitalized Amount</u>	<u>Accumulated Depreciation</u>	<u>NBV June 30, 2011</u>
Solid Waste	<u>\$ 547,590</u>	<u>\$ 137,160</u>	<u>\$ 410,430</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 lease 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>
2012	\$ 728,077	\$ 469,682	\$ 1,197,759
2013	780,119	417,639	1,197,758
2014	628,493	361,160	989,653
2015	648,159	312,229	960,388
2016	372,666	260,802	633,468
2017-2021	2,136,963	1,030,379	3,167,342
2022-2026	2,676,152	491,190	3,167,342
2027-2028	768,535	23,301	791,836
	<u>\$ 8,739,164</u>	<u>\$ 3,366,382</u>	<u>\$ 12,105,546</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

### 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, 2011, \$7,530,000 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. At June 30, 2004, the building and improvements were estimated at \$2,500,000. During the year ending June 30, 2005, a revised cost was obtained reducing the value to \$2,000,000. The \$500,000 adjustment was recorded as a reduction to fixed assets and deferred revenue in the June 30, 2005, financial statements. The terms of the original agreement which began June 30, 2004, allowed the lessee to use the property for a period of 25 years, with no additional payments due. During fiscal year 2006, this lease was amended with lease terms extended to 31 years and an additional building and improvements valued at \$1,800,000 were capitalized as an asset in the Airport fund with an estimated useful life of 40 years. During fiscal year 2009, a second amendment to the lease agreement allowed for additional building and improvements valued at \$400,000 and an extension of the lease through December 31, 2042. The addition was capitalized as an asset in the Airport fund with an estimated useful life of 40 years. Deferred revenue in the amount of \$2,500,000 was recorded in the Airport fund at the inception of this lease but was adjusted down to \$2,000,000 during year ending 2005, and was to be recognized as rental income over the original 25 year term of the lease. Since the amendments extending the lease term and the additional capitalization of building and improvements, the remaining deferred revenue of \$3,587,724 at June 30, 2011, will be amortized over 33 years. The terms of the agreement as amended in fiscal year 2006, allows the lessee to use the property for a period of 31 years. The terms of the lease agreement require that the lessee pay the County annual rent of \$5,250 beginning May 1, 2006, with an annual increase of 4% each May 1st thereafter. The lease also requires that the County credit the lessee \$127,500 for the lessee's incurred costs in excavating the site for the addition. The agreement allows an option for the lessee to continue the lease past the 31 year term at a rental payment equal to the fair market rental value of the leased property at that time.

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2011

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

##### County (continued)

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

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

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

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2011

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

##### County (continued)

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

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

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

During year ending June 30, 2011, rental income for the above leases of \$626,559 was recognized in the Airport Fund.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

### 9. OPERATING LEASE AGREEMENTS (continued)

#### County (continued)

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 ending June 30, 2011, outsourcing revenue of \$345,600 was recognized in the Water Quality Fund.

On January 23, 2009, the Golf Course Corporation entered into a lease for golf carts. The agreement called for lease payments of \$6,962 payable from April through November of each year. The lease term is for three years commencing on April 15, 2009. Total lease payments for the year ended June 30, 2011, were \$55,345.

### 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, and is capped at 25 days. The accrual of sick leave is based on payment upon retirement at a rate of \$10 per day for each unused sick leave day up to a total of 130 days. Total unpaid vacation and sick leave accrued at June 30, 2011, was \$2,263,731 and \$561,383, 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, 2011, was \$5,491,285. Total employee related costs associated and accrued with these compensated absences amounted to \$420,082 as of June 30, 2011. For governmental funds, \$546,780 as of June 30, 2011, 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, 2011

### 11. RETIREMENT PLANS

#### County Defined Benefit Pension Plan

##### *Plan Description*

The County Commissioners of Washington County Employees Retirement Plan (the Plan) is a single-employer defined benefit pension plan established by the County Commissioners effective July 1, 1972, and adopted by ordinance. The County Commissioners have the power and authority to establish and amend the benefit provisions of the Plan. The Plan provides retirement benefits to Plan members. Effective January 1, 1986, members are qualified to participate in the Plan if they are compensated on the basis of working at least 40 hours per week and 12 months in a calendar year. Participation classification is based on the employee's status as either "uniformed" or "non-uniformed". A uniformed employee may retire at the earlier of age 50 or 25 years of service. A non-uniformed employee may retire at the earlier of age 60 or 30 years of eligibility service. Vesting begins after 5 years of service. Retirement benefits for uniformed employees are calculated by a formula and provide approximately 50% of average pay after 25 years. Non-uniformed employees retirement benefits provide approximately 60% of average pay after 30 years of service. Uniformed employees may take early retirement with reduced benefits at 20 years of service and non-uniformed may take early retirement at 25 years of service. Cost-of-living adjustments are provided at the discretion of the County Commissioners. Annual reporting for the Plan is presented only in the County's fiduciary funds financial statements.

##### *Funding Policy*

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

All information that follows for the Plan is as of July 1, 2010, which is the latest actuarial report available.

##### *Membership of the Plan*

The membership consisted of the following as of July 1, 2010, the date of the latest actuarial valuation:

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

### 12. RETIREMENT PLANS (continued)

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

Retirees and beneficiaries receiving benefits	230
Terminated Plan members entitled to but not yet receiving benefits	26
Active Plan members	750
	<u>1,006</u>

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

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

Annual required contribution	\$ 4,286,088
Interest on net pension obligation	63,411
Adjustment to annual required contribution	(94,136)
Annual pension cost	<u>4,255,363</u>
Contributions	<u>2,461,236</u>
Increase in net pension obligation	<u>1,794,127</u>
Net pension obligation, beginning of year	<u>818,204</u>
Net pension obligation, end of year	<u>\$ 2,612,331</u>

The annual required contribution for the current year was determined as part of the July 1, 2010, actuarial valuation using the projected unit credit cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), and (b) projected salary increases of 2.0% through 2012 and 4.0% per year thereafter. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined by the market value of investments. The unfunded actuarial accrued liability is being amortized at a level dollar over 25 years. The effect of an unfunded actuarial accrued liability (funding excess) is amortized immediately.

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements June 30, 2011

#### 12. RETIREMENT PLANS (continued)

##### Trend Information

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation (Excess)</b>
6/30/2010	\$ 4,255,363	57.84%	\$ 2,612,331
6/30/2009	3,827,494	93.09%	818,204
6/30/2008	3,119,308	100.00%	553,586
6/30/2007	3,049,722	95.60%	554,791

##### Board of Education

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

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

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the "Pension System for Teachers of the State of Maryland" and the "Pension System for Employees of the State of Maryland." Prior to this date, all teachers and related positions were required to be members of the "Teachers' Retirement System of the State of Maryland" and classified positions were members of the "Employees' Retirement System of the State of Maryland." All school system employees who were members of the "Retirement System" may remain in that System or may elect to join the "Pension System." All teachers hired within the State after December 31, 1979, must join the "Pension System for Teachers." All classified employees hired within the State after December 31, 1999, must join the "Pension System for Employees." The "Teachers' Retirement System" and the "Pension System for Employees" cover those employees not covered by the teachers' plans. These employees are principally custodial, maintenance and food service employees.

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System and as early as age 55 and 15 years of service for the Pension System. Benefits generally vest after 5 years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 1-800-492-5909, or by e-mail at [sra@sra.state.md.us](mailto:sra@sra.state.md.us).



## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2011

#### 12. RETIREMENT PLANS (continued)

##### Board of Education (continued)

Both the "Retirement System" and the "Pension System" for teachers and educational support employees are jointly contributory. Under the "Retirement System", employees contribute 4% - 7% of their total gross salary, and under the "Pension System", employees contribute 5% their gross salary for the year ended June 30, 2011, respectively. Effective, July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

Washington County School System contributions totaling \$1,978,382 and \$1,365,507 or 10.83% and 7.58% of covered payroll for fiscal years 2011 and 2010, respectively; and contributions by the State of Maryland on behalf of the School System totaling \$18,559,074 and \$16,580,708 or 14.34% and 13.15% of covered payroll for fiscal years 2011 and 2010, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed annually.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases of 3.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 8.5% per year, attributable to seniority and merit, (d) postretirement benefit increases ranging from 2.75% to 3.5% per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 2003 to 2006, and (f) the aggregate active member payroll is assumed to increase by 3.5% annually.

The actuarial value of assets was determined by recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% nor less than 80% of the market value of assets. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll, in two distinct pieces. The unfunded actuarial accrued liability, which existed as of the June 30, 2000 actuarial valuation, is being amortized over the remaining 12-year period to June 30, 2020. Each new layer of unfunded actuarial accrued liability arising subsequent to June 30, 2000, is being amortized over a twenty-five year period.

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements June 30, 2011

#### 12. RETIREMENT PLANS (continued)

##### Board of Education (continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Total Annual Pension Cost (APC)</u>	<u>APC Contributed by School System</u>	<u>APC Contributed by State</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 20,537,456	\$ 1,978,382	\$ 18,559,074	100%	-
2010	17,946,215	1,365,507	16,580,780	100%	-
2009	14,644,559	1,203,511	13,441,048	100%	-
2008	13,777,983	1,268,670	12,509,313	100%	-
2007	10,777,719	1,163,744	9,613,975	100%	-

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

#### 13. 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, 2011

### 13. 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 \$725,601 which is reflected in the accompanying financial statements as of June 30, 2011. Changes in the claims liability were as follows:

	<b>Years Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Liability, beginning of year	\$ 989,018	\$ 1,880,807
Premiums collected and changes in estimates during the year	9,991,595	9,278,291
Claims and administrative costs paid	(10,255,012)	(10,170,080)
Liability, end of year	<u>\$ 725,601</u>	<u>\$ 989,018</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, 2011

#### 13. RISK MANAGEMENT (continued)

##### County (continued)

The County Commissioners have also established a self-insurance plan for Workers' Compensation claims whereby the County is liable for the first \$500,000 per occurrence. As required by the State of Maryland, \$175,000 in U.S. Treasury Notes is held by the State Workers' Compensation Commission and is included in investments on the balance sheet. The County extends coverage under this plan to the employees of other governmental and nonprofit agencies. These agencies are charged a "premium", however the County bears the risk of loss. The liability for estimated claims was determined to be \$1,235,540, which is reflected in the accompanying financial statements as of June 30, 2011. Changes in the claims liability were as follows:

	<b>Years Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Liability, beginning of year	\$ 754,966	\$ 654,351
Premiums collected and changes in estimates during the year	1,375,540	1,021,993
Claims and administrative costs paid	(894,966)	(921,378)
Liability, end of year	<u>\$ 1,235,540</u>	<u>\$ 754,966</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, 2011

#### 14. RISK MANAGEMENT (continued)

##### Board of Education (continued)

Additionally, the School System is one of sixteen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Workers' Compensation Group Self-Insurance Fund (the Fund). This Fund was established to provide worker's compensation indemnity and medical benefits coverage for participating school boards. The Fund is operated under regulations promulgated by the State's Workers' Compensation Commission (COMAR 14.09.02). Each Fund participant pays an annual premium calculated on its payroll according to the standard classifications, with an experience modification applied. Although premiums billed to the Fund members are determined on an actuarial basis, ultimate liability for claims remains with the respective members and accordingly, the insurance risks are not transferred to the Fund. Six months following the end of the Fund's fiscal year, the Fund's trustees declare unneeded funds as surplus and distribute 50% of the declared surplus as dividends to the Fund members. This dividend distribution is made no sooner than one year after the close of that fiscal year. Members dedicate the remaining 50% of the surplus each year to a surplus fund until it reaches 100% net annual premium. The Fund carries an excess insurance policy providing specific excess and employer liability protection coverage, thus reducing the potential of assessment against Fund members. The Fund provides coverage for up to a maximum of \$250,000 for each worker's compensation claim.

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

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

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements June 30, 2011

#### 13. RISK MANAGEMENT (continued)

##### Board of Education (continued)

In accordance with the Governmental Accounting Standards Board's Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," charges to other funds must be accounted for as revenue by an internal service fund and expenditures/expenses by the other funds. The amounts of these charges were \$26,953,572 and \$22,286,686 for the years ended June 30, 2011 and 2010, respectively.

The Self-Insurance Fund's accrued liabilities include an estimate of the amount to be paid for self-insured claims incurred prior to June 30, 2011 and 2010. 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,	
	2011	2010
Liability, beginning of year	\$ 2,043,031	\$ 2,077,490
Claims and changes in estimates during the year	31,250,926	30,227,119
Claims paid and accrued	(31,325,924)	(30,261,578)
Liability, end of year	<u>\$ 1,968,033</u>	<u>\$ 2,043,031</u>

#### 14. 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.

#### 15. AGENCY FUND DEFERRED TAX SALES PROCEEDS

Tax sales proceeds are accounted for in the Agency Fund. Three years after the date of a tax sale, the net proceeds can be transferred to the General Fund. For seven years thereafter, property owners or their heirs may petition the Court for the net proceeds of the tax sale, and the proceeds revert back to the Agency Fund. At the end of the seven-year period, the proceeds are recognized as income to the County. Proceeds not transferred to the General Fund are accounted for as deferred tax sales proceeds, and included as deferred revenue on the balance sheet.

## **COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

### **Notes to the Financial Statements**

**June 30, 2011**

#### **16. SEGMENT INFORMATION**

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

### 16. SEGMENT INFORMATION (continued)

	<b>Sewer Department</b>	<b>Pretreatment Department</b>
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
Assets		
Current assets	\$ 18,841,493	\$ 2,464,609
Noncurrent assets	104,596,617	6,108,900
Total Assets	<u>123,438,110</u>	<u>8,573,509</u>
Liabilities		
Other current liabilities	8,137,742	1,916,205
Noncurrent liabilities	14,360,697	5,050,645
Total Liabilities	<u>22,498,439</u>	<u>6,966,850</u>
Net assets		
Invested in capital assets, net of related debt	93,744,989	526,855
Unrestricted	1,631,698	1,079,804
Restricted-capital projects	5,562,984	-
Total Net Assets	<u><u>\$ 100,939,671</u></u>	<u><u>\$ 1,606,659</u></u>
<b>CONDENSED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS</b>		
Operating revenue	\$ 8,281,625	\$ -
Lease income	-	345,600
Depreciation expense	(2,170,946)	(187,748)
Other operating expenses	(4,212,413)	(24,039)
Operating income	<u>1,898,266</u>	<u>133,813</u>
Non-operating revenue (expenses)		
Interest income	89,785	-
Interest expense	(797,324)	(243,734)
Utility administration charge	-	-
Operating transfers	(669,361)	987,000
Capital transfers	<u>835,609</u>	<u>-</u>
Change in net assets	1,356,975	877,079
Net assets, beginning of year	99,582,696	729,580
Net Assets, End of Year	<u><u>\$ 100,939,671</u></u>	<u><u>\$ 1,606,659</u></u>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided (used) by		
Operating activities	\$ (12,973,154)	\$ 321,561
Noncapital financing activities	(669,361)	987,000
Capital and related financing activities	(2,103,392)	(1,261,218)
Investing activities	(839,134)	-
Net increase	<u>(16,585,041)</u>	<u>47,343</u>
Cash and cash equivalents, beginning of year	16,585,041	2,388,965
Cash and Cash Equivalents, End of Year	<u><u>\$ -</u></u>	<u><u>\$ 2,436,308</u></u>



## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2011

#### 17. 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 \$212,276 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, 2011.

The Resh Landfill has reported a landfill closure and post-closure care liability of \$6,045,285 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, 2011.

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, 2011. The Rubble Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2011.

The 40 West Landfill began operation in fiscal year 2001. The estimated life of this landfill is approximately 58 years as of June 30, 2011, it is estimated that approximately 16% of the capacity has been used. The estimated costs associated with closure and post-closure care of \$7,872,016 was reported as a liability in the Solid Waste Fund at June 30, 2011. The County will recognize \$47,055,727 of estimated cost associated with the closure and post-closure care as capacity is filled. Expense of \$556,053 was recognized in the Solid Waste Fund for the year ended June 30, 2011.

The above estimates are based on estimated current costs to perform all closure and post-closure care. Actual costs may be higher due to inflation, deflation, changes in technology, or changes in applicable laws or regulations.

The County is required by state and federal laws and regulations to meet certain closure and post-closure financial assurance requirements. The County has satisfied these requirements by demonstrating in information submitted by the Director of Finance that they meet the Local Government Financial Test as of June 30, 2011, as specified in 40CFR258.

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2011

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

##### County

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

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

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

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

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements

June 30, 2011

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

#### County (continued)

#### Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,566,423
Interest on Net OPEB Obligation	11,820
Adjustment to Annual Required Contribution	(8,096)
Annual OPEB Cost (Expense)	1,570,147
Contributions Made or Accrued	1,757,147
Increase in Net Obligation	(187,000)
Net OPEB Obligation (BOY)	152,502
Net OPEB Obligation (EOY)	<u>\$ (34,498)</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 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 Obligation</u>
2011	\$ 1,570,147	111.91%	\$ (34,498)
2010	1,570,147	111.90%	152,502
2009	1,614,260	99.00%	152,502
2008	1,611,000	91.70%	133,550

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, 2011

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

##### County (continued)

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

In the June 30, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 12% initially, reduced by decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar charge on an open basis. The remaining amortization period as of July 1, 2009, was 28 years.

##### Board of Education

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

A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension System. Retirees can continue the same medical coverage they had (including family coverage) as active employees. Retirees receive a subsidy for their postretirement medical insurance based on points (Age + Service). A minimum of 66 points (with 5 years of service) is required to receive a subsidy.

## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2011

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

##### Board of Education (continued)

The maximum subsidy of 85% is reached at 85 points (note that this is a blended subsidy percentage based on the subsidy for each plan and the current enrollment distribution). Retirees with less than 66 points are allowed access, but must pay 100% of the published rates.

The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 1-800-492-5909, or by email at [sra@sra.state.md.us](mailto:sra@sra.state.md.us).

##### Funding Policy

The School System is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 7.2% of annual covered payroll.

##### Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed for the plan as of June 30, 2009, to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended June 30, 2011. The annual OPEB cost (expense) of \$10,505,013 was \$612 higher than the ARC for the fiscal year, due to adjustments related to amortization and interest on the net OPEB obligation. The School System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 is as follows:

<b>Fiscal Year Ended June 30,</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2011	\$ 10,505,013	123.47%	\$ (5,069,600)
2010	10,505,013	124.63%	(2,603,769)
2009	10,656,000	115.60%	(16,585)
2008	10,656,000	84.56%	1,645,400

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

### 18. 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, 2011, was as follows:

Actuarial accrued liability (AAL)	\$ 123,172,346
Actuarial value of plan assets	18,927,126
Unfunded actuarial accrued liability (UAAL)	<u>\$ 104,245,220</u>
Funded ratio (actuarial value of plan assets/AAL)	15.37%
Covered payroll (active plan members)	\$ 148,400,000
UAAL as a percentage of covered payroll	70.25%

#### 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, 2009, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.5% initially, reduced by 1.0% per year to arrive at an ultimate healthcare cost trend rate of 5.0%. Both rates include a 4.0% inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was twenty-seven years.

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

### 19. 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, 2011. There are also certain unasserted claims that could possibly be asserted. The Commissioners intend to defend all litigations against them. In the Commissioners' opinion, the liability, if any, in or arising from these litigations or any other legal proceedings in which the County is involved, will not have a material adverse effect on its financial condition.

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

#### Board of Education

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

As of June 30, 2011, 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 \$3,109,701.

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

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Notes to the Financial Statements June 30, 2011

### 19. CONTINGENCIES AND COMMITMENTS (continued)

#### Board of Education (continued)

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

### 20. COMMITTED AND ASSIGNED FUND BALANCES

Fund balances reflected in the governmental funds balance sheet as of June 30, 2011 are committed and assigned as follows:

	General Fund	Capital Projects Fund	Non-major Governmental Funds	Total
Non-Spendable				
Inventory	\$ 35,844	\$ -	\$ -	\$ 35,844
Long-term receivables	41,933	-	-	41,933
Restricted				
Programs and activities	119,313	-	1,509,001	1,628,314
Workers compensation	180,000	-	-	180,000
Highways and streets	240,121	-	-	240,121
Capital projects	-	15,838,952	-	15,838,952
Committed				
Contingencies	33,241,362			33,241,362
Programs and activities	4,945		351,537	356,482
Capital projects	-	55,985,780	-	55,985,780
Assigned				
Programs and activities	22,181	-	120,131	142,312
Unassigned	3,687,215	-	(2,680)	3,684,535
Totals	<u>\$ 37,572,914</u>	<u>\$ 71,824,732</u>	<u>\$ 1,977,989</u>	<u>\$111,375,635</u>

The County calculates the level of working capital and liquidity that is necessary to maintain, which is referred to above as cash reserves.

Fund balance as indicated has been reserved to reflect the payments that the General Fund will receive subsequent to the fiscal year ending June 30, 2011. Such payments are considered to be available for appropriation or expenditure when they will be received during the next fiscal year.



## COUNTY COMMISSIONERS OF WASHINGTON COUNTY

### Notes to the Financial Statements

June 30, 2011

#### 21. 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, 2008. Generally, a volunteer must be an active volunteer on or after January 1, 2007, to be eligible for any benefit under LOSAP. LOSAP also provides for death and disability benefits.

The 2010 calendar year census shows 811 volunteers receiving at least 50 points, which qualifies them for LOSAP credit. 132 retired volunteers are participating in LOSAP. The County funds LOSAP in annual amounts determined by an actuary.

As of July 1, 2010, the date of the latest actuarial valuation, the LOSAP Unfunded Accrued Liability (UAL) is as follows:

Accrued Liability	\$ 7,710,562
Less: assets at market value	4,572,193
Unfunded Accrued Liability	<u>\$ 3,138,369</u>

The minimum recommended contribution for the year beginning July 1, 2011, is as follows:

Normal costs	\$ 334,715
Amortization of UAL (over 15 years)	258,153
Interest on UAL	25,940
Recommended contribution	<u>\$ 618,808</u>

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## **Required Supplementary Information**

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Schedule of Funding Progress

June 30, 2011

### Pension 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]
7/1/2007	\$ 49,875,724	\$ 60,333,283	\$ 10,457,559	82.67%	\$ 29,299,129	35.69%
7/1/2008	51,808,616	67,907,912	16,099,296	76.29%	31,652,038	50.86%
7/1/2009	49,838,084	71,136,183	21,298,099	70.06%	33,576,069	63.43%
7/1/2010	52,986,292	77,023,047	24,036,755	68.79%	35,422,916	67.86%

### Length of Service Award Program (LOSAP) 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]
7/1/2007	4,401,471	5,581,427	1,179,956	78.86%	N/A	N/A
7/1/2008	4,242,850	6,510,528	2,267,678	65.17%	N/A	N/A
7/1/2009	3,944,546	7,111,240	3,166,694	55.47%	N/A	N/A
7/1/2010	4,572,193	7,710,562	3,138,369	59.30%	N/A	N/A

### 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]
7/1/2007	\$ -	\$ 14,950,000	\$ 14,950,000	0.00%	\$ 29,299,129	51.03%
7/1/2008	1,211,350	16,549,200	15,337,850	7.32%	29,300,000	52.35%
7/1/2009	1,501,721	18,333,616	16,831,895	8.19%	N/A	N/A

## **COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

### **Combining Statements of Financial Schedules June 30, 2011**

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

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

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

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

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

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

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

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

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

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

# **COUNTY COMMISSIONERS OF WASHINGTON COUNTY**

## **Combining Statements of Financial Schedules June 30, 2011**

### **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, 2011

	Community Partnership	Inmate Welfare	Contraband	Agricultural Education Center	Foreign Trade Zone	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non-Major Funds
<b>ASSETS</b>										
Cash	\$ 529,920	\$ 469,162	\$ 133,448	\$ 128,893	\$ -	\$ 515,127	\$ 1,423,407	\$ 584,200	\$ -	\$ 3,784,157
Accounts receivable	-	-	-	-	-	186,690	98,294	-	-	284,984
Due from other governmental agencies	49,115	-	-	-	-	-	-	-	132,022	181,137
Notes receivable	-	-	-	-	-	160,000	-	-	-	160,000
<b>TOTAL ASSETS</b>	<u>\$ 579,035</u>	<u>\$ 469,162</u>	<u>\$ 133,448</u>	<u>\$ 128,893</u>	<u>\$ -</u>	<u>\$ 861,817</u>	<u>\$ 1,521,701</u>	<u>\$ 584,200</u>	<u>\$ 132,022</u>	<u>\$ 4,410,278</u>
<b>LIABILITIES AND FUND BALANCES</b>										
<b>LIABILITIES</b>										
Accounts payable	\$ 166,923	\$ 21,925	\$ -	\$ 7,948	\$ -	\$ 298,819	\$ 1,483,350	\$ -	\$ 41,818	\$ 2,020,783
Accrued expenses	4,036	1,024	-	814	-	-	3,307	2,258	921	12,360
Due to other funds	-	-	-	-	-	-	-	-	78,697	78,697
Other liabilities	-	-	87,829	-	-	-	-	184,310	-	272,139
Deferred revenue	-	-	-	-	-	-	36,975	-	11,335	48,310
<b>TOTAL LIABILITIES</b>	<u>170,959</u>	<u>22,949</u>	<u>87,829</u>	<u>8,762</u>	<u>-</u>	<u>298,819</u>	<u>1,523,632</u>	<u>186,568</u>	<u>132,771</u>	<u>2,432,289</u>
<b>FUND BALANCES</b>										
Restricted	408,076	446,213	45,619	-	-	562,998	-	46,095	-	1,509,001
Committed	-	-	-	-	-	-	-	351,537	-	351,537
Assigned	-	-	-	120,131	-	-	-	-	-	120,131
Unassigned	-	-	-	-	-	-	(1,931)	-	(749)	(2,680)
<b>TOTAL FUND BALANCES</b>	<u>408,076</u>	<u>446,213</u>	<u>45,619</u>	<u>120,131</u>	<u>-</u>	<u>562,998</u>	<u>(1,931)</u>	<u>397,632</u>	<u>(749)</u>	<u>1,977,989</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 579,035</u>	<u>\$ 469,162</u>	<u>\$ 133,448</u>	<u>\$ 128,893</u>	<u>\$ -</u>	<u>\$ 861,817</u>	<u>\$ 1,521,701</u>	<u>\$ 584,200</u>	<u>\$ 132,022</u>	<u>\$ 4,410,278</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds For the Year Ended June 30, 2011

	Community Partnership	Inmate Welfare	Contraband	Agricultural Education Center	Foreign Trade Zone	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non- Major Funds
<b>REVENUE</b>										
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,697,360	\$ -	\$ 1,306,912	\$ -	\$ 3,004,272
Licenses and permits	-	-	-	-	-	-	2,043,644	-	-	2,043,644
Charges for services	-	436,906	-	-	-	-	-	-	-	436,906
Revenue from uses of property	-	-	-	20,193	-	-	-	-	-	20,193
Reimbursed expenses	-	-	-	3,241	-	-	-	-	-	3,241
Miscellaneous revenues	-	-	8,789	-	-	-	225	-	23,686	32,700
Shared taxes and grants	1,255,643	-	-	-	-	-	-	1,508,984	373,423	3,138,050
<b>TOTAL REVENUE</b>	<u>1,255,643</u>	<u>436,906</u>	<u>8,789</u>	<u>23,434</u>	<u>-</u>	<u>1,697,360</u>	<u>2,043,869</u>	<u>2,815,896</u>	<u>397,109</u>	<u>8,679,006</u>
<b>EXPENDITURES</b>										
Public safety	-	-	12,054	-	-	-	948,685	-	-	960,739
Parks, recreation and culture	-	-	-	177,393	-	-	-	-	-	177,393
Land preservation	-	-	-	-	-	-	-	2,755,541	-	2,755,541
General operations	-	433,214	-	-	-	-	168,220	-	416,028	1,017,462
Community promotion	1,603,760	-	-	-	-	1,496,875	948,685	-	-	4,049,320
<b>TOTAL EXPENDITURES</b>	<u>1,603,760</u>	<u>433,214</u>	<u>12,054</u>	<u>177,393</u>	<u>-</u>	<u>1,496,875</u>	<u>2,065,590</u>	<u>2,755,541</u>	<u>416,028</u>	<u>8,960,455</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<u>(348,117)</u>	<u>3,692</u>	<u>(3,265)</u>	<u>(153,959)</u>	<u>-</u>	<u>200,485</u>	<u>(21,721)</u>	<u>60,355</u>	<u>(18,919)</u>	<u>(281,449)</u>
<b>OTHER FINANCING SOURCES</b>										
Transfers in	286,382	-	-	100,000	308	-	-	17,989	18,170	422,849
<b>NET CHANGES IN FUND BALANCES</b>	<u>(61,735)</u>	<u>3,692</u>	<u>(3,265)</u>	<u>(53,959)</u>	<u>308</u>	<u>200,485</u>	<u>(21,721)</u>	<u>78,344</u>	<u>(749)</u>	<u>141,400</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>469,811</u>	<u>442,521</u>	<u>48,884</u>	<u>174,090</u>	<u>(308)</u>	<u>362,513</u>	<u>19,790</u>	<u>319,288</u>	<u>-</u>	<u>1,836,589</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 408,076</u>	<u>\$ 446,213</u>	<u>\$ 45,619</u>	<u>\$ 120,131</u>	<u>\$ -</u>	<u>\$ 562,998</u>	<u>\$ (1,931)</u>	<u>\$ 397,632</u>	<u>\$ (749)</u>	<u>\$ 1,977,989</u>



# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Combining Statement of Net Assets – Non-Major Proprietary Funds As of June 30, 2011

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
<b>ASSETS</b>			
Current Assets			
Cash and short-term investments	\$ 200	\$ 800	\$ 1,000
Accounts receivable	6,565	4,438	11,003
Unbilled receivables	1,045	-	1,045
Due from other governmental agencies	1,634,345	-	1,634,345
Inventories	67,122	51,536	118,658
Total current assets	<u>1,709,277</u>	<u>56,774</u>	<u>1,766,051</u>
Noncurrent Assets			
Property plant and equipment	6,814,262	4,417,731	11,231,993
Accumulated depreciation	(2,041,939)	(2,198,294)	(4,240,233)
Total noncurrent assets	<u>4,772,323</u>	<u>2,219,437</u>	<u>6,991,760</u>
<b>TOTAL ASSETS</b>	<u>6,481,600</u>	<u>2,276,211</u>	<u>8,757,811</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	182,746	16,985	199,731
Accrued expenses	33,062	33,084	66,146
Due to other funds	849,030	442,000	1,291,030
Compensated absences	48,297	27,606	75,903
Deferred revenue	-	2,750	2,750
Other liabilities	-	13,507	13,507
Total current liabilities	<u>1,113,135</u>	<u>535,932</u>	<u>1,649,067</u>
Non Current Liabilities			
Compensated absences	24,882	23,137	48,019
<b>TOTAL LIABILITIES</b>	<u>1,138,017</u>	<u>559,069</u>	<u>1,697,086</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,772,323	2,219,437	6,991,760
Unrestricted	571,260	(502,295)	68,965
<b>TOTAL NET ASSETS</b>	<u>\$ 5,343,583</u>	<u>\$ 1,717,142</u>	<u>\$ 7,060,725</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Combining Statement of Revenue, Expenses and Changes in Fund Net Assets – Non-Major Proprietary Funds For the Year Ended June 30, 2011

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
<b>OPERATING REVENUE</b>			
Charges for services	\$ 391,500	\$ 987,546	\$ 1,379,046
Miscellaneous	4,418	3,479	7,897
<b>TOTAL OPERATING REVENUE</b>	<u>395,918</u>	<u>991,025</u>	<u>1,386,943</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	\$ 1,071,445	\$ 513,166	1,584,611
Fringe benefits	316,892	170,441	487,333
Utilities	28,590	64,864	93,454
Insurance	48,634	7,570	56,204
Repairs and maintenance	72,397	61,346	133,743
Supplies	119,012	3,766	122,778
Cost of goods sold	-	106,535	106,535
Contracted services	172,831	6,901	179,732
Rentals and leases	48,294	55,345	103,639
Other operating	236,886	149,800	386,686
Uncollectible accounts	197	106	303
Controllable assets	7,269	3,310	10,579
Depreciation	607,839	89,455	697,294
<b>TOTAL OPERATING EXPENSES</b>	<u>2,730,286</u>	<u>1,232,605</u>	<u>3,962,891</u>
<b>OPERATING LOSS</b>	<u>(2,334,368)</u>	<u>(241,580)</u>	<u>(2,575,948)</u>
<b>OTHER INCOME (EXPENSE)</b>			
Loss on disposal of assets	(845)	-	(845)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(845)</u>	<u>-</u>	<u>(845)</u>
<b>LOSS BEFORE OPERATING TRANSFERS AND GRANTS</b>	(2,335,213)	(241,580)	(2,576,793)
<b>OPERATING TRANSFERS</b>	473,377	70,780	544,157
<b>GRANTS FOR OPERATIONS</b>	<u>1,148,567</u>	<u>-</u>	<u>1,148,567</u>
<b>LOSS BEFORE CAPITAL TRANSFERS AND GRANTS</b>	(713,269)	(170,800)	(884,069)
<b>CAPITAL TRANSFERS</b>	286,800	-	286,800
<b>GRANTS FOR CAPITAL PROJECTS</b>	<u>1,510,144</u>	<u>-</u>	<u>1,510,144</u>
<b>NET INCOME (LOSS)</b>	1,083,675	(170,800)	912,875
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>4,259,908</u>	<u>1,887,942</u>	<u>6,147,850</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 5,343,583</u>	<u>\$ 1,717,142</u>	<u>\$ 7,060,725</u>

# COUNTY COMMISSIONERS OF WASHINGTON COUNTY

## Combining Statement of Cash Flows – Non-Major Proprietary Funds For Year Ended June 30, 2011

	<b>Public Transit</b>	<b>Golf Course</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ (2,958)	\$ 989,435
Payments to suppliers	(567,043)	(453,234)
Payments to employees	(1,433,750)	(696,372)
<b>Net Cash from Operating Activities</b>	<b>(2,003,751)</b>	<b>(160,171)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Operating contributions	1,621,944	70,780
Increase (decrease) in due to/from other funds	500,918	89,391
<b>Net Cash from Noncapital Financing Activities</b>	<b>2,122,862</b>	<b>160,171</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(2,225,239)	-
Contribution for capital acquisitions	2,106,973	-
Loss on disposal	(845)	-
<b>Net Cash from Capital and Related Financing Activities</b>	<b>(119,111)</b>	<b>-</b>
Net change in cash	-	-
Cash, beginning of year	200	800
<b>Cash, End of Year</b>	<b>\$ 200</b>	<b>\$ 800</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (2,334,368)	\$ (241,580)
Adjustments to reconcile operating income to net cash		
from operating activities		
Depreciation	607,839	89,455
Changes in assets and liabilities:	-	-
Accounts receivable	2,547	160
Unbilled receivables	467	-
Prepaid expenses	-	6,961
Due to/from other government entities	(401,890)	-
Inventories	19,979	2,763
Accounts payable and other liabilities	147,088	(2,232)
Accrued expenses	(44,489)	(15,412)
Deferred revenue	-	(1,750)
Compensated absences	(924)	1,464
<b>Net Cash from Operating Activities</b>	<b>\$ (2,003,751)</b>	<b>\$ (160,171)</b>

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## **Budget and Actual Schedules**

# 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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUE				
Property Tax				
Real property tax	\$ 112,529,230	\$ 112,529,230	\$ 112,692,882	\$ 163,652
Personal property tax	13,642,880	13,642,880	13,067,057	(575,823)
Property tax interest income	510,000	510,000	599,714	89,714
Other property tax	587,750	587,750	623,131	35,381
Property tax discounts and credits	(1,461,600)	(1,461,600)	(1,519,794)	(58,194)
Total Property Taxes	125,808,260	125,808,260	125,462,990	(345,270)
Other Local Taxes				
Income tax	60,000,000	60,000,000	59,279,436	(720,564)
Income tax reserve	(420,000)	(420,000)	-	420,000
Admissions and amusement tax	390,000	390,000	324,210	(65,790)
Recordation tax	4,550,000	4,550,000	4,108,107	(441,893)
Trailer tax	425,000	425,000	459,335	34,335
Total Other Local Taxes	64,945,000	64,945,000	64,171,088	(773,912)
Other Revenues				
Licenses and permits	1,382,450	1,382,450	1,173,403	(209,047)
Court costs and fines	240,000	240,000	164,928	(75,072)
Charges for services	403,440	403,440	388,337	(15,103)
Revenues from use of property	1,443,960	1,443,960	1,280,462	(163,498)
Reimbursed expenses	1,104,250	1,104,250	1,063,968	(40,282)
Miscellaneous revenues	249,830	298,260	288,237	(10,023)
Grant and shared revenues	1,571,390	5,048,789	3,624,317	(1,424,472)
Highway Revenues	633,070	639,060	1,337,205	698,145
Total Other Revenues	7,028,390	10,560,209	9,320,858	(1,239,351)
TOTAL REVENUE	197,781,650	201,313,469	198,954,936	(2,358,533)
EXPENDITURES				
General Government				
Legislative				
County Commissioners	229,210	229,210	222,718	6,492
County Clerk	84,390	84,390	79,758	4,632
County Administrator	330,120	294,370	267,105	27,265
Public Information	83,150	83,150	81,391	1,759
Purchasing	402,550	402,550	398,964	3,586
Total Legislative	\$ 1,129,420	\$ 1,093,670	\$ 1,049,936	\$ 43,734

# 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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Judicial				
Circuit Court	\$ 1,282,460	\$ 1,282,460	\$ 1,229,752	\$ 52,708
Orphan's Court	29,500	29,500	29,010	490
State's Attorney	2,437,570	2,416,024	2,338,877	77,147
Sheriff - Judicial	2,048,850	2,048,850	1,970,314	78,536
Sheriff - Process Servers	115,370	115,370	111,512	3,858
Grants	-	252,841	267,825	(14,984)
Total Judicial	5,913,750	6,145,045	5,947,290	197,755
Election Board	1,007,170	1,007,170	804,183	202,987
Financial Administration				
Budget and Finance	1,191,050	1,191,050	1,167,781	23,269
Independent Auditing	70,000	70,000	63,050	6,950
Treasurer	420,660	420,660	407,715	12,945
Information Technologies	1,558,140	1,593,890	1,581,847	12,043
Total Financial Administration	3,239,850	3,275,600	3,220,393	55,207
County Attorney	631,370	631,370	529,964	101,406
Human Resources	643,460	643,460	595,046	48,414
Planning and Zoning				
Planning and Community Development	1,245,880	1,236,880	1,209,330	27,550
Board of Zoning	55,940	55,940	46,597	9,343
Total Planning and Zoning	1,301,820	1,292,820	1,255,927	36,893
Public Works				
Department of Public Works	349,100	349,100	348,000	1,100
Public Works - Land Development	798,570	798,570	715,836	82,734
Public Works - Capital Projects	1,305,680	1,305,680	1,309,690	(4,010)
Total Public Works	2,453,350	2,453,350	2,373,526	79,824
County Owned Buildings				
Martin Luther King Center	99,750	99,750	106,325	(6,575)
Administrative Building	278,900	296,700	249,604	47,096
Administrative Building II	117,000	117,000	44,028	72,972
Court House	550,540	550,540	568,503	(17,963)
County Office Building	240,260	232,060	197,095	34,965
Administration Annex	68,900	68,900	52,513	16,387
Central Services	204,910	204,910	181,131	23,779
Rental Properties	4,500	4,500	3,018	1,482
Library Maintenance	35,500	43,700	30,047	13,653
Dwyer Center	34,000	34,000	27,006	6,994
Public Facilities Annex	59,500	59,500	77,342	(17,842)
Total County Owned Buildings	1,693,760	1,711,560	1,536,612	174,948
Community Promotion				
Contributions to Non-profits	52,890	52,890	52,270	620
Economic Development Commission	626,510	626,510	620,668	5,842
Total Community Promotion	679,400	679,400	672,938	6,462
<b>Total General Government</b>	<b>\$ 18,693,350</b>	<b>\$ 18,933,445</b>	<b>\$ 17,985,815</b>	<b>\$ 947,630</b>

# 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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Public Safety</b>				
Sheriff Departments				
Patrol	\$ 7,855,300	\$ 7,885,400	\$ 7,548,951	\$ 336,449
Sheriff Auxillary Department	-	-	25,242	(25,242)
Narcotics Task Force	584,760	584,760	557,329	27,431
Grants	-	248,763	303,257	(54,494)
Total Sheriff Department	8,440,060	8,718,923	8,434,779	284,144
Fire and Rescue Services				
Volunteer Fire and Rescue - County Grants	5,176,030	5,176,030	5,152,946	23,084
Air Unit	20,650	32,330	29,101	3,229
Special Operations	321,920	321,920	318,238	3,682
Total Fire and Rescue Services	5,518,600	5,530,280	5,500,285	29,995
Corrections				
Detention Center	11,321,660	11,321,660	10,923,422	398,238
Central Booking	736,900	736,900	728,448	8,452
Total Corrections	12,058,560	12,058,560	11,651,870	406,690
Other Public Safety				
Building Inspection	1,879,490	1,884,380	1,807,723	76,657
911 - Communications	3,505,800	3,505,800	3,364,104	141,696
Communciations Maintenance	557,280	569,240	524,647	44,593
Emergency Management	126,500	115,500	113,556	1,944
Fire and Rescue Operations	936,430	936,430	934,345	2,085
Medical Examiner	15,000	15,000	16,270	(1,270)
Civil Air Patrol	3,600	3,600	3,600	-
Animal Control	1,160,250	1,160,250	1,146,337	13,913
CSafe	44,100	44,100	44,100	-
Children's Village	24,500	24,500	24,500	-
	-	1,800,660	617,634	1,183,026
Other Public Safety	8,252,950	10,059,460	8,596,816	1,462,644
<b>Total Public Safety</b>	34,270,170	36,367,223	34,183,751	2,183,472
<b>Health</b>				
<b>Total Health</b>	2,389,270	2,389,270	2,389,270	-
<b>Social Services</b>				
Total Contributions to Other Agencies	1,732,760	1,732,760	1,728,360	4,400
Grants	-	1,196,681	671,708	524,973
<b>Total Social Services</b>	1,732,760	2,929,441	2,400,068	529,373
<b>Education</b>				
<b>Total Education</b>	101,360,380	101,360,380	101,360,380	-
<b>Parks, Recreation, and Culture</b>				
Total Contributions to Other Agencies	2,888,020	2,888,020	2,888,020	-
Parks Department	1,741,470	1,741,470	1,663,401	78,069
Martin L. Snook Park Pool	127,400	127,400	131,003	(3,603)
Recreation	660,780	660,780	668,626	(7,846)
<b>Total Parks, Recreation, and Culture</b>	\$ 5,417,670	\$ 5,417,670	\$ 5,351,051	\$ 66,619



# 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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Conservation of Natural Resources</b>				
Weed Control	\$ 118,630	\$ 118,630	\$ 141,727	\$ (23,097)
Agricultural Extension Service	210,990	210,990	179,680	31,310
Cooperative Extension	38,730	38,730	38,730	-
Agricultural Marketing	96,330	96,330	100,531	(4,201)
Soil Conservation Service	75,040	75,040	75,040	-
Gypsy Moth Program	75,000	75,000	6,210	68,790
<b>Total Conservation of Natural Resources</b>	<u>614,720</u>	<u>614,720</u>	<u>541,918</u>	<u>72,802</u>
<b>Highway</b>	<u>8,489,090</u>	<u>8,495,080</u>	<u>8,095,183</u>	<u>399,897</u>
<b>General Operations</b>				
<b>Total General Operations</b>	<u>416,950</u>	<u>399,950</u>	<u>404,532</u>	<u>(4,582)</u>
<b>Unallocated Employee Insurance and Benefits</b>				
<b>Total Unallocated Employee Insurance and Benefits</b>	<u>2,018,310</u>	<u>2,018,310</u>	<u>1,683,373</u>	<u>334,937</u>
<b>Intergovernmental</b>				
Golf Course operating transfer	70,780	70,780	70,780	-
Foreign Trade Zone operating transfer	-	-	308	(308)
HEPMPO operating transfer	-	9,000	8,537	463
Land Preservation operating transfer	-	-	17,989	(17,989)
Water Quality operating transfer	3,120,000	3,120,000	3,120,000	-
Public Transit operating transfer	483,010	483,010	483,010	-
Airport operating transfer	99,990	99,990	99,990	-
Capital Projects operating transfer	4,500,000	4,500,000	5,300,000	(800,000)
Solid Waste operating transfer	548,390	548,390	548,390	-
Community Partnership operating transfer	295,760	295,760	286,382	9,379
Agricultural Education Center operating transfer	100,000	100,000	100,000	-
Municipality in lieu of bank shares	38,550	38,550	38,544	6
<b>Total Intergovernmental</b>	<u>9,256,480</u>	<u>9,265,480</u>	<u>10,073,929</u>	<u>(808,449)</u>
<b>Debt Service</b>				
<b>Total Debt Service</b>	<u>13,122,500</u>	<u>13,122,500</u>	<u>13,066,760</u>	<u>55,740</u>
<b>TOTAL EXPENDITURES</b>	<u>197,781,650</u>	<u>201,313,469</u>	<u>197,536,030</u>	<u>3,777,439</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	1,418,906	<u>\$ 1,418,906</u>
<b>CONSOLIDATION OF HIGHWAY FUND</b>			(644,789)	
<b>FUND BALANCE - BEGINNING</b>			<u>36,798,797</u>	
<b>FUND BALANCE - ENDING</b>			<u>\$ 37,572,914</u>	



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**PROPOSED FORMS OF OPINIONS OF BOND COUNSEL**

**PROPOSED FORM OF OPINION REGARDING THE PUBLIC IMPROVEMENT BONDS**

[Date of Issuance]

County Commissioners of Washington County  
Hagerstown, Maryland

Dear County Commissioners:

We have acted as Bond Counsel to County Commissioners of Washington County (the “Issuer”) in connection with the issuance of its \$17,765,000 County Commissioners of Washington County Public Improvement Bonds of 2012 (the “Bonds”), dated the date hereof. All capitalized terms not defined herein shall have the meanings set forth in the Bonds.

We have examined the law and such certified proceedings and other materials as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Issuer and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland (the “State”) and the federal law of the United States of America.

With respect to the executed and authenticated Bond of the issue of Bonds that we have examined, and Bonds similarly executed and authenticated and identical thereto in form, except for numbers, interest rates, denominations and maturities, we are of the opinion that, under existing Maryland and federal law as of this date hereof:

(a) The Bonds are valid and legally binding general obligations of the Issuer to which its full faith and credit and taxing power are pledged, and for the payment of which the Issuer is empowered and directed to levy ad valorem taxes unlimited as to rate and amount upon all legally assessable property subject to assessment for unlimited taxation in Washington County.

(b) To provide for the payment of the principal of and interest on the Bonds, the Issuer, by the adoption of the Resolution, has covenanted to levy ad valorem taxes in rate and amount sufficient for that purpose in each fiscal year in which provision must be made for the payment of such principal and interest.

(c) By the terms of the Act, the Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit made in the sale thereof, shall be at all times exempt from State, county, municipal or other taxation of every kind and nature whatsoever in the State, but no opinion is expressed as to estate or inheritance taxes, or to any other taxes not levied or assessed directly on the Bonds or the interest thereon.

(d) Under existing statutes, regulations and decisions, and assuming the accuracy of certifications of the County, interest on the Bonds is excludable from gross income for federal income tax purposes. Interest on the Bonds is not a tax preference item directly subject to the alternative minimum tax imposed on individuals, corporations and other taxpayers pursuant to the Internal Revenue Code of 1986, as amended (the “Code”); however, interest on the Bonds held by certain corporations may be indirectly subject to federal alternative minimum tax because of its inclusion in the “adjusted current earnings” of a corporate holder. Interest on the Bonds held by foreign corporations engaged in a trade or business in the United States may be subject to the branch profits tax imposed by the Code.

The opinions set forth in this paragraph (d) are subject to the condition that the County complies with all requirements that must be satisfied subsequent to the issuance of the Bonds so that interest on the Bonds continues to be excluded from gross income for federal income tax purposes. The County has covenanted and agreed to comply with each such requirement in its Tax Certificate and Compliance Agreement of even date herewith (the "Tax Certificate"). Failure to comply with certain requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We assume no responsibility for, and will not monitor, compliance by the County with the covenants and agreements contained in the Tax Certificate. In the event of noncompliance with such covenants and agreements, available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent the interest on the Bonds from becoming includable in gross income for federal income tax purposes.

Other than as set forth in the preceding paragraphs (c) and (d), we express no opinion regarding the federal or State income tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Our services as bond counsel have been limited to rendering the opinions expressed above based on our review of such information and proceedings as we deem necessary to opine as to the validity of the Bonds and the tax status of the interest payable on the Bonds. We have not been engaged and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and, accordingly, we express no opinion as to the accuracy, completeness or sufficiency of any such information that may have been relied upon by any person in making a decision to purchase the Bonds.

The opinions expressed above are limited to the matters set forth above, and no other opinions should be inferred beyond the matters expressly stated. This opinion is given as of its date and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

## PROPOSED FORM OF OPINION REGARDING THE REFUNDING BONDS

[Date of Issuance]

County Commissioners of Washington County  
Hagerstown, Maryland

Dear County Commissioners:

We have acted as Bond Counsel to County Commissioners of Washington County (the "Issuer") in connection with the issuance of its \$7,740,000 County Commissioners of Washington County Refunding Bonds of 2012 (the "Refunding Bonds"), dated the date hereof. All capitalized terms not defined herein shall have the meanings set forth in the Refunding Bonds.

We have examined the law and such certified proceedings and other materials as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Issuer and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland (the "State") and the federal law of the United States of America.

With respect to the executed and authenticated Refunding Bond of the issue of Refunding Bonds that we have examined, and Refunding Bonds similarly executed and authenticated and identical thereto in form, except for numbers, interest rates, denominations and maturities, we are of the opinion that, under existing Maryland and federal law as of this date hereof:

(a) The Refunding Bonds are valid and legally binding general obligations of the Issuer to which its full faith and credit and taxing power are pledged, and for the payment of which the Issuer is empowered and directed to levy ad valorem taxes unlimited as to rate and amount upon all legally assessable property subject to assessment for unlimited taxation in Washington County.

(b) To provide for the payment of the principal of and interest on the Refunding Bonds, the Issuer, by the adoption of the Resolution, has covenanted to levy ad valorem taxes in rate and amount sufficient for that purpose in each fiscal year in which provision must be made for the payment of such principal and interest.

(c) By the terms of the Act, the Refunding Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit made in the sale thereof, shall be at all times exempt from State, county, municipal or other taxation of every kind and nature whatsoever in the State, but no opinion is expressed as to estate or inheritance taxes, or to any other taxes not levied or assessed directly on the Refunding Bonds or the interest thereon.

(d) Under existing statutes, regulations and decisions, and assuming the accuracy of certifications of the County, interest on the Refunding Bonds is excludable from gross income for federal income tax purposes. Interest on the Refunding Bonds is not a tax preference item directly subject to the alternative minimum tax imposed on individuals, corporations and other taxpayers pursuant to the Internal Revenue Code of 1986, as amended (the "Code"); however, interest on the Refunding Bonds held by certain corporations may be indirectly subject to federal alternative minimum tax because of its inclusion in the "adjusted current earnings" of a corporate holder. Interest on the Refunding Bonds held by foreign corporations engaged in a trade or business in the United States may be subject to the branch profits tax imposed by the Code.

The opinions set forth in this paragraph (d) are subject to the condition that the County complies with all requirements that must be satisfied subsequent to the issuance of the Refunding Bonds so that interest on the Refunding Bonds continues to be excluded from gross income for federal income tax purposes. The County has covenanted and agreed to comply with each such requirement in its Tax Certificate and Compliance Agreement of even date herewith (the "Tax Certificate"). Failure to comply with certain requirements may cause interest on the Refunding Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Refunding Bonds. We assume no responsibility for, and will not monitor, compliance by the County with the covenants and agreements contained in the Tax Certificate. In the event of noncompliance with such covenants and agreements, available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent the interest on the Refunding Bonds from becoming includable in gross income for federal income tax purposes.

Other than as set forth in the preceding paragraphs (c) and (d), we express no opinion regarding the federal or State income tax consequences arising with respect to the Refunding Bonds.

It is to be understood that the rights of the owners of the Refunding Bonds and the enforceability of the Refunding Bonds and the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Our services as bond counsel have been limited to rendering the opinions expressed above based on our review of such information and proceedings as we deem necessary to opine as to the validity of the Refunding Bonds and the tax status of the interest payable on the Refunding Bonds. We have not been engaged and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Refunding Bonds and, accordingly, we express no opinion as to the accuracy, completeness or sufficiency of any such information that may have been relied upon by any person in making a decision to purchase the Refunding Bonds.

The opinions expressed above are limited to the matters set forth above, and no other opinions should be inferred beyond the matters expressly stated. This opinion is given as of its date and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

## NOTICE OF SALE

WASHINGTON COUNTY, MARYLAND  
(County Commissioners of Washington County)**\$17,765,000\* PUBLIC IMPROVEMENT BONDS OF 2012****\$8,120,000\* REFUNDING BONDS OF 2012**(Full Faith and Credit Obligations of the  
County Commissioners of Washington County)

Dated Date of Delivery

DTC Book-Entry

**Overview and Amortization**

Electronic proposals will be received via **Parity®** on behalf of the Board of County Commissioners of Washington County (the “Board”) by the Director of the Office of Budget and Finance of Washington County, Maryland (the “Finance Director”), at the County Commissioners’ Meeting Room (Room 227), 100 West Washington Street, Hagerstown, Maryland 21740 until 11:00 a.m. Prevailing Eastern Time on Tuesday, May 8, 2012 (the “Bid Date”, unless postponed as described in this Notice of Sale) for the purchase of all (but not less than all) of the Public Improvement Bonds of 2012 (the “Public Improvement Bonds”) and until 11:15 a.m. Prevailing Eastern Time for the purchase of all (but not less than all) of the Refunding Bonds of 2012 (the “Refunding Bonds”) (collectively, the Public Improvement Bonds and the Refunding Bonds are herein sometimes referred to as the “Bonds”) of County Commissioners of Washington County (the “County”), all dated their date of delivery, and all bearing interest payable on January 1, 2013, and semiannually thereafter on July 1 and January 1 until maturity or earlier redemption, as applicable. The Public Improvement Bonds are issued under the provisions of Chapter 392 of the Laws of Maryland of 2007 (“Chapter 392”) and Title 6 of the Code of Public Local Laws of Washington County (2007), as amended (the “Water and Sewer Act”). The Refunding Bonds are issued under the provisions of Chapter 110 of the Laws of Maryland of 1999, as amended (“Chapter 110”), and Section 24 of Article 31 of the Annotated Code of Maryland, as amended (the “Refunding Act”). Both series of the Bonds are issued in accordance with a Resolution adopted by the Board on April 24, 2012, as supplemented.

Manufacturers and Traders Trust Company, Baltimore, Maryland and Buffalo, New York, will act as the Bond Registrar and Paying Agent for each series of the Bonds.

*On or prior to the Bid Date, the County may determine not to issue the Refunding Bonds. Any such determination will be communicated via TM3 as described below under “Amendment and Postponement”. If the County so determines not to issue the Refunding Bonds, references in this official Notice of Sale to the Refunding Bonds shall be disregarded.*

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\*Preliminary; subject to change

The Public Improvement Bonds will be subject to principal amortization either through serial maturities or mandatory sinking fund redemptions or a combination thereof (see “Serial and/or Term Bonds” below) on July 1 in the years and principal amounts set forth below (the “PIB Preliminary Amounts”), subject to the provisions of “Adjustments to Principal Amounts” herein:

<b><u>Public Improvement Bonds of 2012</u></b>			
<b><u>Maturing July 1*</u></b>	<b><u>Principal Amount*</u></b>	<b><u>Maturing July 1*</u></b>	<b><u>Principal Amount*</u></b>
2013	\$ 640,000	2023	\$ 885,000
2014	660,000	2024	915,000
2015	685,000	2025	945,000
2016	705,000	2026	980,000
2017	730,000	2027	1,010,000
2018	755,000	2028	1,045,000
2019	780,000	2029	1,080,000
2020	805,000	2030	1,115,000
2021	830,000	2031	1,150,000
2022	860,000	2032	1,190,000

\*Preliminary; subject to change

The Refunding Bonds will be subject to principal amortization either through serial maturities or mandatory sinking fund redemptions or a combination thereof (see “Serial and/or Term Bonds” below) on January 1 in the years and principal amounts set forth below (the “Refunding Preliminary Amounts”), subject to the provisions of “Adjustments to Principal Amounts” herein:

<b><u>Refunding Bonds of 2012</u></b>			
<b><u>Maturing January 1*</u></b>	<b><u>Principal Amount*</u></b>	<b><u>Maturing January 1*</u></b>	<b><u>Principal Amount*</u></b>
2013	\$ 305,000	2019	\$ 860,000
2014	590,000	2020	890,000
2015	605,000	2021	925,000
2016	950,000	2022	460,000
2017	805,000	2023	470,000
2018	830,000	2024	430,000

\*Preliminary; subject to change

### **Adjustments to Principal Amounts**

Pre-sale, the County reserves the right to change the PIB Preliminary Amounts and/or the Refunding Preliminary Amounts from time to time up until 9:30 a.m. Prevailing Eastern Time on the Bid Date, by changing the aggregate principal amount of the applicable series of the Bonds and/or the principal amount of one or more of the maturities of the applicable series of the Bonds, including (without limitation), with respect to the Refunding Bonds, because the County has determined that sufficient cost savings will not be achieved by refunding or prepaying any portion of the outstanding 2003 Bonds, 2003A Bonds, MICRF Loan and/or MILA Loan identified under “Purpose of Issue” below. Should a revision to the aggregate principal amount of the Public Improvement Bonds and the principal amortization schedule for the Public Improvement Bonds be made (the “PIB Revised Amounts”) and/or should a revision to the aggregate principal amount of the Refunding Bonds and the principal amortization schedule for the Refunding Bonds be made (the “Refunding Revised Amounts”), such revision will be published on TM3



(www.tm3.com) not later than 9:30 a.m. Prevailing Eastern Time on the Bid Date. In the event that no revisions are made or that such revisions are not published on TM3 before 9:30 a.m. Prevailing Eastern Time on the Bid Date, the PIB Preliminary Amounts and the Refunding Preliminary Amounts will constitute the PIB Revised Amounts and the Refunding Revised Amounts, respectively. Bidders shall submit bids based on the PIB Revised Amounts and the Refunding Revised Amounts, as applicable, and the PIB Revised Amounts and the Refunding Revised Amounts will be used to compare bids for the applicable series of the Bonds and to select a winning bidder for each series.

After selecting the winning proposal for the Refunding Bonds, the maturity schedule of the Refunding Bonds may be adjusted as necessary in the determination of the County's financial advisor in increments of \$5,000 in order to best achieve the County's goal of maximizing debt service savings with respect to any refunding of the 2003 Bonds, the 2003A Bonds, MICRF Loan and/or MILA Loan. Such adjustments will not change the aggregate principal amount of the Refunding Bonds from the Refunding Revised Amounts by more than 10%. The dollar amount bid for the principal of the Refunding Bonds by the successful bidder will be adjusted proportionately to reflect any reduction or increase in the aggregate principal amount of the Refunding Bonds, but the coupon rates specified by the successful bidder for all maturities of the Refunding Bonds will not change; however, the adjustment may result in the elimination of one or more maturities of the Refunding Bonds. Any such maturity schedule adjustments will be communicated to the successful bidder for the Refunding Bonds within six hours of the opening of the bids therefor. The successful bidder for the Refunding Bonds may not withdraw its bid or change the interest rates bid or initial reoffering prices as a result of any changes made to the principal amount of the Refunding Bonds within these limits.

### **Serial Bonds and/or Term Bonds**

A bidder for a series of the Bonds may designate in its proposal two or more consecutive principal amounts provided for in the applicable amortization schedule as a term bond, which matures on the maturity date of the last included principal amount of the sequence. More than one such sequence of principal amounts may be designated as term bonds. Any term bond so designated shall be subject to mandatory redemption in each year on the principal payment date and in the entire amount of each serial maturity designated for inclusion in such term bond.

### **Purpose of Issue**

The Public Improvement Bonds are to be issued to provide a portion of the financing for infrastructure projects, environmental projects, public facilities projects and educational projects, and costs of issuance of the Public Improvement Bonds. The Refunding Bonds are to be issued to provide funds (i) to advance refund all or a portion of certain outstanding maturities of the County's Public Improvement Bonds of 2003, dated January 1, 2003 (the "2003 Bonds") and/or the County's Public Improvement and Refunding Bonds of 2003, Series A, dated October 15, 2003 (the "2003A Bonds"), and/or (ii) to prepay all or a portion of a June 6, 1991 loan from the Maryland Department of Economic and Employment Development to the County (the "MICRF Loan") and /or an October 20, 1993 loan from the Maryland Department of Economic and Employment Development to the County (the "MILA Loan"). Proceeds of the Refunding Bonds shall also be applied to pay costs of issuance of the Refunding Bonds.

### **Bid Specifications**

Bidders may submit a bid for the Public Improvement Bonds and/or the Refunding Bonds, provided that, a separate bid shall be submitted for each series of the Bonds if a bidder determines to bid for both series. Each proposal for a series of the Bonds must be submitted electronically as described below. No bid of less than 100% of the aggregate principal amount of a series of the Bonds, no oral or written bid and no bid for less than all of a series of the Bonds described in this Notice of Sale will be considered by the Board.

The right is reserved to waive any irregularity or informality in any proposal and to reject any or all proposals for either or both series of the Bonds. The judgment of the Finance Director shall be final and binding upon all bidders with respect to the form and adequacy of any proposal received and as to its conformity to the terms of this Notice of Sale.

Each bidder shall submit one proposal on an “all or none” basis for a series of the Bonds. Each proposal must specify the amount bid for such series of the Bonds (not less than 100% of the aggregate principal amount of such series of the Bonds) and must specify in multiples of one-eighth ( $\frac{1}{8}$ ) or one-twentieth ( $\frac{1}{20}$ ) of one percent (1%) the rate or rates of interest per annum which such series of the Bonds are to bear but shall not specify (a) more than one interest rate for any Bonds of the same series having the same maturity, (b) a zero rate of interest, (c) any interest rate for any Bonds which exceeds the interest rate stated in such proposal for any other Bonds in such series by more than three percent (3%), or (d) for maturities 2023 through 2032, inclusive, of the Public Improvement Bonds, no interest rate may be bid that is lower than the interest rate in the immediately preceding year (i.e., interest rates must ascend or remain level on a year-to-year basis from a base year of 2022).

### **Electronic Bids Only**

Bid proposals must be submitted by electronic bidding via **Parity®**, in the manner described below, and must be received on the Bid Date by 11:00 a.m. Prevailing Eastern Time for the Public Improvement Bonds and by 11:15 a.m. Prevailing Eastern Time for the Refunding Bonds. No bid for a series of the Bonds will be received after the respective time for receiving bids specified above. To the extent any instructions or directions set forth in **Parity®** conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about **Parity®**, potential bidders may contact **Parity®** at (212) 849-5021.

### **Disclaimer**

Each prospective electronic bidder shall be solely responsible to submit its bid via **Parity®** as described above. Each prospective electronic bidder shall be solely responsible to make necessary arrangements to access **Parity®** for the purpose of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the County nor **Parity®** shall have any duty or obligation to provide or assure access to **Parity®** to any prospective bidder, and neither the County nor **Parity®** shall be responsible for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by **Parity®**. The County is using **Parity®** as a communication mechanism, and not as the County’s agent, to conduct the electronic bidding for the Bonds. The County is not bound by any advice and determination of **Parity®** to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the applicable bid parameters specified in this Notice of Sale. All costs and expenses incurred by prospective bidders in connection with their submission of bids via **Parity®** are the sole responsibility of the bidders; and the County is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying, or withdrawing a bid for a series of the Bonds, such bidder should telephone **Parity®** at (212) 849-5021 and notify the County’s financial advisor, Public Consultants, Incorporated by facsimile at (410) 581-9808 and by telephone at (410) 581-4820.

### **Electronic Bidding Procedures**

Electronic bids must be submitted for the purchase of a series of the Bonds via **Parity®**. Bids will be communicated electronically to the County on May 8, 2012 (or such later Bid Date as announced in accordance with this Notice of Sale) at 11:00 a.m. Prevailing Eastern Time for the Public Improvement Bonds and at 11:15 a.m. Prevailing Eastern Time for the Refunding Bonds. Prior to those respective times, a prospective bidder may (1) submit the proposed terms of its bid via **Parity®**, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the applicable series of the Bonds, or (3) withdraw its proposed bid. Once the bids are communicated electronically via **Parity®** to the County, each bid will constitute an irrevocable offer to purchase the applicable series of the Bonds on the terms therein provided. The County shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, **Parity®**, the use of such facilities being the sole risk of the prospective bidder. For purposes of the electronic bidding process, the time as maintained on **Parity®** shall constitute the Prevailing Eastern Time.

No electronic bid will be finally accepted unless the bidder has submitted a good faith deposit as described below.

If any provision of this Notice of Sale shall conflict with the information provided by **BidCOMP®/ Parity®** as the approved provider of electronic bidding services, this Notice of Sale shall control.

## **Basis of Award**

Proposals will be opened on the Bid Date promptly after 11:00 a.m. Prevailing Eastern Time for the Public Improvement Bonds and promptly after 11:15 a.m. Prevailing Eastern Time for the Refunding Bonds. The successful bidder for each series of the Bonds will be determined based on the lowest interest cost to the County for such series of the Bonds. The lowest interest cost shall be determined in accordance with the true interest cost ("TIC") method by doubling the semiannual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds of a series and to the price bid. If two or more bidders offer to purchase a series of the Bonds at the same lowest interest cost, then such award will be made to the bidder offering the highest purchase price. If two or more bidders offer to purchase a series of the Bonds at the same lowest interest cost, with the same purchase price, the County shall have the right to award all of the Bonds of such series to one bidder.

## **Good Faith Deposit**

The respective successful bidders for the Bonds shall submit a good faith deposit in the amount of \$200,000 for the Public Improvement Bonds and \$100,000 for the Refunding Bonds (each, a "Good Faith Deposit") as provided below. The Good Faith Deposit will secure the County from any loss resulting from the failure of a successful bidder to comply with the terms of its bid. The successful bidder for each series of the Bonds shall transfer the applicable Good Faith Deposit by wire transfer directly to the County upon notification of the preliminary award of the applicable series of the Bonds, as indicated on **Parity®** (in each case, the "Preliminary Award"), but in any case no later than 4:00 p.m. Prevailing Eastern Time on the Bid Date. Wire instructions will be provided to each successful bidder by the County's financial advisor upon notification of the Preliminary Award.

The successful bidder for a series of the Bonds will provide as quickly as it is available evidence of the wire transfer to the County's financial advisor by providing to the County's financial advisor the federal funds reference number. The formal award of a series of the Bonds shall not be made until the County's financial advisor has confirmation of receipt of the Good Faith Deposit therefor, and if a successful bidder fails to so deliver the applicable Good Faith Deposit by the time designated above, the County will have the option to withdraw the Preliminary Award for such series of the Bonds and the successful bidder for such series shall be responsible to the County for all consequential damages arising from such withdrawal.

At the time of the delivery of the Bonds of each series, the Good Faith Deposit of each series will be applied against the purchase price for the Bonds of such series or will be retained as liquidated damages upon the failure of a successful bidder to take and pay for the applicable series of the Bonds in accordance with the terms of its proposal. The successful bidder for a series of the Bonds shall have no right in or to the Good Faith Deposit for such series if it fails to complete the purchase of, and payment in full of, such series of the Bonds for any reason whatsoever, unless such failure of performance shall be caused by an act or omission of the County. No interest will be paid upon a Good Faith Deposit to the applicable successful bidder. Notwithstanding the foregoing, should a successful bidder fail to pay for the applicable series of the Bonds at the price and on the date agreed upon, the County retains the right to seek further compensation for damages sustained as a result of the successful bidder so doing.

If the aggregate principal amount of a series of the Bonds is adjusted as described above under "Adjustments to Principal Amounts", no adjustment will be made to the applicable Good Faith Deposit.

## **Security**

The full faith and credit and unlimited taxing power of the County are unconditionally pledged to the payment of the principal of the Bonds and the interest to accrue thereon.

## **Book-Entry Only**

Each series of the Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. One bond certificate for each maturity of each series will be issued to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), and immobilized in DTC's custody or in the custody of the Bond Registrar and Paying Agent. The book-entry system will evidence ownership of each series of the Bonds in the principal amount of \$5,000 and integral multiples thereof, with transfers of ownership interest of each actual purchaser of a Bond effected on the records of DTC and its participants. The successful bidder for each series of the Bonds, as a condition to delivery of such series of the Bonds, shall be required to deposit the applicable bond certificates with DTC or with the Bond Registrar and Paying Agent to be held under DTC's "FAST" system, registered in the name of Cede & Co., DTC's nominee. All fees due DTC shall be paid by the successful bidder for a series of the Bonds.

Principal will be paid to Cede & Co., nominee of DTC, as registered owner of the Bonds on the dates such principal is payable. Interest on the Bonds is payable on January 1, 2013 and semiannually thereafter on July 1 and January 1 of each year to Cede & Co., nominee of DTC as the registered owner of the Bonds.

Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments to beneficial owners of the Bonds by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The County will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

DTC may determine not to continue to act as securities depository for a series of the Bonds at any time by giving notice to the County. The County may determine to select a different securities depository for a series of the Bonds or the County may determine not to continue the book-entry system for a series of the Bonds. If the County does not identify another qualified securities depository to replace DTC, the County will deliver replacement bonds for the applicable series in the form of fully-registered certificates.

## **Optional Redemption**

Public Improvement Bonds that mature on or before July 1, 2022, are not subject to redemption at the option of the County prior to their maturities. Public Improvement Bonds which mature on or after July 1, 2023, are subject to redemption at the option of the County in whole or in part on any date on or after July 1, 2022, in any order directed by the County, at a redemption price of the principal amount of the Public Improvement Bonds (or portions thereof) to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium or penalty.

The Refunding Bonds are not subject to redemption at the option of the County prior to maturity.

## **Legal Opinion**

The Bonds will be issued and sold subject to approval as to legality by Funk & Bolton, P.A., Baltimore, Maryland, bond counsel. The approving opinion of Funk & Bolton, P.A. with respect to a series of the Bonds will be delivered, upon request, to the successful bidder for such series of the Bonds, without charge, and the text of the applicable approving opinion will also be printed on, or attached to, each Bond.

## **Undertakings of the Successful Bidder(s)**

Upon award of each series of the Bonds, the successful bidder therefor shall advise the County of the initial reoffering prices to the public of each maturity of such series of the Bonds. Simultaneously with or before delivery of a series of the Bonds, the successful bidder therefor shall furnish to the County a certificate in form and substance acceptable to bond counsel (a) certifying that a bona fide offering of such series of the Bonds has been made to the public (excluding bond houses, brokers, and other intermediaries), and (b) stating the prices at which a substantial portion of each maturity of such series of the Bonds were sold to the public (excluding bond houses, brokers, and other intermediaries).

## **CUSIP Numbers**

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print any such number on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder for a series of the Bonds to accept delivery of and pay for such series of the Bonds in accordance with the terms of this Notice of Sale.

## **Official Statement**

Within seven business days after the award of the Bonds to the successful bidders therefor on the Bid Date, the County will authorize its Official Statement, which is expected to be substantially in the form of the Preliminary Official Statement referred to below. The Preliminary Official Statement has been deemed final by the County for the purpose of Rule 15c2-12 of the Securities and Exchange Commission, subject to revision, amendment and completion in a final Official Statement. The County will also issue any supplement or amendment to the Official Statement that may be necessary between the date of the Official Statement and the date of delivery of the Bonds. If requested and furnished to the County in writing by a successful bidder at or before the close of business on the Bid Date, the County will include in the Official Statement such pricing and other information relating to the reoffering of a series of the Bonds, if any, as may be so furnished. If the successful bidders furnish no such information, the Official Statement will include the interest rates on each series of the Bonds resulting from the proposal of the successful bidder therefor and the other statements with respect to reoffering contained in the Preliminary Official Statement. Whether or not any such information is included in the Official Statement, the successful bidders shall be responsible to the County and its officials in all respects for the accuracy, fairness and completeness of such information, and for all decisions made with respect to the use or omission of such information in any reoffering of the applicable series of the Bonds, including the presentation or exclusion of any such information in any documents, including the Official Statement. Within seven business days after the award of the Bonds, the successful bidders will also be furnished, without cost, with a reasonable number of copies of the Official Statement (and any amendment or supplement thereto, except to the extent any such amendment or supplement is required due to a change in the reoffering information provided by or on behalf of a successful bidder).

## **Continuing Disclosure**

In order to assist the successful bidders in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"), the County will undertake, pursuant to a continuing disclosure agreement, to provide certain information annually and notices of the occurrence of certain events. The substantially final form of Continuing Disclosure Agreement is included in the Preliminary Official Statement as Appendix D.

It shall be a condition to the obligation of the successful bidder for each series of the Bonds to accept delivery and pay for such series of the Bonds that, simultaneously with or before delivery of and payment for such series of the Bonds, said successful bidder shall be furnished, without cost, with the continuing disclosure agreement of the County dated as of the date of delivery of the Bonds, pursuant to which the County undertakes to provide continuing disclosure as required by the Rule.

## **Delivery of the Bonds**

Delivery of the Bonds will be made to the successful bidders through the facilities of DTC on or about May 24, 2012. Payment for the Bonds shall be made in immediately available funds.

The Bonds will be accompanied by the customary closing documents, including a no litigation certificate, effective as of the date of delivery, stating that there is no litigation pending affecting the validity of the Bonds. It shall be a condition to the obligation of the successful bidder for each series of the Bonds to accept delivery of and pay for such series of the Bonds that, simultaneously with or before delivery and payment for such series of the Bonds, said successful bidder shall be furnished a certificate of the President of the Board and the Finance Director to the effect that, to the best of his knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the reoffering information and except as to information regarding DTC and DTC's book-entry system provided by DTC, as to which no view will be expressed) as of the Bid Date and as of the date of delivery of the Bonds does not

contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and that between the Bid Date and the date of delivery of the Bonds there has been no material adverse change in the financial position or revenues of the County, except as reflected or contemplated in the Official Statement.

### **Amendment and Postponement**

The County reserves the right to modify or amend this Notice of Sale prior to the Bid Date including, but not limited to, adjusting and changing the principal amount for either series of the Bonds being offered, determining not to issue the Refunding Bonds, and/or changing the bid specifications for either series of the Bonds; however, such modifications or amendments shall be made not later than 9:30 a.m. Prevailing Eastern Time on the Bid Date and communicated through TM3.

The County reserves the right to postpone, from time to time, the date established for the receipt of bids. Any such postponement will be communicated through TM3. If any date fixed for the receipt of bids and the sale of the Bonds is postponed, any alternative Bid Date will be announced via TM3 at least 24 hours prior to such alternative Bid Date. In addition, the County reserves the right, on the date established for the receipt of bids, to reject all bids for either series of the Bonds and establish a subsequent date on which bids for any such series of the Bonds will again be received. If all bids for a series of the Bonds are rejected and a subsequent date for receipt of bids for such series of the Bonds established, notice of the subsequent Bid Date will be announced via TM3 at least 24 hours prior to such subsequent Bid Date. On any such alternative or subsequent Bid Date, any bidder may submit a proposal for the purchase of the applicable series of the Bonds in conformity in all respects with this official Notice of Sale except for the Bid Date and except for the changes announced by TM3 at the time the alternative or subsequent Bid Date and time are announced.

Any proposal submitted shall be made in accordance with this Notice of Sale, including any modifications, amendments or changes communicated via TM3 in accordance with the provisions of this Notice of Sale.

### **Additional Information**

The Preliminary Official Statement dated May 1, 2012, together with this Notice of Sale, will be supplied to prospective bidders upon request made in writing to the County's financial advisor, Public Advisory Consultants, Incorporated, 25 Crossroads Drive, Suite 402, Owings Mills, Maryland 21117, or by telephone, (410) 581-4820 or by facsimile transmission, (410) 581-9808, or by email, [pac@paconsults.com](mailto:pac@paconsults.com).

COUNTY COMMISSIONERS OF  
WASHINGTON COUNTY

By: \_\_\_\_\_ /s/ Terry L. Baker

**Terry L. Baker, President**  
**Board of County Commissioners**  
**of Washington County**



**PROPOSED FORM OF  
CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by **COUNTY COMMISSIONERS OF WASHINGTON COUNTY** (the “Issuer”) in connection with the issuance of its \$17,765,000 Public Improvement Bonds of 2012 and \$7,740,000 Refunding Bonds of 2012 (collectively, the “Bonds”). The Bonds are being issued pursuant to a Resolution adopted on April 24, 2012, as supplemented. The Issuer covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the owners and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Issuer’s obligations hereunder shall be limited to those required by written undertaking pursuant to the Rule.

**SECTION 2. Definitions.** In addition to the definitions set forth above, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Listed Events**” shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board. To the extent the Rule is amended to refer to any additional or different repositories, references in this Disclosure Agreement to the MSRB shall be deemed to such additional or different repositories to the extent required by the Rule. As of the date of execution and delivery of this Disclosure Agreement, any of the notices or materials required by this Disclosure Certificate to be filed with the MSRB shall be filed with the Electronic Municipal Market Access maintained by the MSRB at <http://www.msrb.emma.org> in accordance with the Rule.

“**Official Statement**” shall mean the Official Statement dated May 11, 2012 relating to the Bonds.

“**Participating Underwriter**” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“**Rule**” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SECTION 3. Provision of Annual Financial Information, Operating Data and Audited Information.**

(a) The Issuer shall provide to the MSRB annual financial information and operating data generally consistent with the information contained under the headings “Revenues and Expenditures” and “Debt Information” in the Official Statement, such information to be made available within 240 days after the end of the Issuer’s fiscal year, commencing with the fiscal year ending June 30, 2012.

(b) The Issuer shall provide to the MSRB annual audited combined financial statements for the Issuer, such information to be made available within 240 days after the end of the Issuer’s fiscal year, commencing with the fiscal year ending June 30, 2012, unless the audited financial statements are not available on or before such date, in which event said financial statements will be provided promptly when and if available. In the event that audited financial statements are not available within 240 days after the end of the Issuer’s fiscal year (commencing with the fiscal year ending June 30, 2012), the Issuer will provide unaudited financial statements within said time period.

(c) The presentation of the financial information referred to in paragraph (a) and in paragraph (b) shall be made in accordance with the same accounting principles as utilized in connection with the presentation of applicable comparable financial information included in the Official Statement, provided, that the Issuer may modify the accounting principles utilized in the presentation of financial information by amending this Disclosure Agreement pursuant to the

provisions of Section 7 hereof. Changes in Generally Accepted Accounting Principles, where applicable to financial information to be provided by the Issuer, shall not require the Issuer to amend this Disclosure Agreement.

(d) If the Issuer is unable to provide the annual financial information and operating data within the applicable time periods specified in (a) and (b) above, the Issuer shall send in a timely manner a notice of such failure to the MSRB.

(e) If the Issuer changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the Issuer would otherwise be required to provide financial information and operating data pursuant to this Section 3.

(f) The financial information and operating data to be provided pursuant to this Section 3 may be set forth in full in one or more documents or may be incorporated by specific reference to documents available to the public on the MSRB's Internet Website or filed with the Securities and Exchange Commission.

(g) All information provided to the MSRB pursuant to subsections (a), (b) or (d) of this Section 3 shall be in an electronic format as prescribed by the MSRB.

#### SECTION 4. Reporting of Listed Events.

(a) This Section 4 shall govern the giving of notices of the occurrence of any of the following Listed Events with respect to the Bonds:

- i) principal and interest payment delinquencies;
- ii) non-payment related defaults, if material;
- iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- v) substitution of credit or liquidity providers, or their failure to perform;
- vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
- vii) modifications to rights of Bond holders, if material;
- viii) Bond calls, if material, and tender offers;
- ix) defeasances;
- x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- xi) rating changes;
- xii) bankruptcy, insolvency, receivership or similar event of the Issuer;
- xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purpose of the event identified in clause (xii) of this Section 4(a), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(b) Notice of any of the Listed Events identified in Section 4(a) shall be given to the MSRB in a timely manner not in excess of ten (10) business days after the occurrence of the event.



(c) All information provided to the MSRB pursuant to this Section 4 shall be in an electronic format as prescribed by the MSRB.

SECTION 5. Termination of Reporting Obligations. The Issuer's obligations under this Disclosure Agreement shall terminate upon the payment in full of all of the Bonds either at their maturity or by early redemption. In addition, the Issuer may terminate its obligations under this Disclosure Agreement if and when the Issuer no longer remains an obligated person with respect to the Bonds within the meaning of the Rule.

SECTION 6. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel, expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule. To the extent applicable, the reasons for any amendment and the impact of the change in the type of operating data or financial information being provided will be explained in information provided with the annual financial information containing the amended operating data or financial information.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any disclosure made pursuant to Section 3(a) or (b) hereof or notice of occurrence of a Listed Event in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any disclosure made pursuant to Section 3(a) or (b) hereof or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future disclosure made pursuant to Section 3(a) or (b) hereof or notice of occurrence of a Listed Event.

SECTION 9. Limitation of Remedies. The Issuer shall be given written notice at the address set forth below of any claimed failure by the Issuer to perform its obligations under this Disclosure Agreement, and the Issuer shall be given 15 days to remedy any such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the Issuer shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action. Written notice to the Issuer shall be given to the Director of Finance, Washington County Administration Building, Room 304, 100 W. Washington Street, Hagerstown, MD 21740, or at such alternate address as shall be specified by the Issuer with disclosures made pursuant to Section 3(a) or (b) hereof or a notice of occurrence of a Listed Event.

SECTION 10. Relationship to Bonds. This Disclosure Agreement constitutes an undertaking by the Issuer that is independent of the Issuer's obligations with respect to the Bonds; any breach or default by the Issuer under this Disclosure Agreement shall not constitute or give rise to a breach or default under the Bonds.

SECTION 11. Law of Maryland. This Disclosure Agreement, and any claim made with respect to the performance by the Issuer of its obligations hereunder, shall be governed by, subject to, and construed according to the laws of the State of Maryland.

SECTION 12. Limitation of Forum. Any suit or other proceeding seeking redress with regard to any claimed failure by the Issuer to perform its obligations under this Disclosure Agreement must be filed in the Circuit Court for Washington County, Maryland.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the owners, including beneficial owners, from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Compliance with MSRB Requirements. All documents provided to the MSRB pursuant to this Disclosure Agreement and the Rule shall be accompanied by identifying information as prescribed by the MSRB.

Date: \_\_\_\_\_, 2012

ATTEST:

COUNTY COMMISSIONERS OF  
WASHINGTON COUNTY

\_\_\_\_\_  
Vicki C. Lumm, County Clerk

By: \_\_\_\_\_  
Terry L. Baker, President  
Board of County Commissioners  
of Washington County