

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

For the Year Ended June 30, 2013

JUNE 30, 2013

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

County Commissioners of Washington County
Hagerstown, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County Commissioners of Washington County, Maryland (the County) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

Opinions

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information, of Washington County, Maryland, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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



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

SB & Company, LLC

Hunt Valley, MD
October 30, 2013

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

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

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

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

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

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

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

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

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

The government-wide financial statements can be found on pages 15-17 of this report.

2) ***Fund Financial Statements***

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

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 18-21 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

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

The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-81 of this report.

4) *Supplementary Information*

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

In addition to this MD&A, required supplementary information can be found on page 82-97 of this report.

Financial Analysis on Government-Wide Financial Statements

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$590.2 million as of the close of the most recent fiscal year.

Washington County, Maryland
Net Position
(Government-Wide)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Total Percent Change</i>
	2013	2012	2013	2012	2013	2012	
<i>Current and other assets</i>	\$ 130,882,957	\$ 137,665,529	\$ 56,245,004	\$ 63,359,844	\$ 187,127,961	\$ 201,025,373	-7%
<i>Capital assets</i>	405,957,800	412,970,049	253,719,721	257,859,858	659,677,521	670,829,907	-2%
<i>Total Assets</i>	536,840,757	550,635,578	309,964,725	321,219,702	846,805,482	871,855,280	-3%
<i>Current and other liabilities</i>	25,676,485	31,380,775	16,127,159	15,716,159	41,803,644	47,096,934	-11%
<i>Long-term liabilities</i>	131,994,218	125,840,266	82,800,635	86,262,137	214,794,853	212,102,403	1%
<i>Total Liabilities</i>	157,670,703	157,221,041	98,927,794	101,978,296	256,598,497	259,199,337	-1%
<i>Net Investment in Capital</i>	356,119,175	357,986,070	216,248,209	218,772,508	572,367,384	576,758,578	-1%
<i>Restricted Net Position</i>	22,992,575	18,184,914	10,596,304	13,798,381	33,588,879	31,983,295	5%
<i>Unrestricted Net Position</i>	58,304	17,243,553	(15,807,582)	(13,329,483)	(15,749,278)	3,914,070	-502%
<i>Total Net Position</i>	\$ 379,170,054	\$ 393,414,537	\$ 211,036,931	\$ 219,241,406	\$ 590,206,985	\$ 612,655,943	-4%

The largest portion of the County's net position reflects its investments in capital assets (e.g., land, roads, and bridges); less related outstanding debt used to acquire those assets in the amount of \$572.4 million. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the County's net position (\$33.6 million) represents resources that are subject to external restrictions on how they may be used. The remaining portion is unrestricted net assets of (\$15.7 million).

Unrestricted net assets in governmental activities have been reduced by \$48.2 million in long-term debt, resulting in unrestricted net assets of \$.1 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 \$45.3 million and Hagerstown Community College of \$2.9 million. The capital assets acquired with these bonds are not reflected in the County's primary government financial statements.

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
Program revenues:						
<i>Charges for Services</i>	\$ 5,615,647	\$ 3,446,736	\$ 18,552,789	\$ 20,134,427	\$ 24,168,436	\$ 23,581,163
<i>Operating Grants and Contributions</i>	6,011,876	6,381,642	1,403,835	1,250,104	7,415,711	7,631,746
<i>Capital Grants and Contributions</i>	12,336,007	12,547,599	1,650,270	2,387,472	13,986,277	14,935,071
General Revenues:						
<i>Property Taxes</i>	122,456,069	122,743,548	-	-	122,456,069	122,743,548
<i>Local Taxes</i>	71,627,828	69,875,914	-	-	71,627,828	69,875,914
<i>Other</i>	3,845,273	3,523,045	354,546	319,400	4,199,819	3,842,445
Total Revenues	221,892,700	218,518,484	21,961,440	24,091,403	243,854,140	242,609,887
Program Expenses:						
<i>General Government</i>	34,606,493	30,664,687	-	-	34,606,493	30,664,687
<i>Public Safety</i>	43,326,882	41,705,806	-	-	43,326,882	41,705,806
<i>Health</i>	2,339,270	2,876,643	-	-	2,339,270	2,876,643
<i>Social Services</i>	2,321,055	2,248,270	-	-	2,321,055	2,248,270
<i>Education</i>	115,006,552	113,864,833	-	-	115,006,552	113,864,833
<i>Parks and Recreation</i>	7,942,521	5,782,049	-	-	7,942,521	5,782,049
<i>Natural Resources</i>	2,843,581	1,968,855	-	-	2,843,581	1,968,855
<i>Community Promotion</i>	3,593,082	3,928,577	-	-	3,593,082	3,928,577
<i>Highways and Streets</i>	18,291,617	23,451,568	-	-	18,291,617	23,451,568
<i>Interest on long-term debt</i>	4,253,256	4,181,468	-	-	4,253,256	4,181,468
Business-type Activities:						
<i>Water Quality</i>	-	-	12,210,595	11,819,738	12,210,595	11,819,738
<i>Solid Waste</i>	-	-	7,794,582	7,830,698	7,794,582	7,830,698
<i>Public Transit</i>	-	-	2,912,675	2,859,826	2,912,675	2,859,826
<i>Airport</i>	-	-	7,661,276	7,851,463	7,661,276	7,851,463
<i>Golf Course</i>	-	-	1,199,661	1,250,871	1,199,661	1,250,871
Total Expenses	234,524,309	230,672,756	31,778,789	31,612,596	266,303,098	262,285,352
Change in Net Position before transfers	(12,631,609)	(12,154,272)	(9,817,349)	(7,521,193)	(22,448,958)	(19,675,465)
Transfers	(1,612,874)	(5,550,003)	1,612,874	5,550,003	-	-
Change in Net Position	(14,244,483)	(17,704,275)	(8,204,475)	(1,971,190)	(22,448,958)	(19,675,465)
Net Position – beginning of year	393,414,537	411,118,812	219,241,406	221,212,596	612,655,943	632,331,408
Net Position – End of year	\$ 379,170,054	\$ 393,414,537	\$ 211,036,931	\$ 219,241,406	\$ 590,206,985	\$ 612,655,943

The County's total net position decreased by \$22.5 million during fiscal year 2013. Total net position as of June 30, 2013, was \$590.2 million representing a 3.6% decrease.

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

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

- Property tax revenue came within \$1.1 million or .9% 2013 projections. Real Estate tax exceeded budget by \$.8 million as the housing market continues to show recovery in areas such as average price, inventory, and foreclosure rates. Personal property tax reflected an increase over projections by \$.6 million or 3% mainly due to prior year payments of \$690,000.
- Income Tax revenue exceeded budget by \$3.3 million or 5.3% as a result of continued decreases in the unemployment rates and prior year reconciling distributions. Of the \$3.3 million, \$3.9 million was distributed from prior tax years of 2009, 2010, 2011, and 2012. The average unemployment rates were 8.14% in 2009; 10.12% in 2010; 9.99% in 2011; 8.92% in 2012; and 8.47% in 2013. The current unemployment rate as of August 2013 is 7.9%.
- Recordation Tax revenue exceeded budget by \$.7 million or 14.6% due to recovery trends within the housing market. The County's housing inventory decreased for the fourth straight year. Average home prices sold have shown a slow but steady increase since 2011. Fiscal year 2013 produced some large commercial recordings which accounted for approximately 15% of the tax collected.
- Other revenues such as permits, licenses, income tax liability reserve and Highway User revenues fell short of budget by \$.4 million.
- Savings in grants of \$.7 million are reflective of unspent grant awards to be carried over to the next fiscal year. The unspent grant awards are offset by \$.7 unspent grant awards in expenditures.
- A Capital transfer of \$4.3 million was made to the Capital Projects fund to account for existing revenue shortfalls and or future reserve amounts.
- Overall public safety expenditures reflect savings of \$.9 million resulting mainly from personnel cost savings, lower market prices in fuel products than anticipated, and favorable insurance awards during the County's bid process.
- Unallocated cost exceeded projections by \$1.7 million mainly due to large unfavorable claims experience in self insurance reserves of \$1.4 million.
- Remaining cost centers accounted for \$.6 million in savings, mainly a result of personnel cost savings, utility reductions due to a mild winter, savings from energy efficient lighting changes, and lower market prices in fuel products than anticipated.
- Various government-wide entries including 1) recording of depreciation expense greater than capital outlay a net difference of \$13.6 million; 2) recording of debt proceeds greater than debt principal payments decreasing net assets by \$1.9 million; 3) compensated absences and post-retirement benefits earned exceeded benefits paid decreasing net assets by \$4.2 million expense; and 4) difference in revenues and expenditures recognized between governmental funds and the statement of activities increasing net assets by \$2.6 million. These activities are reported differently on the government-wide statements vs. the fund statements.
- Capital Improvement Projects increased by \$3.1 million. Capital Improvement transactions are earmarked for specific capital related projects and its cash flow will vary depending on the construction schedule and grant reimbursements. Other governmental funds accounted for \$.4 decrease in fund balance activity.

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

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

- ❑ Water Quality's net position decreased by \$.9 million, for a total of \$120 million in net assets. The \$.9 net loss includes \$2.9 million in depreciation expense and anticipated the use of dedicated reserves in the Water Quality's long range financial plan for self sufficiency.
- ❑ Solid Waste's total net position decreased by \$2.3 million for a total of \$11 million, mainly related to depreciation expense of \$3.1 million. The 40 West landfill site was re-designed which changed the total life from 62 years to 120 years generating an additional 4 million cubic yards of available air space. This change in accounting estimate had no effect on the total estimated closure and post closure cost which are in compliance with State financial assurance requirements as of June 30, 2013.
- ❑ Airport's total net position is \$73.8 million, representing a \$4.5 million decrease. The net decrease is mainly the result of increased depreciation related to the runway acquisition of which a majority was funded with federal and state grants.

Financial Analysis on Government Fund Financial Statements

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

Governmental Funds:

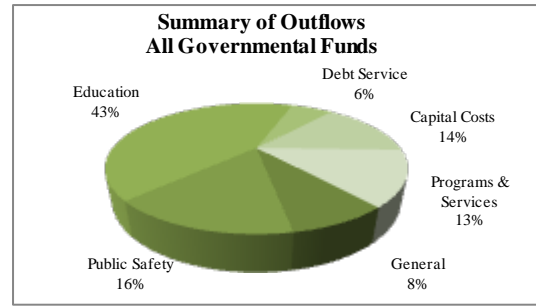
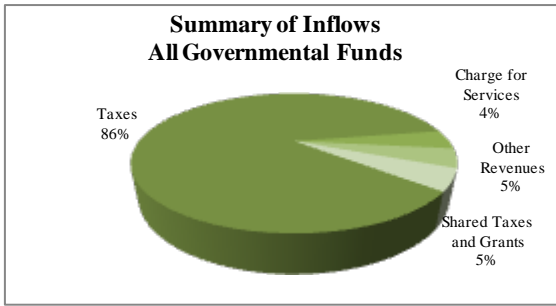
The focus of the County's governmental funds is to provide information on near term inflows, outflow, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources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

As of the end of the current fiscal year, the County's governmental funds reported combined fund balances of \$115.2 million, an increase of \$2.9 million in comparison with the prior year. Approximately \$37.5 million of this amount is designated for the general fund cash reserve and \$77.6 million is restricted or committed for construction projects and designated programs. The remaining amount is appropriated for other program services and assigned costs. In the combined governmental activities the County maintains eleven separate funds. Shown below are fund balances and net changes in fund balance for each.

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

<i>Governmental Activities – Fund Statements</i>	<i>Fund Balance</i>			<i>Net Change in Fund Balance</i>		
	2013	2012	% Change	2013	2012	% Change
General Fund	\$ 38,840,220	\$ 38,632,885	1%	\$ 207,335	\$ 1,059,971	-80%
Capital Improvement Fund	75,073,598	71,995,786	4%	3,077,812	171,054	1699%
Community Grant Management	1,426	164,159	-99%	(162,733)	(243,917)	-33%
Inmate Welfare Fund	84,786	95,546	-11%	(10,760)	(350,667)	-97%
Contraband Fund	72,406	282,121	-74%	(209,715)	236,502	-189%
Agricultural Education Fund	6,195	67,773	-91%	(61,578)	(52,358)	18%
Hotel Rental Tax Fund	1,049,197	826,103	27%	223,094	263,105	-15%
Gaming Fund	7,369	5,725	29%	1,644	7,656	-79%
Land Preservation Fund	95,618	256,418	-63%	(160,800)	(141,214)	14%
HEPMPO	(27,437)	(18,145)	51%	(9,292)	(17,396)	-47%
Total	\$ 115,203,378	\$ 112,308,371	3%	\$ 2,895,007	\$ 932,736	210%

The following reflects all inflows and outflows of the governmental funds in total for the fiscal year ending June 30, 2013.



- The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year total fund balance reached \$38.8 million. As a measure of the General Fund's liquidity, it may be useful to compare both committed fund balance and total fund balance to total fund expenditures. Committed fund balance represents \$37.5 million that is for cash reserve while \$1.3 million is reserved for specific program funds.

The General Fund, fund balance increased by approximately \$0.2 million during the current fiscal year. Key factors related to this change are:

Major Revenue Factors:

- Property tax revenue came within \$1.1 million or .9% 2013 projections. Real Estate tax exceeded budget by \$.8 million as the housing market continues to show recovery in areas such as average price, inventory, and foreclosure rates. Personal property tax reflected an increase over projections by \$.6 million or 3% mainly due to prior year payments of \$690,000.
- Income Tax revenue exceeded budget by \$3.3 million or 5.3% as a result of continued decreases in the unemployment rates and prior year reconciling distributions. Of the \$3.3 million, \$3.9 million was distributed from prior tax years of 2009, 2010, 2011, and 2012. The average unemployment rates were 8.14% in 2009; 10.12% in 2010; 9.99% in 2011; 8.92% in 2012; and 8.47% in 2013. The current unemployment rate as of August 2013 is 7.9%.
- Recordation Tax revenue exceeded budget by \$.7 million or 14.6% due to recovery trends within the housing market. The County's housing inventory decreased for the fourth straight year. Average home prices sold have shown a slow but steady increase since 2011. Fiscal year 2013 produced some large commercial recordings which accounted for approximately 15% of the tax collected.
- Other revenues such as permits, licenses, income tax liability reserve and Highway User revenues fell short of budget by \$.4 million.
- Savings in grants of \$.7 million are reflective of unspent grant awards to be carried over to the next fiscal year. The unspent grant awards are offset by \$.7 unspent grant awards in expenditures.

Major Expenditure Factors:

- A Capital transfer of \$4.3 million was made to the Capital Projects fund to account for existing revenue shortfalls and or future reserve amounts.
- Overall public safety expenditures reflect savings of \$.9 million resulting mainly from personnel cost savings, lower market prices in fuel products than anticipated, and favorable insurance awards during the County's bid process.
- Unallocated cost exceeded projections by \$1.7 million mainly due to large unfavorable claims experience in self insurance reserves of \$1.4 million.

- Remaining cost centers accounted for \$.6 million in savings, mainly a result of personnel cost savings, utility reductions due to a mild winter, savings from energy efficient lighting changes, and lower market prices in fuel products than anticipated.
- 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 \$75.1 million all of which is designated for capital related projects. Major funding sources for projects are pay-go-funding, debt proceeds, fees and taxes, and grants. Fund balance increased by \$3.1 million for the current fiscal year. The change in fund balance is the result of timing differences in projects with funding proceeds and project expenditures.
- The County's **Community Partnership, Inmate Welfare, Contraband, Agricultural Education, Foreign Trade Zone, Hotel Rental Tax, Gaming, HEPMPO, and Land Preservation Funds** combined have a fund balance of \$1.3 million. The net decrease in fund balance during the current year was \$.4 million. These funds represent monies designated for specific programs and services.

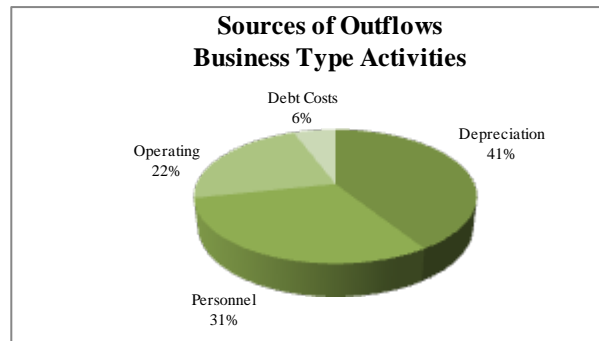
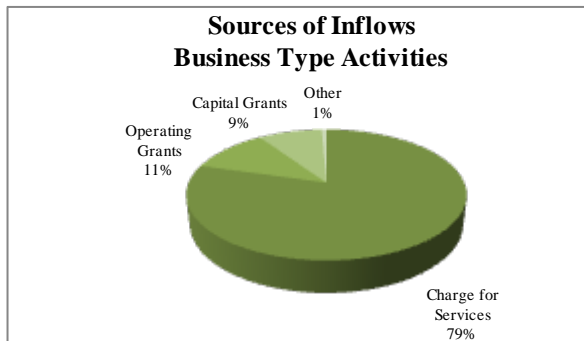
Proprietary Funds:

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

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

<i>Business-type Activities – Fund Statements</i>	<i>Fund Balance</i>			<i>Net Change in Fund Balance</i>		
	2013	2012	% Change	2013	2012	% Change
Water Quality	\$ 120,184,543	\$ 121,110,526	-1%	\$ (925,983)	\$ 2,842,141	-133%
Solid Waste	11,017,001	13,343,334	-17%	(2,326,333)	(886,241)	-162%
Airport	73,769,851	78,264,022	-6%	(4,494,171)	(3,389,889)	-33%
Public Transit	4,703,647	4,964,476	-5%	(260,829)	(379,107)	-31%
BleckRock	1,361,889	1,559,048	-13%	(197,159)	(158,094)	-25%
Total	\$ 211,036,931	\$ 219,241,406	-4%	\$ (8,204,475)	\$ (1,971,190)	

The following reflects the inflows and outflows of the business-type activity funds for the fiscal year ending June 30, 2013.



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

General Fund Budgetary Analysis – Government Fund Financial Statement Basis

Washington County, Maryland
 General Fund Budgetary Analysis
 As of June 30, 2013
 (Government Fund Basis)

Category	Budgetary Amounts			Difference	
	Original	Final	Actual	Org. Budget vs. Final	Final Budget vs. Actual
Revenues:					
Property Tax	\$ 121,376,170	\$ 121,376,170	\$ 122,450,670	\$ -	\$ 1,074,500
Local Tax	67,791,000	67,791,000	71,747,110	-	3,956,110
Other Revenue	8,812,410	11,414,306	10,226,256	2,601,896	(1,188,050)
Total Revenues	197,979,580	200,581,476	204,424,036	2,601,896	3,842,560
Expenses:					
General Government	20,463,270	20,668,341	19,725,043	205,071	943,298
Public Safety	34,685,350	35,844,767	35,020,519	1,159,417	824,248
Health and Social Services	4,068,030	5,276,383	4,660,325	1,208,353	616,058
Education	101,817,500	101,817,500	101,816,613	-	887
Parks, Recreation, Natural Resources	6,039,120	6,045,320	5,993,498	6,200	51,822
Highways and streets	8,757,110	8,758,860	8,922,908	1,750	(164,048)
General Operations	423,220	423,090	406,666	(130)	16,424
Unallocated Employee Insurance	4,061,840	4,038,415	5,724,895	(23,425)	(1,686,480)
Intergovernmental	3,434,390	3,479,050	7,718,839	44,660	(4,239,789)
Debt Service	14,229,750	14,229,750	14,230,434	-	(684)
Total Expenses	197,979,580	200,581,476	204,219,740	2,601,896	(3,638,264)
Other Financing Sources (Uses)			3,039	-	3,039
Net Increase in Net Position - 06/30/13	\$ -	\$ -	\$ 207,335	\$ -	\$ 207,335

Original Budget vs. Final Budget:

The net budgetary change of \$2.6 million resulted mainly from grant transactions. Increases in grants reflected as revenue were received or expended during the fiscal year from additional state or federal grants of \$2.6 million.

Final Budget vs. Actual Results:

Final actual results yielded a \$.2 increase to cash reserves. Revenue was over by \$3.8 million offset by expenditures being over budget by \$3.6 million. Property Tax experienced an increase of \$1.1 million over budget or .9%. Income Tax revenue exceeded budget by 5% or \$3.3 million. Recordation Tax exceeded the final budget by \$.7 million or 14.6%. Offsetting the revenue increases was a transfer of pay-go funds of an additional \$4.3 million was made to the Capital Projects fund to account for existing revenue shortfalls and or future reserve amounts. Also attributing to the overage in expenditures was negative health insurance experience for 2013 of \$1.4 million.

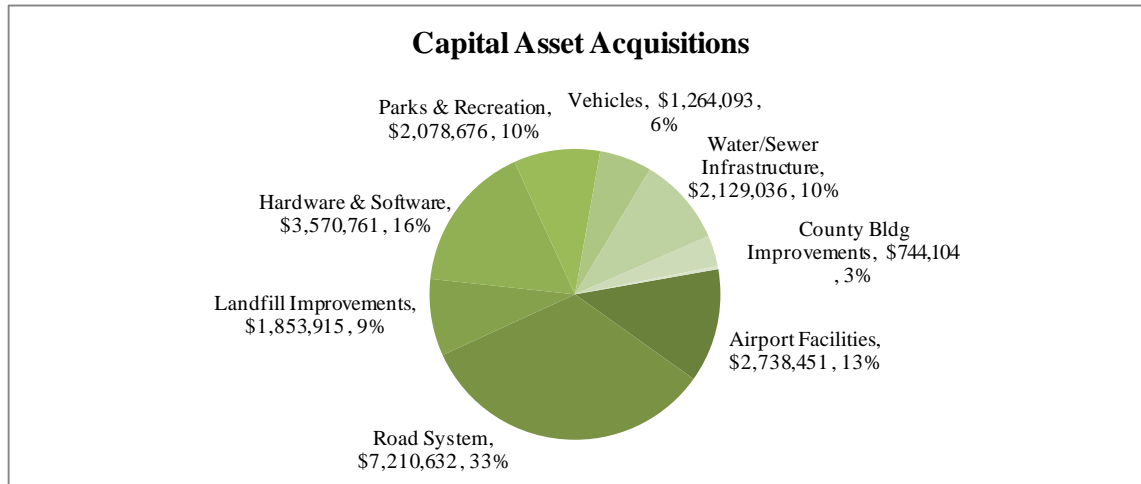
Capital Asset Administration – Government Wide Statements

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$650 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
	2013	2012	2013	2012	2013	2012	
<i>Land and Land Improvement</i>	\$ 84,091,881	\$ 76,575,253	\$ 85,632,352	\$ 92,839,395	\$ 169,724,233	\$ 169,414,648	0%
<i>Building and Improvements</i>	43,914,815	44,783,702	43,323,290	42,052,295	87,238,105	86,835,997	0%
<i>Facilities, Lines, and Mains</i>	-	-	85,019,092	83,863,919	85,019,092	83,863,919	1%
<i>Vehicles</i>	1,788,271	1,218,636	1,833,238	2,402,103	3,621,509	3,620,739	0%
<i>Infrastructure</i>	248,620,219	256,767,785	-	-	-248,620,219	256,767,785	-3%
<i>Machinery and Equipment</i>	2,688,875	2,773,859	3,256,184	2,193,851	5,945,059	4,967,710	20%
<i>Office/Computer Equipment</i>	17,779,479	17,513,620	907,726	825,733	18,687,205	18,339,353	2%
<i>Treatment Plant</i>	-	-	30,781,364	31,749,874	30,781,364	31,749,874	-3%
Total	\$398,883,540	\$399,632,855	\$250,753,246	\$255,927,170	\$649,636,786	\$655,560,025	-1%

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



Additional information on the County's capital assets can be found in note 5 on pages 46-49 of this report.

Debt Administration

At the end of the current fiscal year, the County had total outstanding debt, excluding capital leases, of \$180.9 million. This amount was comprised of debt backed by the full faith and credit of the County and user fees. The County's outstanding debt decreased \$1.7 million during the current fiscal year. The debt decreased by approximately \$13.7 million from principal payments, changes in deferred amounts, net results of refunding, and increased by \$12 million in new borrowings. Funds borrowed were used for infrastructure projects of \$8.2 million, public facilities projects of \$1 million, educational projects of \$2.6 million and public safety costs of \$2 million. The County issued refunding bonds of \$12.5 million to refund a portion of the County's outstanding 2005 and 2006 Public Improvement Bonds, resulting in a total 2013 bond issuance of \$24.5 million.

Washington County, Maryland
Outstanding Debt
(Government – Wide)

Description	Governmental Activities		Business-type Activities		Total		% Change
	2013	2012	2013	2012	2013	2012	
<i>General Obligation Bonds</i>	\$ 127,463,897	\$ 124,566,752	\$ 33,202,019	\$ 35,448,306	\$ 160,665,916	\$ 160,015,058	0%
<i>Maryland State Loans</i>	-	-	-	-	-	-	- 0%
<i>Maryland Water Quality Bonds</i>	5,462,564	5,745,888	14,865,799	16,976,902	20,328,363	22,722,790	-11%
Total	\$ 132,926,461	\$ 130,312,640	\$ 48,067,818	\$ 52,425,208	\$ 180,994,279	\$ 182,737,848	-1%

The County's credit ratings for fiscal year 2013 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 \$1.3 billion, which is significantly in excess of the County's current water quality general obligation debt.

Additional Information on the County's long-term debt can be found in note 8 on pages 53-56 of this report.

Economic Factors and Fiscal Year 2014

- ❑ Washington County's unemployment rate for August 2013 was 7.9% compared to 8.6% in August of 2012. Unemployment trends are showing a slow steady improvement. It is anticipated that the unemployment rate will take several years to recover due to permanent loss of certain industry jobs, re-entry/retraining of the current workforce, and new workforce entry.
- ❑ Housing industry trends are showing continued improvement. The County's housing inventory decreased for the fourth straight year and average home prices sold have shown a slow but steady increase since 2011.
- ❑ Water and sewer rates were increased for the 2014 budget year. The water and sewer revenue requirements were increased 2% and 3%, respectively. This revenue increase is based on financial information formulated annually from the County's cost of service model.
- ❑ Total number of employed increased for the fourth consecutive fiscal year to 65,287. The largest growing segments in the employed are education, professional, financial, government, and utilities/transportation while manufacturing and construction reflect decreasing trends.

Requests for Information

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Net Position
As of June 30, 2013**

	Primary Government			Component Unit	
	Governmental activities	Business-type activities	Total	Board of Education	Total
ASSETS					
Cash and short-term investments	\$ 3,319,750	\$ 29,550,753	\$ 32,870,503	\$ 20,114,535	\$ 52,985,038
Investments	130,799,407	-	130,799,407	18,849,692	149,649,099
Property taxes receivable, net of allowance	376,599	-	376,599	-	376,599
Accounts receivable, net of allowance	2,510,620	1,465,892	3,976,512	322,758	4,299,270
Interest receivable	118,499	-	118,499	-	118,499
Unbilled receivables	207,949	1,639,752	1,847,701	-	1,847,701
Due from other governmental agencies	11,269,295	2,810,531	14,079,826	5,796,896	19,876,722
Internal balances	(20,360,189)	20,360,189	-	-	-
Inventories	741,870	269,825	1,011,695	473,733	1,485,428
Bond issue costs	567,786	148,062	715,848	-	715,848
Other assets	89,913	-	89,913	880,762	970,675
Other post employment benefits	813,022	-	813,022	8,644,472	9,457,494
Recoverable disbursements	237,653	-	237,653	-	237,653
Notes receivable	190,783	-	190,783	-	190,783
Projects under construction	7,074,260	2,966,475	10,040,735	7,972,988	18,013,723
Property, plant, and equipment, net	398,883,540	250,753,246	649,636,786	207,969,667	857,606,453
TOTAL ASSETS	536,840,757	309,964,725	846,805,482	271,025,503	1,117,830,985
LIABILITIES					
Current Liabilities:					
Current maturities of long-term obligations	10,020,624	4,562,985	14,583,609	430,262	15,013,871
Current maturities of capital lease obligations	517,736	-	517,736	628,493	1,146,229
Current maturities of installment purchase contracts	148,608	-	148,608	-	148,608
Accounts payable	5,477,226	1,141,315	6,618,541	4,521,017	11,139,558
Accrued expenses	1,166,305	493,214	1,659,519	14,333,632	15,993,151
Accrued interest	2,009,812	7,747,595	9,757,407	-	9,757,407
Unearned revenue	320,973	1,458,919	1,779,892	724,706	2,504,598
Compensated absences	1,853,240	381,966	2,235,206	-	2,235,206
Landfill closure and post-closure costs	-	273,710	273,710	-	273,710
Other liabilities	2,146,368	67,455	2,213,823	5	2,213,828
Liabilities for unpaid claims	2,015,593	-	2,015,593	-	2,015,593
Total current liabilities	25,676,485	16,127,159	41,803,644	20,638,115	62,441,759
Non Current Liabilities:					
Unearned revenue	-	23,615,598	23,615,598	-	23,615,598
Compensated absences	605,026	171,774	776,800	-	776,800
Post retirement benefits	7,161,078	-	7,161,078	-	7,161,078
Long-term obligations, net	122,905,837	43,504,833	166,410,670	5,369,126	171,779,796
Capital lease obligations	306,740	-	306,740	6,602,475	6,909,215
Installment purchase contracts	1,015,537	-	1,015,537	-	1,015,537
Landfill closure and post-closure costs	-	15,508,430	15,508,430	-	15,508,430
Total noncurrent liabilities	131,994,218	82,800,635	214,794,853	11,971,601	226,766,454
TOTAL LIABILITIES	157,670,703	98,927,794	256,598,497	32,609,716	289,208,213
Net Position					
Net investment in Capital Assets	356,119,175	216,248,209	572,367,384	208,711,687	781,079,071
Restricted for:					
John Howard Trust	239,776	-	239,776	-	239,776
Capital projects	22,752,799	10,596,304	33,349,103	-	33,349,103
Unrestricted	58,304	(15,807,582)	(15,749,278)	29,704,100	13,954,822
TOTAL NET POSITION	\$ 379,170,054	\$ 211,036,931	\$ 590,206,985	\$ 238,415,787	\$ 828,622,772

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Activities
For the Year Ended June 30, 2013**

Functions/Programs	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 34,606,493	\$ 4,061,608	\$ 240,636	\$ 713,601
Public safety	43,326,882	1,553,904	1,800,492	-
Health	2,339,270	-	-	-
Social services	2,321,055	-	-	-
Education	115,006,552	-	-	4,525,657
Parks, recreation and culture	7,942,521	135	19,505	175,286
Natural resources	2,843,581	-	1,592,299	-
Community promotion	3,593,082	-	1,541,651	-
Highways and streets	18,291,617	-	817,293	6,921,463
Interest on long-term debt	4,253,256	-	-	-
Total governmental activities	<u>234,524,309</u>	<u>5,615,647</u>	<u>6,011,876</u>	<u>12,336,007</u>
Business-type activities				
Water quality	12,210,595	10,169,976	-	843,466
Solid waste	7,794,582	4,840,152	-	-
Public transit	2,912,675	460,528	1,395,169	234,639
Airport	7,661,276	2,207,658	8,666	552,555
Black rock golf course	1,199,661	874,475	-	19,610
Total business-type activities	<u>31,778,789</u>	<u>18,552,789</u>	<u>1,403,835</u>	<u>1,650,270</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 266,303,098</u>	<u>\$ 24,168,436</u>	<u>\$ 7,415,711</u>	<u>\$ 13,986,277</u>
Component unit:				
Board of Education	<u>\$ 307,294,962</u>	<u>\$ 13,293,058</u>	<u>\$ 61,600,095</u>	<u>\$ 15,170</u>

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

CHANGE IN NET POSITION

NET POSITION- BEGINNING OF YEAR
NET POSITION - END OF YEAR

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Activities For the Year Ended June 30, 2013

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Board of Education	Total
\$ (29,590,648)	\$ -	\$ (29,590,648)	\$ -	\$ (29,590,648)
(39,972,486)	-	(39,972,486)	-	(39,972,486)
(2,339,270)	-	(2,339,270)	-	(2,339,270)
(2,321,055)	-	(2,321,055)	-	(2,321,055)
(110,480,895)	-	(110,480,895)	-	(110,480,895)
(7,747,595)	-	(7,747,595)	-	(7,747,595)
(1,251,282)	-	(1,251,282)	-	(1,251,282)
(2,051,431)	-	(2,051,431)	-	(2,051,431)
(10,552,861)	-	(10,552,861)	-	(10,552,861)
(4,253,256)	-	(4,253,256)	-	(4,253,256)
(210,560,779)	-	(210,560,779)	-	(210,560,779)
-	(1,197,153)	(1,197,153)	-	(1,197,153)
-	(2,954,430)	(2,954,430)	-	(2,954,430)
-	(822,339)	(822,339)	-	(822,339)
-	(4,892,397)	(4,892,397)	-	(4,892,397)
-	(305,576)	(305,576)	-	(305,576)
-	(10,171,895)	(10,171,895)	-	(10,171,895)
(210,560,779)	(10,171,895)	(220,732,674)	-	(220,732,674)
-	-	-	(233,918,129)	(233,918,129)
122,456,069	-	122,456,069	-	122,456,069
71,627,828	-	71,627,828	-	71,627,828
1,657,470	197,779	1,855,249	405,190	2,260,439
1,097,481	-	1,097,481	241,062,025	242,159,506
1,098,080	158,780	1,256,860	456,444	1,713,304
-	-	-	-	-
(7,758)	(2,013)	(9,771)	88,204	78,433
(1,612,874)	1,612,874	-	-	-
196,316,296	1,967,420	198,283,716	242,011,863	440,295,579
(14,244,483)	(8,204,475)	(22,448,958)	8,093,734	(14,355,224)
393,414,537	219,241,406	612,655,943	230,322,053	842,977,996
\$ 379,170,054	\$ 211,036,931	\$ 590,206,985	\$ 238,415,787	\$ 828,622,772

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Balance Sheet – Governmental Funds
As of June 30, 2013**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non- major Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 252,052	\$ -	\$ 3,067,698	\$ 3,319,750
Investments	130,562,407	237,000	-	130,799,407
Property taxes receivable, net of allowance	376,599	-	-	376,599
Accounts receivable, net of allowance	374,571	1,864,251	271,798	2,510,620
Interest receivable	117,808	691	-	118,499
Unbilled receivables	207,949	-	-	207,949
Due from other funds	10,000	74,876,671	-	74,886,671
Due from other governmental agencies	10,811,977	55,600	401,718	11,269,295
Recoverable disbursements	237,653	-	-	237,653
Notes receivable	90,783	-	100,000	190,783
Other assets	88,371	1,542	-	89,913
Inventories	741,870	-	-	741,870
	<u>\$ 143,872,040</u>	<u>\$ 77,035,755</u>	<u>\$ 3,841,214</u>	<u>\$ 224,749,009</u>
TOTAL ASSETS				
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	1,421,068	1,962,130	2,094,028	\$ 5,477,226
Due to other funds	95,120,905	-	125,955	95,246,860
Accrued expenses	1,150,895	27	15,383	1,166,305
Other liabilities	1,860,147	-	286,221	2,146,368
Liabilities for unpaid claims	2,015,593	-	-	2,015,593
Unearned revenue	3,463,212	-	30,067	3,493,279
	<u>105,031,820</u>	<u>1,962,157</u>	<u>2,551,654</u>	<u>109,545,631</u>
TOTAL LIABILITIES				
FUND BALANCES:				
Nonspendable	136,667	-	-	136,667
Restricted	1,200,201	22,752,799	1,258,240	25,211,240
Committed	37,452,097	52,320,799	35,901	89,808,797
Assigned	23,679	-	13,564	37,243
Unassigned	27,576	-	(18,145)	9,431
	<u>38,840,220</u>	<u>75,073,598</u>	<u>1,289,560</u>	<u>115,203,378</u>
TOTAL FUND BALANCES				
TOTAL LIABILITIES AND FUND BALANCES				
	<u>\$ 143,872,040</u>	<u>\$ 77,035,755</u>	<u>\$ 3,841,214</u>	<u>\$ 224,749,009</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Position As of June 30, 2013

Fund balance of governmental funds \$ 115,203,378

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

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

Capital assets, net	398,883,540
Projects under construction	7,074,260

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

Bond issue costs	567,786
Unearned revenue	3,172,306
OPEB asset	813,022

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

Long-term obligations	(132,926,461)
Installment purchase obligations	(1,533,273)
Capital lease obligations	(455,348)
Accrued interest payable-net of IRS subsidy	(2,009,812)
Compensated absences and post-retirement benefits	<u>(9,619,344)</u>

Net position of governmental activities	<u>\$ 379,170,054</u>
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COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2013**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
REVENUE				
General property taxes	\$ 122,450,670	\$ -	\$ -	\$ 122,450,670
Other local taxes	71,747,110	1,430,276	2,314,557	75,491,943
Licenses and permits	1,149,568	-	2,068,021	3,217,589
Court costs and fines	377,331	-	-	377,331
Charges for services	448,406	-	388,168	836,574
Revenue from uses of property	988,019	-	26,515	1,014,534
Reimbursed expenses	1,095,951	-	1,530	1,097,481
Miscellaneous revenues	916,610	2,539,509	181,470	3,637,589
Shared taxes and grants	3,566,550	3,178,991	2,804,742	9,550,283
Highway	1,683,821	-	-	1,683,821
Total Revenue	<u>204,424,036</u>	<u>7,148,776</u>	<u>7,785,003</u>	<u>219,357,815</u>
EXPENDITURES				
Current:				
General government	19,725,043	-	-	19,725,043
Public safety	35,020,519	-	1,723,865	36,744,384
Health	2,339,270	-	-	2,339,270
Social services	2,321,055	-	-	2,321,055
Education	101,816,613	-	-	101,816,613
Parks, recreation and culture	5,436,653	-	193,953	5,630,606
Natural resources and land preservation	556,845	-	2,283,482	2,840,327
Intergovernmental	38,543	-	-	38,543
General operations	6,131,561	-	446,309	6,577,870
Community promotion	-	-	3,590,434	3,590,434
Highways and streets	8,622,908	-	-	8,622,908
Debt Service	14,230,434	-	-	14,230,434
Capital Outlay:				
General government	-	2,028,589	-	2,028,589
Public safety	-	590,472	-	590,472
Highways and streets	-	6,920,502	-	6,920,502
Education	-	13,189,939	-	13,189,939
Parks and recreation	-	249,016	-	249,016
Total Expenditures	<u>196,239,444</u>	<u>22,978,518</u>	<u>8,238,043</u>	<u>227,456,005</u>
Excess (Deficiency) Of Revenue Over Expenditures	<u>8,184,592</u>	<u>(15,829,742)</u>	<u>(453,040)</u>	<u>(8,098,190)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	6,339,600	436,600	6,776,200
Transfers out	(7,980,296)	(35,078)	(373,700)	(8,389,074)
Principal amount of new debt for advance refunding	13,587,566	-	-	13,587,566
Deposit to escrow fund for advance refunding and repayment of loans	(13,584,527)	-	-	(13,584,527)
Proceeds of bond sale	-	12,603,032	-	12,603,032
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7,977,257)</u>	<u>18,907,554</u>	<u>62,900</u>	<u>10,993,197</u>
NET CHANGES IN FUND BALANCE	<u>207,335</u>	<u>3,077,812</u>	<u>(390,140)</u>	<u>2,895,007</u>
FUND BALANCES - BEGINNING OF YEAR	<u>38,632,885</u>	<u>71,995,786</u>	<u>1,679,700</u>	<u>112,308,371</u>
FUND BALANCES - END OF YEAR	<u>\$ 38,840,220</u>	<u>\$ 75,073,598</u>	<u>\$ 1,289,560</u>	<u>\$ 115,203,378</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2013

Net changes in fund balances in governmental funds \$ 2,895,007

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

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

Capital outlay capitalized	\$ 9,593,086	
Depreciation	<u>(23,213,936)</u>	(13,620,850)

In the statement of activities, only the gain or loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold. (8,905)

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

Debt and lease proceeds	\$ (12,606,071)	
Bond issuance cost - CY additions	110,698	
Payments of installment purchase principal	517,737	
Payments of lease principal	145,522	
Payments of debt principal	<u>9,878,014</u>	(1,954,100)

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. (4,170,104)

Revenue and expenditures are reported in the statement of activities on the accrual basis and in the governmental funds when they provide or use current financial resources. This is the net difference of revenues and expenditures recognized between the governmental funds and statement of activities. 2,614,469

Change in net position of governmental activities \$ (14,244,483)

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Net Position - Proprietary Funds
For the Year Ended June 30, 2013

	Business Type Activities - Enterprise Funds				Total
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
ASSETS					
Current Assets:					
Cash and short-term investments	\$ 16,670,165	\$ 12,879,488	\$ 100	\$ 1,000	\$ 29,550,753
Accounts receivable, net	1,125,272	194,337	118,089	28,194	1,465,892
Unbilled receivables	1,402,865	230,161	5,316	1,410	1,639,752
Due from other funds	12,937,940	9,760,200	-	-	22,698,140
Due from other governmental agencies	56,407	-	1,883,312	870,812	2,810,531
Inventories	104,966	17,066	46,357	101,436	269,825
Total current assets	<u>32,297,615</u>	<u>23,081,252</u>	<u>2,053,174</u>	<u>1,002,852</u>	<u>58,434,893</u>
Noncurrent Assets:					
Bond issuance costs	95,786	42,876	9,400	-	148,062
Projects under construction	2,398,768	363,740	203,967	-	2,966,475
Property, plant and equipment	174,544,100	62,454,726	144,058,845	11,685,469	392,743,140
Accumulated depreciation	(55,346,294)	(35,595,273)	(45,575,261)	(5,473,066)	(141,989,894)
Total noncurrent assets	<u>121,692,360</u>	<u>27,266,069</u>	<u>98,696,951</u>	<u>6,212,403</u>	<u>253,867,783</u>
TOTAL ASSETS	<u>153,989,975</u>	<u>50,347,321</u>	<u>100,750,125</u>	<u>7,215,255</u>	<u>312,302,676</u>
LIABILITIES					
Current Liabilities:					
Current maturities of long-term obligations	2,842,044	1,485,941	235,000	-	4,562,985
Accounts payable	547,598	505,704	50,997	37,016	1,141,315
Accrued expenses	366,191	43,799	16,070	67,154	493,214
Accrued interest	7,402,840	321,263	23,492	-	7,747,595
Due to other funds	-	-	1,437,571	900,380	2,337,951
Unearned revenue	93,737	532,938	831,694	550	1,458,919
Compensated absences	215,233	64,450	25,083	77,200	381,966
Landfill closure and post-closure costs	-	273,710	-	-	273,710
Other liabilities	7,300	-	41,269	18,886	67,455
Total current liabilities	<u>11,474,943</u>	<u>3,227,805</u>	<u>2,661,176</u>	<u>1,101,186</u>	<u>18,465,110</u>
Non Current Liabilities:					
Unearned revenue	634,912	-	22,980,686	-	23,615,598
Compensated absences	85,847	25,374	12,020	48,533	171,774
Bonds and long-term debt	21,609,730	20,568,711	1,326,392	-	43,504,833
Landfill closure and post-closure costs	-	15,508,430	-	-	15,508,430
Total noncurrent liabilities	<u>22,330,489</u>	<u>36,102,515</u>	<u>24,319,098</u>	<u>48,533</u>	<u>82,800,635</u>
TOTAL LIABILITIES	<u>33,805,432</u>	<u>39,330,320</u>	<u>26,980,274</u>	<u>1,149,719</u>	<u>101,265,745</u>
Net Position					
Net investment in capital assets	106,634,472	6,275,173	97,126,161	6,212,403	216,248,209
Unrestricted	4,060,399	3,635,196	(23,356,310)	(146,867)	(15,807,582)
Restricted - capital projects	9,489,672	1,106,632	-	-	10,596,304
TOTAL NET POSITION	<u>\$120,184,543</u>	<u>\$ 11,017,001</u>	<u>\$ 73,769,851</u>	<u>\$ 6,065,536</u>	<u>\$211,036,931</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Revenue, Expenses and Changes in Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2013**

	Enterprise Funds				Totals
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
OPERATING REVENUE					
Charges for services	\$ 10,169,976	\$ 4,840,152	\$ 2,207,658	\$ 1,335,003	\$ 18,552,789
Miscellaneous	10,304	136,678	2,131	9,667	158,780
TOTAL OPERATING REVENUE	10,180,280	4,976,830	2,209,789	1,344,670	18,711,569
OPERATING EXPENSES					
Salaries and wages	3,509,937	1,229,150	506,196	1,617,647	6,862,930
Fringe benefits	1,698,341	459,969	194,439	559,181	2,911,930
Utilities	903,155	68,711	177,666	86,703	1,236,235
Insurance	109,300	24,967	44,679	37,335	216,281
Repairs and maintenance	242,340	-	74,854	250,972	568,166
Supplies	267,447	82,819	8,223	67,445	425,934
Cost of goods sold	-	-	-	98,286	98,286
Contracted services	279,302	1,762,919	65,802	194,181	2,302,204
Rentals and leases	20,770	1,965	2,739	112,840	138,314
Other operating	1,101,403	391,973	205,426	428,321	2,127,123
Controllable assets	38,208	1,197	8,778	-	48,183
Depreciation	2,872,763	3,143,829	6,331,365	659,359	13,007,316
TOTAL OPERATING EXPENSES	11,042,966	7,167,499	7,620,167	4,112,270	29,942,902
OPERATING LOSS	(862,686)	(2,190,669)	(5,410,378)	(2,767,600)	(11,231,333)
OTHER INCOME (EXPENSE)					
Interest expense	(1,167,629)	(627,083)	(41,109)	(66)	(1,835,887)
Interest income	190,290	2,072	5,417	-	197,779
Loss on disposal of assets	-	(2,013)	-	-	(2,013)
TOTAL OTHER INCOME (EXPENSE)	(977,339)	(627,024)	(35,692)	(66)	(1,640,121)
LOSS BEFORE OPERATING TRANSFERS AND GRANTS	(1,840,025)	(2,817,693)	(5,446,070)	(2,767,666)	(12,871,454)
OPERATING TRANSFERS	70,576	491,360	64,500	561,760	1,188,196
GRANTS FOR OPERATING	-	-	8,666	1,395,169	1,403,835
NET LOSS BEFORE CAPITAL TRANSFERS AND GRANTS	(1,769,449)	(2,326,333)	(5,372,904)	(810,737)	(10,279,423)
CAPITAL TRANSFERS	-	-	326,178	98,500	424,678
CAPITAL GRANTS AND CONTRIBUTIONS	843,466	-	552,555	254,249	1,650,270
NET LOSS	(925,983)	(2,326,333)	(4,494,171)	(457,988)	(8,204,475)
NET POSITION - BEGINNING OF YEAR	121,110,526	13,343,334	78,264,022	6,523,524	219,241,406
NET POSITION - END OF YEAR	\$ 120,184,543	\$ 11,017,001	\$ 73,769,851	\$ 6,065,536	\$ 211,036,931

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, 2013

	Enterprise Funds				Total
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
Cash Flows from Operating Activities					
Receipts from customers	\$10,018,374	\$ 5,197,754	\$ 3,422,704	\$ 1,480,268	\$ 20,119,100
Payments to suppliers	(2,640,199)	(2,602,170)	(807,215)	(1,313,087)	(7,362,671)
Payments to employees	(5,015,065)	(1,677,760)	(696,592)	(2,162,360)	(9,551,777)
Net Cash from Operating Activities	<u>2,363,110</u>	<u>917,824</u>	<u>1,918,897</u>	<u>(1,995,179)</u>	<u>3,204,652</u>
Cash Flows from Noncapital Financing Activities					
Operating contributions	70,576	491,360	73,166	1,956,929	2,592,031
Increase (decrease) in due to/from other funds	5,181,994	3,361,132	142,764	(110,314)	8,575,576
Net Cash from Noncapital Financing Activities	<u>5,252,570</u>	<u>3,852,492</u>	<u>215,930</u>	<u>1,846,615</u>	<u>11,167,607</u>
Cash Flows from Capital and Related Financing Activities					
Interest paid on notes and bond payable	(1,254,414)	(648,271)	(24,805)	(66)	(1,927,556)
Acquisition and construction of capital assets	(4,210,635)	(1,716,241)	(2,735,689)	(204,119)	(8,866,684)
Loss on the sale of assets	-	(2,013)	-	-	(2,013)
Contribution for capital acquisitions	843,466	-	878,733	352,749	2,074,948
Principal payments on notes and bonds payable	(2,612,641)	(1,551,767)	(258,483)	-	(4,422,891)
Payments for bond issuance	11,458	2,493	-	-	13,951
Net Cash from Capital and Related Financing Activities	<u>(7,222,766)</u>	<u>(3,915,799)</u>	<u>(2,140,244)</u>	<u>148,564</u>	<u>(13,130,245)</u>
Cash Flows from Investing Activities					
Interest on investments	190,290	2,072	5,417	-	197,779
Net change in cash	583,204	856,589	-	-	1,439,793
Cash, Beginning of Year	16,086,961	12,022,899	100	1,000	28,110,960
Cash, End of Year	<u>\$16,670,165</u>	<u>\$12,879,488</u>	<u>\$ 100</u>	<u>\$ 1,000</u>	<u>\$ 29,550,753</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities					
Operating loss	\$ (862,686)	\$(2,190,669)	\$(5,410,378)	\$(2,767,600)	\$(11,231,333)
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	2,872,763	3,143,829	6,331,365	659,359	13,007,316
Changes in assets and liabilities:					
Accounts receivable	(119,644)	7,713	16,480	(13,842)	(109,293)
Unbilled receivables	(72,273)	73,872	619	770	2,988
Due to/from other government entities	30,422	-	(139,990)	149,370	39,802
Inventories	16,715	7,656	4,897	1,846	31,114
Accounts payable and other liabilities	305,011	4,714	(223,945)	(42,350)	43,430
Accrued expenses	172,450	14,580	4,506	16,270	207,806
Landfill closure	-	(279,989)	-	-	(279,989)
Unearned revenue	(411)	139,339	1,335,806	(700)	1,474,034
Compensated absences	20,763	(3,221)	(463)	1,698	18,777
Net Cash from Operating Activities	<u>\$ 2,363,110</u>	<u>\$ 917,824</u>	<u>\$ 1,918,897</u>	<u>\$(1,995,179)</u>	<u>\$ 3,204,652</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Net Position – Fiduciary Funds
As of June 30, 2013**

	<u>Agency</u>	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>	<u>Total</u>
ASSETS						
Cash and short-term investments	\$ 2,945,356	\$ 1,868,606	\$ 44,019	\$ 174,804	\$ 65,533	\$ 5,098,318
Investments, at fair value:						
US Government obligations	-	11,202,767	1,055,920	1,909,538	55,804	14,224,029
Municipal bonds	-	39,676	-	-	-	39,676
Corporate bonds and obligations	-	6,138,414	532,206	876,365	-	7,546,985
Fixed income securities	-	2,423,814	275,163	-	-	2,698,977
Corporate stock	-	22,581,141	1,912,537	3,078,546	-	27,572,224
Equity funds	-	27,095,479	2,402,254	5,127,253	-	34,624,986
Accounts receivable	-	152,320	14,012	25,156	-	191,488
Due from other funds	-	-	-	-	5	5
TOTAL ASSETS	<u>2,945,356</u>	<u>71,502,217</u>	<u>6,236,111</u>	<u>11,191,662</u>	<u>121,342</u>	<u>91,996,688</u>
LIABILITIES						
Accounts payable	59,886	-	-	-	-	59,886
Due to student groups	2,885,470	-	-	-	-	2,885,470
TOTAL LIABILITIES	<u>2,945,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,945,356</u>
NET POSITION						
Assets held in trust for benefit payments	-	71,502,217	6,236,111	11,191,662	-	88,929,990
Assets held in trust for scholarships	-	-	-	-	121,342	121,342
NET POSITION	<u>\$ -</u>	<u>\$ 71,502,217</u>	<u>\$ 6,236,111</u>	<u>\$ 11,191,662</u>	<u>\$ 121,342</u>	<u>\$ 89,051,332</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Changes in Net Position - Fiduciary Funds
For Year Ended June 30, 2013

	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>	<u>Total</u>
ADDITIONS					
Contributions:					
Employer	\$ 4,082,265	\$ 600,000	\$ 1,606,600	\$ -	\$ 6,288,865
Plan members	1,815,036	-	-	-	1,815,036
Gifts and contributions	-	-	-	6,540	6,540
Receipts of In-kind	2,080,185	200,203	-	-	2,280,388
Total Contributions	<u>7,977,486</u>	<u>800,203</u>	<u>1,606,600</u>	<u>6,540</u>	<u>10,390,829</u>
Investment Income:					
Realized and unrealized gain	5,940,595	504,829	868,934	-	7,314,358
Interest and dividends	1,041,348	88,215	250,596	7,352	1,387,511
Other income	649,831	57,517	3	-	707,351
Total Investment Income	<u>7,631,774</u>	<u>650,561</u>	<u>1,119,533</u>	<u>7,352</u>	<u>9,409,220</u>
TOTAL ADDITIONS	<u>15,609,260</u>	<u>1,450,764</u>	<u>2,726,133</u>	<u>13,892</u>	<u>19,800,049</u>
DEDUCTIONS					
Benefits	4,887,931	420,467	-	-	5,308,398
Scholarship expenses	-	-	-	36,374	36,374
Administrative expenses	277,749	40,211	632,162	-	950,122
Distributions of In-Kind	1,983,681	192,502	-	-	2,176,183
TOTAL DEDUCTIONS	<u>7,149,361</u>	<u>653,180</u>	<u>632,162</u>	<u>36,374</u>	<u>8,471,077</u>
NET INCREASE (DECREASE) IN ASSETS	8,459,899	797,584	2,093,971	(22,482)	11,328,972
NET POSITION - BEGINNING OF YEAR	<u>63,042,318</u>	<u>5,438,527</u>	<u>9,097,691</u>	<u>143,824</u>	<u>77,722,360</u>
NET POSITION - END OF YEAR	<u>\$ 71,502,217</u>	<u>\$ 6,236,111</u>	<u>\$ 11,191,662</u>	<u>\$ 121,342</u>	<u>\$ 89,051,332</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

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, 2013 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the *GASB's Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

Reporting Entity

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued)

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

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

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

Government-Wide and Fund Financial Statements

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fiduciary funds:

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

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, 2013

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 Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. 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, 2013

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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefit Programs (continued)

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

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

Taxes and County Services

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

Real Estate and Personal Property Taxes

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

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 (2012 and 2013 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 Position

Governmental activities unrestricted net position has been reduced by \$48.2 million in long-term debt, resulting in unrestricted net position of \$0.1 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 \$45.3 million and Hagerstown Community College of \$2.9 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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position and Fund Equity

The difference between fund assets and liabilities is “Net Position” on the government-wide and fiduciary fund statements and “Fund Balance” on governmental fund statements. Net Position are classified as “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.

Implementation of New Accounting Principles

The County has adopted the provision of Governmental Accounting Standard Board (GASB) issued Statement No. 60, entitled *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, entitled *The Financial Reporting Entity: Omnibus-an amendment of GASB No. 14 and No. 34*; Statement No. 62, entitled *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and Statement No. 63, entitled *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

As of the year ended June 30, 2013, GASB issued Statement No. 65, entitled *Items Previously Reported as Assets and Liabilities*; Statement No. 66, entitled *Technical Corrections - 2012 – an amendment of GASB Statements No. 10 and No. 62*; Statement No. 69, entitled *Government Combinations and Disposals of Government Operations* and Statement No. 70, entitled *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. These Statements will not have a material effect on the County’s financial statements upon implementation.

GASB also issued Statement No. 67, entitled *Financial Reporting for Pension Plans* and Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. These Statements will have a material effect on the County’s financial statements once implemented.

The County is analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

Financial Capacity and Analysis Phase

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Budget Development Start

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

Budget Development Phase

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Review and Modification Phase

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

Adoption Phase

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

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

Start Up

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

Balanced Budget

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

Costing of Services

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

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 Position as "cash and short-term investments."

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

Deposits

As of June 30, 2013, the carrying amount of the County's deposits was \$32,870,503 and the bank balances were \$34,912,903. All deposits are carried at cost plus accrued interest. There were no significant violations of the collateralization requirements during the year ended June 30, 2013. 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, 2013, the County's bank balance of \$34,912,903 was exposed to custodial credit risk as \$250,000 of interest bearing accounts and \$250,000 of noninterest bearing accounts are insured by FDIC, \$15,000,000 is covered by a short term line of credit, and the remainder is collateralized through the Bank of New York Mellon.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments

As of June 30, 2013, the County had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Investments held in County's name:					
U.S. government obligations, municipal and corporate bonds	\$ 130,399,407	\$ 80,163,907	\$ 50,235,500	\$ -	\$ -
Certificates of Deposit	400,000	-	400,000	-	-
Total investments held in County's name	130,799,407	80,163,907	50,635,500	-	-
Investments held by trustee of					
Pension plan:					
U.S. government obligations, municipal and corporate bonds	17,380,857	-	6,682,039	4,557,600	6,141,218
Fixed income securities	2,423,814	2,423,814	-	-	-
Corporate stocks	22,581,141	22,581,141	-	-	-
Equity funds	27,095,479	27,095,479	-	-	-
Money market funds	1,868,606	1,868,606	-	-	-
Interest and dividends receivable	152,320	152,320	-	-	-
Total Investments held by trustee of pension plan	71,502,217	54,121,360	6,682,039	4,557,600	6,141,218
Investments held by trustee of					
LOSAP plan:					
U.S. government obligations and corporate bonds	1,588,126	10,178	617,254	388,639	572,056
Corporate stocks	1,912,537	1,912,537	-	-	-
Fixed income funds	275,163	275,163	-	-	-
Equity funds	2,402,254	2,402,254	-	-	-
Money market funds	44,019	44,019	-	-	-
Interest and dividends receivable	14,012	14,012	-	-	-
Total Investments held by trustee of LOSAP plan	6,236,111	4,658,163	617,254	388,639	572,056
Investments held by trustee of					
OPEB plan:					
U.S. government obligations and corporate bonds	2,785,903	66,160	874,278	690,070	1,155,395
Corporate stocks	3,078,546	3,078,546	-	-	-
Equity funds	5,127,253	5,127,253	-	-	-
Money market funds	174,804	174,804	-	-	-
Interest and dividends receivable	25,156	25,156	-	-	-
Total Investments held by trustee of OPEB plan	11,191,662	8,471,919	874,278	690,070	1,155,395
Total investments	\$ 219,729,397	\$ 84,822,070	\$ 58,809,071	\$ 1,078,709	\$ 7,868,669

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, 2013

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, 2013, 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, 2013

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:

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2013, none of the County's investments are exposed to custodial credit risk because they are held in the County's name.

Board of Education

Cash:

Credit Risk: Maryland State Law prescribed that local government units, such as the School System, must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels with collateral whose market value is at least equal to the deposits. Through December 31, 2012, all deposits held in noninterest-bearing accounts are fully insured. Any cash deposit exceeding the FDIC insurance level will require collateralization. Additionally, a compensating balance agreement exists with the Board's primary financial institution. This non-interest bearing deposit is maintained in lieu of cash payments for standard bank services. The required average balance totaled \$250,000 as of June 30, 2013.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2013**

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education (continued)

Compliance is summarized as follows:

<u>June 30, 2013</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Responsibilities</u>	<u>Total</u>
Carrying amount of cash deposits	\$ 20,111,664	\$ 2,871	\$ 3,010,889	\$ 23,125,424
Bank balance of cash deposits	21,732,771	2,871	3,144,310	24,879,952
Amount covered by FDIC	249,814	1,882	1,436,832	1,688,528
Amount collateralized with securities held by an agent of the pledging financial institution in the School system's name	21,482,957	989	1,707,478	23,191,424

Investments:

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

Interest Rate and Custodial Risk: Investments are made in 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, 2013**

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education (continued)

As of June 30, 2013, the School System had the following investments and maturities:

<u>June 30, 2013</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Responsibilities</u>	<u>Total</u>
Federal National Mortgage Association – 1.250% matures October 17, 2016	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Federal Home Loan Bank – 1.405% matures December 26, 2019 (net unamortized discount of \$927)	999,073	-	-	999,073
Federal Home Loan Mortgage Corp. - 1.125% matures March 27, 2018	2,500,000	-	-	2,500,000
Federal Home Loan Mortgage Corp. - 2.012% matures November 24, 2014 (net of unamortized premium of \$147,520)	5,352,480	-	-	5,352,480
Federal National Mortgage Association - 1.259% matures January 30, 2019 (net unamortized discount of \$1,861)	3,998,139	-	-	3,998,139
Federal National Loan Bank - Step Up/Variable matures December 28, 2020	1,000,000	-	-	1,000,000
Federal Home Loan Bank - 1.370% matures on October 24, 2019	3,000,000	-	-	3,000,000
Income Fund of America			55,804	55,804
	<u>\$ 18,849,692</u>	<u>\$ -</u>	<u>\$ 55,804</u>	<u>\$ 18,905,496</u>

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
	<u>June 30, 2013</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Agencies	\$ 18,849,692	\$ -	\$ 9,852,480	\$ 8,997,212	\$ -
Income Fund	55,804	55,804	-	-	-
	<u>\$ 18,905,496</u>	<u>\$ 55,804</u>	<u>\$ 9,852,480</u>	<u>\$ 8,997,212</u>	<u>\$ -</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

4. RECEIVABLES

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

	<u>Governmental Activities</u>			
	<u>General</u>	<u>Non-Major</u>	<u>Capital Projects</u>	<u>Total</u>
Receivables:				
Taxes receivable	\$ 567,508	\$ -	\$ -	\$ 567,508
Accounts receivable	398,097	271,798	1,864,251	2,534,146
Gross receivables	965,605	271,798	1,864,251	3,101,654
Less: allowance for uncollectibles	214,435	-	-	214,435
Net Total Receivables	\$ 751,170	\$ 271,798	\$ 1,864,251	\$ 2,887,219

	<u>Business-type Activities</u>				
	<u>Water Quality</u>	<u>Solid Waste</u>	<u>Airport</u>	<u>Non-major</u>	<u>Total</u>
Accounts receivable	\$ 1,138,577	\$ 270,607	\$ 153,880	\$ 28,694	\$ 1,591,758
Less: allowance for uncollectibles	13,305	76,270	35,791	500	125,866
Net Total Receivables	\$ 1,125,272	\$ 194,337	\$ 118,089	\$ 28,194	\$ 1,465,892

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 \$214,071. 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, 2013

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

Primary Government

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 71,991,104	\$ 5,856,191	\$ -	\$ 77,847,295
Capital assets, being depreciated:				
Land Improvements	9,148,918	1,933,260	-	11,082,178
Building and Improvements	67,912,869	1,003,800	-	68,916,669
Vehicles	11,473,563	1,238,083	(268,668)	12,442,978
Infrastructure	1,124,778,685	8,889,011	-	1,133,667,696
Machinery and Equipment	8,803,810	301,607	(46,025)	9,059,392
Office Furniture and Equipment	5,487,315	8,993	-	5,496,308
Computer Equipment	28,086,922	3,264,475	(76,503)	31,274,894
Total capital assets, being depreciated	<u>1,255,692,082</u>	<u>16,639,229</u>	<u>(391,196)</u>	<u>1,271,940,115</u>
Total capital assets	<u>1,327,683,186</u>	<u>22,495,420</u>	<u>(391,196)</u>	<u>1,349,787,410</u>
Accumulated depreciation for:				
Land Improvements	(4,564,769)	(272,823)	-	(4,837,592)
Building and Improvements	(23,129,167)	(1,872,687)	-	(25,001,854)
Vehicles	(10,254,927)	(666,953)	267,173	(10,654,707)
Infrastructure	(868,010,900)	(17,036,577)	-	(885,047,477)
Machinery and Equipment	(6,029,951)	(379,181)	38,615	(6,370,517)
Office Furniture and Equipment	(4,699,702)	(333,224)	-	(5,032,926)
Computer Equipment	(11,360,915)	(2,674,384)	76,502	(13,958,797)
Total Accumulated Depreciation	<u>(928,050,331)</u>	<u>(23,235,829)</u>	<u>382,290</u>	<u>(950,903,870)</u>
Governmental activities capital assets, net	<u>\$ 399,632,855</u>	<u>\$ (740,409)</u>	<u>\$ (8,906)</u>	<u>\$ 398,883,540</u>
Projects Under Construction	<u>\$ 13,337,194</u>	<u>\$ 9,788,579</u>	<u>\$ (16,051,513)</u>	<u>\$ 7,074,260</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements
June 30, 2013

5. CAPITAL ASSETS (continued)

Business-type Activities

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 11,760,175	\$ 292,112	\$ -	\$ 12,052,287
Capital assets, being depreciated:				
Land Improvements	136,094,468	404,628	-	136,499,096
Building and Improvements	55,252,055	2,642,083	-	57,894,138
Facilities	110,769,212	2,577,286	-	113,346,498
Vehicles	6,971,557	69,087	-	7,040,644
Machinery and Equipment	10,033,921	1,543,922	(6,193)	11,571,650
Office Furniture and Equipment	323,205	-	-	323,205
Computer Equipment	2,282,838	306,286	(22,977)	2,566,147
Treatment Plants	51,449,475	-	-	51,449,475
Total capital assets, being depreciated	<u>373,176,731</u>	<u>7,543,292</u>	<u>(29,170)</u>	<u>380,690,853</u>
Total capital assets	<u>384,936,906</u>	<u>7,835,404</u>	<u>(29,170)</u>	<u>392,743,140</u>
Accumulated depreciation for:				
Land Improvements	(55,015,248)	(7,903,783)	-	(62,919,031)
Building and Improvements	(13,199,760)	(1,371,088)	-	(14,570,848)
Facilities	(26,905,293)	(1,422,113)	-	(28,327,406)
Vehicles	(4,569,454)	(637,952)	-	(5,207,406)
Machinery and Equipment	(7,840,070)	(479,577)	4,181	(8,315,466)
Office Furniture and Equipment	(322,336)	(290)	-	(322,626)
Computer Equipment	(1,457,974)	(224,003)	22,977	(1,659,000)
Treatment Plants	(19,699,601)	(968,510)	-	(20,668,111)
Total Accumulated Depreciation	<u>(129,009,736)</u>	<u>(13,007,316)</u>	<u>27,158</u>	<u>(141,989,894)</u>
Business-type activities capital assets, net	<u>\$ 255,927,170</u>	<u>\$ (5,171,912)</u>	<u>\$ (2,012)</u>	<u>\$ 250,753,246</u>
Projects Under Construction	<u>\$ 1,932,688</u>	<u>\$ 6,550,912</u>	<u>\$ (5,517,125)</u>	<u>\$ 2,966,475</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

5. CAPITAL ASSETS (continued)

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

Governmental Activities:

General Government	\$ 18,397,997
Public Safety	4,074,636
Recreation	263,295
Conservation of Natural Resources	3,241
Highway	474,767

Total Depreciation Expense - Governmental Activities	\$ 23,213,936
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Business-Type Activities:

Transit Fund	\$ 591,383
Airport Fund	6,331,365
Golf Course Fund	67,976
Water Quality Fund	2,872,763
Solid Waste Fund	3,143,829

Total Depreciation Expense – Business-Type Activities	\$ 13,007,316
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Board of Education (Discretely presented component unit)

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Government activities				
Capital assets, not being depreciated:				
Land	\$ 4,500,513	\$ 2,689,484	\$ -	\$ 7,189,997
Facilities under construction	715,632	7,257,356	-	7,972,988
	<u>5,216,145</u>	<u>9,946,840</u>	<u>-</u>	<u>15,162,985</u>
Capital assets, being depreciated:				
Building and Improvements	289,832,675	2,846,337	(2,412)	292,676,600
Furniture and equipment	38,602,989	4,410,249	(1,806,769)	41,206,469
Equipment under capital leases	10,722,040	-	-	10,722,040
	<u>339,157,704</u>	<u>7,256,586</u>	<u>(1,809,181)</u>	<u>344,605,109</u>
Accumulated depreciation:				
Building and Improvements	(112,225,587)	(6,491,787)	2,412	(118,714,962)
Furniture and equipment	(21,986,842)	(3,534,473)	1,749,367	(23,771,948)
Buildings and equipment under capital lease	(1,965,528)	(687,709)	-	(2,653,237)
	<u>(136,177,957)</u>	<u>(10,713,969)</u>	<u>1,751,779</u>	<u>(145,140,147)</u>
Governmental activities capital assets, net	\$ 208,195,892	\$ 6,489,457	\$ (57,402)	\$ 214,627,947

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2013**

5. CAPITAL ASSETS (continued)

Board of Education (continued)

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>
Business-type activities				
Capital assets, being depreciated:				
Furniture and equipment	\$ 4,396,736	\$ 126,280	\$ (145,200)	\$ 4,377,816
Accumulated depreciation				
Furniture and equipment	(2,992,769)	(209,567)	139,228	(3,063,108)
Business-type activities capital assets, net	<u>\$ 1,403,967</u>	<u>\$ (83,287)</u>	<u>\$ (5,972)</u>	<u>\$ 1,314,708</u>

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

Governmental activities:	
Other instructional costs	\$ 2,140,366
Student transportation services	1,138,061
Operation of plant	166,672
Depreciation - unallocated	7,268,870
Total governmental activities depreciation expense	<u>\$ 10,713,969</u>
Business-type activities:	
Food services	<u>\$ 209,567</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, 2013**

6. INTERFUND RECEIVABLES AND PAYABLES (continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Airport	\$ 10,000
Water Quality	General Fund	11,539,214
	Airport	813,715
	Golf Course	425,701
	Public Transit	87,516
	HEPMPO	37,317
	Community Grants Management	34,477
Solid Waste	General Fund	8,705,020
	Airport	613,856
	Golf Course	321,143
	Public Transit	66,020
	HEPMPO	28,152
	Community Grants Management	26,009
Capital Projects	General Fund	<u>74,876,671</u>
Total		<u>\$ 97,584,811</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	\$ 417,874

The General Fund receivable from the Airport has a June 30, 2013, balance of \$10,000 which is an interest free loan and is being paid over a remaining 1 year period. All other interfund payables are without interest.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

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	\$ -	\$ -	\$ -	\$ 6,355,500
Solid Waste	-	491,360	-	-
Public Transit	-	472,270	-	-
Water Quality	-	70,576	-	-
Community Grants Management	-	226,515	-	-
Agricultural Education Center	-	100,850	-	-
Golf Course	-	102,690	-	-
HEPMPO	-	4,165	-	-
Land Preservation	-	91,870	-	-
Airport	-	64,500	-	-
Capital Projects Fund:				
General Fund	-	-	5,965,900	-
Airport Fund	-	-	-	35,078
Hotel Rental Fund	-	-	373,700	-
Solid Waste:				
General Fund	491,360	-	-	-
Public Transit:				
General Fund	472,270	-	98,500	-
Capital Project Fund	-	-	-	-
HEPMPO	-	13,200	-	-
Water Quality:				
General Fund	70,576	-	-	-
Airport:				
General Fund	64,500	-	291,100	-
Capital Project Fund	-	-	35,078	-
Golf Course				
General Fund	102,690	-	-	-
Community Grants Management				
General Fund	226,515	-	-	-
Agricultural Education Center:				
General Fund	100,850	-	-	-
HEPMPO				
General Fund	4,165	-	-	-
Public Transit Fund	13,200	-	-	-
Hotel Rental				
Capital Project Fund	-	-	-	373,700
Land Preservation				
General Fund	91,870	-	-	-
Total	<u>\$ 1,637,996</u>	<u>\$ 1,637,996</u>	<u>\$ 6,764,278</u>	<u>\$ 6,764,278</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Bonds payable:						
General obligation bonds	2.0-5.5%	\$ 123,926,549	\$ 24,362,420	\$ 21,967,342	\$ 126,321,627	\$ 9,734,803
Deferred amount on refunding		(1,448,576)	(1,286,503)	(215,625)	(2,519,454)	-
Unamortized bond premium		2,091,734	1,828,189	258,199	3,661,724	-
Unamortized bond discount		(2,955)	-	(2,955)	-	-
Total bonds payable		<u>124,566,752</u>	<u>24,904,106</u>	<u>22,006,961</u>	<u>127,463,897</u>	<u>9,734,803</u>
Other loans payable						
Maryland Water Quality loans	1.0%	<u>5,745,888</u>	<u>-</u>	<u>283,324</u>	<u>5,462,564</u>	<u>285,821</u>
Total bonds and loans payable		<u>130,312,640</u>	<u>24,904,106</u>	<u>22,290,285</u>	<u>132,926,461</u>	<u>10,020,624</u>
Agricultural Land Preservation	3.0%	2,051,010	-	517,737	1,533,273	517,736
Capital lease obligations	2.1%	<u>600,870</u>	<u>-</u>	<u>145,522</u>	<u>455,348</u>	<u>148,608</u>
Governmental Activity						
Long-term Liabilities		<u>132,964,520</u>	<u>24,904,106</u>	<u>22,953,544</u>	<u>134,915,082</u>	<u>10,686,968</u>
Business-type Activities						
Bonds payable:						
General obligation bonds	2.0-5.5%	\$ 35,790,103	\$ 177,580	\$ 2,522,212	\$ 33,445,471	\$ 2,499,601
Deferred amount on refunding		(917,017)	(13,640)	(151,480)	(779,177)	-
Unamortized bond premium		599,195	18,908	63,601	554,502	-
Unamortized bond discount		(23,975)	-	(5,198)	(18,777)	-
Total bonds payable		<u>35,448,306</u>	<u>182,848</u>	<u>2,429,135</u>	<u>33,202,019</u>	<u>2,499,601</u>
Other loans payable:						
Maryland Water Quality loans	0.40-3.3%	<u>16,976,902</u>	<u>-</u>	<u>2,111,103</u>	<u>14,865,799</u>	<u>2,063,384</u>
Total bonds and loans payable		<u>52,425,208</u>	<u>182,848</u>	<u>4,540,238</u>	<u>48,067,818</u>	<u>4,562,985</u>
Capital lease obligations	4.0-4.3%	<u>65,501</u>	<u>-</u>	<u>65,501</u>	<u>-</u>	<u>-</u>
Business-type Activity						
Long-term Liabilities		<u>52,490,709</u>	<u>182,848</u>	<u>4,605,739</u>	<u>48,067,818</u>	<u>4,562,985</u>
Total Combined Activities						
Long-term Liabilities		<u>\$ 185,455,229</u>	<u>\$ 25,086,954</u>	<u>\$ 27,559,283</u>	<u>\$ 182,982,900</u>	<u>\$ 15,249,953</u>
Board of Education	4.5-8.04%	<u>\$ 8,011,088</u>	<u>\$ -</u>	<u>\$ 780,120</u>	<u>\$ 7,230,968</u>	<u>\$ 628,493</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

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

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

Year ending June 30	Governmental Activities		Business-type Activities		Combined Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 10,020,624	\$ 4,167,361	\$ 4,562,985	\$ 1,966,608	\$ 14,583,609	\$ 6,133,969
2015	10,147,505	4,135,039	4,416,525	1,996,513	14,564,030	6,131,552
2016	9,270,976	3,780,608	3,527,953	2,463,967	12,798,929	6,244,575
2017	9,218,015	3,472,223	3,372,692	2,440,346	12,590,707	5,912,569
2018	8,681,344	3,153,266	3,856,856	2,422,464	12,538,200	5,575,730
2019-2023	38,452,965	11,416,394	16,430,124	6,281,725	54,883,089	17,698,119
2024-2028	31,858,173	5,284,272	7,813,724	1,476,479	39,671,897	6,760,751
2029-2033	13,349,589	1,083,908	4,330,411	295,873	17,680,000	1,379,781
2034	785,000	11,775	-	-	785,000	11,775
Total	<u>\$ 131,784,191</u>	<u>\$ 36,504,846</u>	<u>\$ 48,311,270</u>	<u>\$ 19,343,975</u>	<u>\$ 180,095,461</u>	<u>\$ 55,848,821</u>
Less:						
Deferred amount on refunding	(2,519,454)		(779,177)		(3,298,631)	
Unamortized discount	-		(18,777)		(18,777)	
Unamortized premium	3,661,724		554,502		4,216,226	
	<u>\$ 132,926,461</u>		<u>\$ 48,067,818</u>		<u>\$ 180,994,279</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, 2013, the unused authorization was \$14,672,722.

Conduit Debt

From time to time, the County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received in the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. In accordance with governmental accounting standards, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2013, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$56,990,317.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2013**

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, 2013, are as follows:

As of June 30,	Principal	Interest	Total Requirement
2014	\$ 517,736	\$ 45,998	\$ 563,734
2015	517,736	30,466	548,202
2016	351,794	14,934	366,728
2017	146,007	4,380	150,387
	\$ 1,533,273	\$ 95,778	\$ 1,629,051

For the year ended June 30, 2013, total principal and interest incurred related to agricultural land preservation installments was \$517,736 and \$61,530, respectively.

Capital Leases

On January 15, 2012, the General Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$158,267 and expires January 15, 2016. The future minimum lease payments under this agreement are as follows:

Year ending June 30,	
2014	\$ 158,267
2015	158,267
2016	158,267
Total minimum payments	474,801
Less: amounts representing interest	19,453
Present value of net minimum lease payments	\$ 455,348

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, 2013**

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

Capital Leases (continued)

The following is an analysis of the capital assets acquired under capital leases as of June 30, 2013.

	<u>Capitalized Amount</u>	<u>Accumulated Depreciation</u>	<u>NBV June 30, 2013</u>
General Fund	\$ 1,281,325	\$ 162,253	\$ 1,119,072

Board of Education

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 628,493	\$ 361,160	\$ 989,653
2015	648,159	312,229	960,388
2016	372,666	260,802	633,468
2017	389,818	243,650	633,468
2018	407,761	225,708	633,469
2019-2023	2,338,205	829,138	3,167,343
2024-2028	2,445,866	246,375	2,692,241
	<u>\$ 7,230,968</u>	<u>\$ 2,479,062</u>	<u>\$ 9,710,030</u>

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, 2013, \$16,005,000 of long-term obligations outstanding are considered defeased.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

9. OPERATING LEASE AGREEMENTS

County

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

During fiscal year 2004, the County entered into a lease agreement whereby the lessee began building improvements on land and buildings owned at the Airport. During fiscal year 2006, the improvements were completed for a total cost of \$1,165,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2006. The terms of the agreement which began June 30, 2006, allow the lessee to use the property for a period of 17 years, with no payments due during the initial five year term of the lease. In subsequent years, the lessee agreed to pay rent equal to the then-prevailing fair market rental value of the original 2,000 square feet of the leased property. Deferred 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, allow the lessee to use the property for a period of 39 years (primary terms). The terms of the lease agreement require that the lessee pay the County annual rent of \$5,200 during the primary terms of the lease with an annual increase of 3% each year. The agreement allows an option for the lessee to continue the lease past the 39 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred 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, allow the lessee to use the property for a period of 39 years (primary terms). The terms of the lease agreement require that the lessee pay the County annual rent of \$15,750 during the primary terms of the lease with an annual increase of 4% each year. The agreement allows an option for the lessee to continue the lease past the 39 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred 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, 2013

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

During fiscal year 2010, the County entered into a lease agreement whereby the lessee constructed a building and improvements for \$3,000,000, which was capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2010. The terms of the agreement, which began June 1, 2009, allow the lessee to use the property for a period of 39 years (primary terms). The terms of the lease agreement require that the lessee pay the County annual rent of \$13,208 during the primary terms of the lease with an annual increase of 4% each year. Deferred 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, allow the lessee to use the property for a period of 39 years (primary years). The terms of the lease agreement require that the lessee pay the County annual rent of \$17,000 during the primary terms of the lease with an annual increase of 4% each year. The lease also requires that the County credit the lessee \$250,000 for the lessee's incurred costs in site preparation and excavation costs. The agreement allows for an option for the lessee to continue the lease past the 39 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred 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, allow the lessee to use the property for a period of 39 years (primary years). The terms of the lease agreement require that the lessee pay the County annual rent of \$15,985 during the primary terms of the lease with an annual increase of 4% each year. The agreement allow for an option for the lessee to continue the lease past the 39 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred revenue in the amount of \$4,500,000 was recorded in the Airport fund as of June 30, 2011.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

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

During year ending June 30, 2013, rental income for the above leases of \$774,762 was recognized in the Airport Fund.

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

The term of the lease runs for a period of ninety-nine years with fixed monthly rent payments of \$28,800. During the year ended June 30, 2013, outsourcing revenue of \$345,600 was recognized in the Water Quality Fund.

On January 19, 2012, Black Rock Golf Course entered into a new lease for golf carts. The agreement called for lease payments of \$8,077 payable from April through November of each year. The lease term is for six years commencing on March 1, 2012. Total lease payments for the year ended June 30, 2013, were \$64,616.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

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 2013, 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, 2013, was \$2,443,591 and \$568,414, 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, 2013, was \$5,799,388. Total employee related costs associated and accrued with these compensated absences amounted to \$412,126 as of June 30, 2013. For governmental funds, \$423,623 as of June 30, 2013, 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, 2013

11. RETIREMENT PLANS

County Defined Benefit Pension Plan

Plan Description

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

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

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

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

Funding Policy

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

All information that follows for the Plan is as of July 1, 2012, which is the latest actuarial report available.

Membership of the Plan

The membership consisted of the following as of July 1, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	237
Terminated Plan members entitled to but not yet receiving benefits	44
Active Plan members	744
	<u>1,025</u>

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation for the year ended June 30, 2012, were as follows:

Annual required contribution	\$ 5,972,768
Interest on net pension obligation	424,407
Adjustment to annual required contribution	<u>(630,052)</u>
Annual pension cost	5,767,123
Contributions	<u>4,082,265</u>
Increase in net pension obligation	1,684,858
Net pension obligation, beginning of year	<u>5,476,220</u>
Net pension obligation, end of year	<u>\$ 7,161,078</u>

The annual required contribution for the current year was determined as part of the July 1, 2012, 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, 2013

11. RETIREMENT PLANS (continued)

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Excess)</u>
6/30/2013	\$ 5,767,123	70.79%	\$ 7,161,078
6/30/2012	4,976,758	51.64%	5,476,220
6/30/2011	4,836,704	90.55%	3,069,562
6/30/2010	4,255,363	57.84%	2,612,331

Board of Education

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

11. RETIREMENT PLANS (continued)

Board of Education (continued)

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

Washington County School System contributions totaling \$1,666,989 and \$1,999,671 or 8.99% and 10.94% of covered payroll for fiscal years 2013 and 2012, respectively; and contributions by the State of Maryland on behalf of the School System totaling \$14,707,080 and \$19,374,937 or 13.29% and 15.45% of covered payroll for fiscal years 2013 and 2012, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed annually.

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

11. RETIREMENT PLANS (continued)

Board of Education (continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Total Annual Pension Cost (APC)</u>	<u>APC Contributed by School System</u>	<u>APC Contributed by State</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2013	\$ 19,468,182	\$ 4,761,102	\$ 14,707,080	100%	-
2012	21,374,608	1,999,671	19,374,937	100%	-
2011	20,537,456	1,978,382	18,559,074	100%	-
2010	17,946,215	1,365,507	16,580,708	100%	-
2009	14,644,559	1,203,511	13,441,048	100%	-

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

12. RISK MANAGEMENT

County

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

12. RISK MANAGEMENT (continued)

County (continued)

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

The liability for estimated claims was determined to be \$1,097,002 which is reflected in the accompanying financial statements as of June 30, 2013. Changes in the claims liability were as follows:

	Years Ended June 30,	
	2013	2012
Liability, beginning of year	\$ 988,731	\$ 725,601
Premiums collected and changes in estimates during the year	12,217,340	11,777,559
Claims and administrative costs paid	(12,109,069)	(11,514,429)
Liability, end of year	<u>\$ 1,097,002</u>	<u>\$ 988,731</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, 2013

12. RISK MANAGEMENT (continued)

County (continued)

The County Commissioners have also established a self-insurance plan for Workers' Compensation claims whereby the County is liable for the first \$600,000 per occurrence. As required by the State of Maryland, \$175,000 in U.S. Treasury Notes is held by the State Workers' Compensation Commission and is included in investments on the balance sheet. The County extends coverage under this plan to the employees of other governmental and nonprofit agencies. These agencies are charged a "premium", however the County bears the risk of loss. The liability for estimated claims was determined to be \$918,591, which is reflected in the accompanying financial statements as of June 30, 2013. Changes in the claims liability were as follows:

	<u>Years Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Liability, beginning of year	\$ 1,231,494	\$ 1,235,540
Premiums collected and changes in estimates during the year	88,547	814,185
Claims and administrative costs paid	(401,450)	(818,231)
Liability, end of year	<u>\$ 918,591</u>	<u>\$ 1,231,494</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, 2013

12. RISK MANAGEMENT (continued)

Board of Education (continued)

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

12. RISK MANAGEMENT (continued)

Board of Education (continued)

In accordance with the Governmental Accounting Standards Board's Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," charges to other funds must be accounted for as revenue by an internal service fund and expenditures/expenses by the other funds. The amounts of these charges were \$30,296,955 and \$29,864,325 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012. 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,	
	2013	2012
Liability, beginning of year	\$ 2,175,002	\$ 1,968,033
Claims and changes in estimates during the year	34,854,411	32,782,786
Claims paid and accrued	(34,953,498)	(32,575,817)
Liability, end of year	<u>\$ 2,075,915</u>	<u>\$ 2,175,002</u>

13. DEFERRED COMPENSATION PLAN

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

14. SEGMENT INFORMATION

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements
June 30, 2013

14. SEGMENT INFORMATION (continued)

	<u>Sewer Department</u>	<u>Pretreatment Department</u>
CONDENSED STATEMENT OF NET POSITION		
ASSETS		
Current assets	\$ 22,039,490	\$ 3,167,144
Noncurrent assets	104,384,813	5,727,788
Total Assets	<u>126,424,303</u>	<u>8,894,932</u>
LIABILITIES		
Other current liabilities	7,923,282	1,879,117
Noncurrent liabilities	16,775,663	4,190,634
Total Liabilities	<u>24,698,945</u>	<u>6,069,751</u>
Net Position		
Invested in capital assets, net of related debt	95,726,443	615,079
Unrestricted	5,998,915	2,210,102
Total Net Position	<u>\$ 101,725,358</u>	<u>\$ 2,825,181</u>
CONDENSED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION		
Operating revenue	\$ 8,345,149	\$ -
Lease income	-	346,353
Depreciation expense	(2,109,695)	(187,409)
Other operating expenses	(7,226,945)	(24,040)
Operating income	<u>(991,491)</u>	<u>134,904</u>
Non-operating revenue (expenses):		
Interest expense	(819,944)	(218,233)
Interest income	149,439	-
Utility administration charge	-	-
Operating transfers	-	-
Capital contributions	843,466	-
Change in Net Position	(818,530)	(83,329)
Net Position, beginning of year	102,543,888	2,908,510
Net Position, End of Year	<u>\$ 101,725,358</u>	<u>\$ 2,825,181</u>
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	\$ 6,555,600	\$ 322,314
Noncapital financing activities	-	-
Capital and related financing activities	(2,010,214)	(671,615)
Investing activities	(3,465,800)	-
Net increase	1,079,586	(349,301)
Cash and cash equivalents, beginning of year	5,835,714	3,488,146
Cash and Cash Equivalents, End of Year	<u>\$ 6,915,300</u>	<u>\$ 3,138,845</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

15. CLOSURE AND POST-CLOSURE CARE COST

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

The Hancock Landfill was closed in 1993. The remaining estimated costs associated with the closure and post-closure care costs of \$179,848 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, 2013.

The Resh Landfill has reported a landfill post-closure care liability of \$5,527,877 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, 2013.

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, 2013. The Rubble Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2013.

The 40 West Landfill began operation in fiscal year 2001. The estimated life of this landfill is approximately 120 years as of June 30, 2013, it is estimated that approximately 15.2% of the capacity has been used. The estimated costs associated with closure and post-closure care of \$7,164,822 was reported as a liability in the Solid Waste Fund at June 30, 2013. The County will recognize \$47,055,727 of estimated cost associated with the closure and post-closure care as capacity is filled. During the fiscal year 2012 engineering re-designed the cells at 40 West Landfill. This change in estimate increased the airspace by 4 million cubic yards along with the life of the landfill by 62 years. This change in accounting estimate has no effect on the total estimated cost but will extend the landfill life from 58 years to 120 years.

The above estimates are based on estimated current costs to perform all closure and post-closure care. Actual costs may be higher due to inflation, deflation, changes in technology, or changes in applicable laws or regulations. The County is required by state and federal laws and regulations to meet certain closure and post-closure financial assurance requirements. The County has satisfied these requirements by demonstrating in information submitted by the Director of Finance that they meet the Local Government Financial Test as of June 30, 2013, as specified in 40CFR258.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (OPEB)

County

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

The County offered a special termination benefit to employees that retired between July 1, 1995 and September 30, 1995. Those employees are receiving health care benefits (managed care program) from the date of retirement until they are eligible for Medicare or turn 65. Two former employees and their spouses 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, 2013**

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

County (continued)

Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,303,670
Interest on Net OPEB Obligation	80,729
Adjustment to Annual Required Contribution	<u>(63,412)</u>
Annual OPEB Cost (Expense)	1,320,987
Contributions Made or Accrued	<u>1,318,230</u>
Increase in Net Obligation	2,757
Net OPEB Asset - Beginning of Year	<u>(815,779)</u>
Net OPEB Asset - End of Year	<u><u>\$ (813,022)</u></u>

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

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2013	\$ 1,320,987	99.79%	\$ (813,022)
2012	1,299,915	145.38%	(815,779)
2011	1,565,760	112.22%	(225,885)
2010	1,570,147	111.90%	(34,498)

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, 2013

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

County (continued)

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

In the June 30, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 12% initially, reduced by decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar charge on an open basis. The remaining amortization period as of July 1, 2013, was 22 years.

Board of Education

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

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, 2013

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

Board of Education (continued)

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

Funding Policy

The School System is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 8.06% of annual covered payroll.

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed for the plan as of June 30, 2012, to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC). The annual OPEB cost (expense) including current claims of \$11,945,276 was \$149,978 higher than the ARC for the fiscal year, due to adjustments related to amortization and interest on the net OPEB obligation. The School System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 11,945,276	111.91%	\$ (8,644,472)
2012	11,945,276	118.00%	(7,222,174)
2011	10,505,013	123.47%	(5,069,600)

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2013

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

Board of Education (continued)

Funded Status and Funding Progress

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

The funded status of the plan as of June 30, 2013, was as follows:

Actuarial accrued liability (AAL)	\$ 155,894,618
Actuarial value of plan assets	<u>28,583,687</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 127,310,931</u></u>
Funded ratio (actuarial value of plan assets/AAL)	18.34%
Covered payroll (active plan members)	\$ 146,300,000
UAAL as a percentage of covered payroll	87.02%

Actuarial Methods and Assumptions

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

In the June 30, 2012, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.5% initially, reduced by 1.0% per year to arrive at an ultimate healthcare cost trend rate of 5.0%. Both rates include a 4.0% inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was twenty-five years.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

17. CONTINGENCIES AND COMMITMENTS

County

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

The County Commissioners and the Sheriff of Washington County are defendants in various legal proceedings as of June 30, 2013. 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, 2013, 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 \$15,106,425.

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, 2013

17. CONTINGENCIES AND COMMITMENTS (continued)

Board of Education (continued)

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

18. COMMITTED AND ASSIGNED FUND BALANCES

Fund balances reflected in the governmental funds balance sheet as of June 30, 2013 are categorized as follows:

	General Fund	Capital Projects Fund	Non-major Governmental Funds	Total
Non-Spendable				
Inventory	\$ 53,550	\$ -	\$ -	\$ 53,550
Long-term receivable	83,117	-	-	83,117
Restricted				
Programs and activities	168,525	-	1,258,240	1,426,765
Workers compensation	179,804	-	-	179,804
Highways and streets	851,872	-	-	851,872
Capital projects	-	22,752,799	-	22,752,799
Committed				
Contingencies	37,418,074	-	-	37,418,074
Programs and activities	34,023	-	35,901	69,924
Capital projects	-	52,320,799	-	52,320,799
Assigned				
Programs and activities	23,679	-	13,564	37,243
Unassigned	27,576	-	(18,145)	9,431
Totals	\$ 38,840,220	\$ 75,073,598	\$ 1,289,560	\$ 115,203,378

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2013

19. RETIREMENT PLAN - FIRE AND RESCUE VOLUNTEERS

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

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

The 2012 calendar year census shows 805 volunteers receiving at least 50 points, which qualifies them for LOSAP credit. 141 retired volunteers and 8 spouses are participating in LOSAP. The County funds LOSAP in annual amounts determined by an actuary.

As of July 1, 2012, the date of the latest actuarial valuation, the LOSAP Unfunded Accrued Liability (UAL) is as follows:

Accrued Liability	\$ 8,218,913
Less: assets at market value	<u>6,038,528</u>
Unfunded Accrued Liability	<u><u>\$ 2,180,385</u></u>

The minimum recommended contribution for the year beginning July 1, 2013, is as follows:

Normal costs	\$ 268,985
Amortization of UAL (over 15 years)	<u>250,858</u>
Recommended contribution	<u><u>\$ 519,843</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Funding Progress
June 30, 2013

Pension Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$ 49,875,724	\$ 60,333,283	\$ 10,457,559	82.67%	\$ 29,299,129	35.69%
7/1/2008	51,808,616	67,907,912	16,099,296	76.29%	31,652,038	50.86%
7/1/2009	49,838,084	71,136,183	21,298,099	70.06%	33,576,069	63.43%
7/1/2010	52,986,292	77,023,047	24,036,755	68.79%	35,422,916	67.86%
7/1/2011	59,987,348	84,165,680	24,178,332	71.27%	34,479,726	70.12%
7/1/2012	61,669,692	89,496,070	27,826,378	68.91%	34,478,486	80.71%

Length of Service Award Program (LOSAP) Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2008	4,242,850	6,510,528	2,267,678	65.17%	N/A	N/A
7/1/2009	3,944,546	7,111,240	3,166,694	55.47%	N/A	N/A
7/1/2010	4,572,193	7,710,562	3,138,369	59.30%	N/A	N/A
7/1/2011	5,708,987	8,295,635	2,586,648	68.82%	N/A	N/A
7/1/2012	6,038,528	8,218,913	2,180,385	73.47%	N/A	N/A

Other Postemployment Benefit (OPEB) Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2008	\$ 1,211,350	\$ 16,549,200	\$ 15,337,850	7.32%	\$ 31,652,038	48.46%
7/1/2009	1,501,721	18,333,616	16,831,895	8.19%	33,576,069	50.13%
7/1/2012	9,122,297	16,720,742	7,598,445	54.56%	34,479,726	22.04%

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statements of Financial Schedules June 30, 2013

Non-Major Governmental Funds

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

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

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Combining Statements of Financial Schedules
June 30, 2013**

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, 2013

	Community Grant Management	Inmate Welfare	Contraband	Agricultural Education Center	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non-major Funds
ASSETS									
Cash	\$ -	\$ 117,123	\$ 139,503	\$ 22,209	\$ 1,004,043	\$ 1,464,546	\$ 320,274	\$ -	\$ 3,067,698
Accounts receivable	-	-	-	-	199,129	72,669	-	-	271,798
Due from other governmental agencies	326,774	-	-	-	-	-	-	74,944	401,718
Notes receivable	-	-	-	-	100,000	-	-	-	100,000
TOTAL ASSETS	<u>\$ 326,774</u>	<u>\$ 117,123</u>	<u>\$ 139,503</u>	<u>\$ 22,209</u>	<u>\$ 1,303,172</u>	<u>\$ 1,537,215</u>	<u>\$ 320,274</u>	<u>\$ 74,944</u>	<u>\$ 3,841,214</u>
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ 260,038	\$ 31,416	\$ -	\$ 14,941	\$ 253,975	\$ 1,496,538	\$ 1,300	\$ 35,820	\$ 2,094,028
Due to other funds	60,486	-	-	-	-	-	-	65,469	125,955
Accrued expenses	4,824	921	-	1,073	-	3,241	4,232	1,092	15,383
Other liabilities	-	-	67,097	-	-	-	219,124	-	286,221
Unearned revenue	-	-	-	-	-	30,067	-	-	30,067
TOTAL LIABILITIES	<u>325,348</u>	<u>32,337</u>	<u>67,097</u>	<u>16,014</u>	<u>253,975</u>	<u>1,529,846</u>	<u>224,656</u>	<u>102,381</u>	<u>2,551,654</u>
FUND BALANCES									
Restricted	1,426	84,786	72,406	-	1,049,197	-	59,717	(9,292)	1,258,240
Committed	-	-	-	-	-	-	35,901	-	35,901
Assigned	-	-	-	6,195	-	7,369	-	-	13,564
Unassigned	-	-	-	-	-	-	-	(18,145)	(18,145)
TOTAL FUND BALANCES	<u>1,426</u>	<u>84,786</u>	<u>72,406</u>	<u>6,195</u>	<u>1,049,197</u>	<u>7,369</u>	<u>95,618</u>	<u>(27,437)</u>	<u>1,289,560</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 326,774</u>	<u>\$ 117,123</u>	<u>\$ 139,503</u>	<u>\$ 22,209</u>	<u>\$ 1,303,172</u>	<u>\$ 1,537,215</u>	<u>\$ 320,274</u>	<u>\$ 74,944</u>	<u>\$ 3,841,214</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, 2013

	Community Grant Management	Inmate Welfare	Contraband	Agricultural Education Center	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non- major Funds
REVENUE									
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,876,044	\$ -	\$ 438,513	\$ -	\$ 2,314,557
Licenses and permits	-	-	-	-	-	2,068,021	-	-	2,068,021
Charges for services	-	388,168	-	-	-	-	-	-	388,168
Revenue from uses of property	-	-	-	26,515	-	-	-	-	26,515
Reimbursed expenses	-	-	-	1,530	-	-	-	-	1,530
Miscellaneous revenues	-	113,808	51,284	3,480	-	125	-	12,773	181,470
Shared taxes and grants	971,807	-	-	-	-	-	1,592,299	240,636	2,804,742
TOTAL REVENUE	<u>971,807</u>	<u>501,976</u>	<u>51,284</u>	<u>31,525</u>	<u>1,876,044</u>	<u>2,068,146</u>	<u>2,030,812</u>	<u>253,409</u>	<u>7,785,003</u>
EXPENDITURES									
Public safety	-	512,736	260,999	-	-	950,130	-	-	1,723,865
Parks, recreation and culture	-	-	-	193,953	-	-	-	-	193,953
Land preservation	-	-	-	-	-	-	2,283,482	-	2,283,482
General operations	-	-	-	-	-	166,243	-	280,066	446,309
Community promotion	1,361,055	-	-	-	1,279,250	950,129	-	-	3,590,434
TOTAL EXPENDITURES	<u>1,361,055</u>	<u>512,736</u>	<u>260,999</u>	<u>193,953</u>	<u>1,279,250</u>	<u>2,066,502</u>	<u>2,283,482</u>	<u>280,066</u>	<u>8,238,043</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(389,248)</u>	<u>(10,760)</u>	<u>(209,715)</u>	<u>(162,428)</u>	<u>596,794</u>	<u>1,644</u>	<u>(252,670)</u>	<u>(26,657)</u>	<u>(453,040)</u>
OTHER FINANCING SOURCES									
Transfers in	226,515	-	-	100,850	-	-	91,870	17,365	436,600
Transfers out	-	-	-	-	(373,700)	-	-	-	(373,700)
TOTAL OTHER FINANCING SOURCES (USES)	<u>226,515</u>	<u>-</u>	<u>-</u>	<u>100,850</u>	<u>(373,700)</u>	<u>-</u>	<u>91,870</u>	<u>17,365</u>	<u>62,900</u>
NET CHANGES IN FUND BALANCES	<u>(162,733)</u>	<u>(10,760)</u>	<u>(209,715)</u>	<u>(61,578)</u>	<u>223,094</u>	<u>1,644</u>	<u>(160,800)</u>	<u>(9,292)</u>	<u>(390,140)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>164,159</u>	<u>95,546</u>	<u>282,121</u>	<u>67,773</u>	<u>826,103</u>	<u>5,725</u>	<u>256,418</u>	<u>(18,145)</u>	<u>1,679,700</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,426</u>	<u>\$ 84,786</u>	<u>\$ 72,406</u>	<u>\$ 6,195</u>	<u>\$ 1,049,197</u>	<u>\$ 7,369</u>	<u>\$ 95,618</u>	<u>\$ (27,437)</u>	<u>\$ 1,289,560</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Combining Statement of Net Position – Non-Major Proprietary Funds
As of June 30, 2013**

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
ASSETS			
Current Assets:			
Cash and short-term investments	\$ 200	\$ 800	\$ 1,000
Accounts receivable	484	27,710	28,194
Unbilled receivables	1,410	-	1,410
Due from other governmental agencies	870,812	-	870,812
Inventories	50,612	50,824	101,436
Total current assets	<u>923,518</u>	<u>79,334</u>	<u>1,002,852</u>
Noncurrent Assets:			
Property plant and equipment	7,163,412	4,522,057	11,685,469
Accumulated depreciation	<u>(3,099,182)</u>	<u>(2,373,884)</u>	<u>(5,473,066)</u>
Total noncurrent assets	<u>4,064,230</u>	<u>2,148,173</u>	<u>6,212,403</u>
TOTAL ASSETS	<u>4,987,748</u>	<u>2,227,507</u>	<u>7,215,255</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	19,517	17,499	37,016
Accrued expenses	36,219	30,935	67,154
Due to other funds	153,536	746,844	900,380
Unearned revenue	-	550	550
Compensated absences	50,146	27,054	77,200
Other liabilities	-	18,886	18,886
Total current liabilities	<u>259,418</u>	<u>841,768</u>	<u>1,101,186</u>
Non Current Liabilities:			
Compensated absences	<u>24,683</u>	<u>23,850</u>	<u>48,533</u>
TOTAL LIABILITIES	<u>284,101</u>	<u>865,618</u>	<u>1,149,719</u>
NET POSITION			
Net invested in capital assets	4,064,230	2,148,173	6,212,403
Unrestricted	<u>639,417</u>	<u>(786,284)</u>	<u>(146,867)</u>
TOTAL NET POSITION	<u>\$ 4,703,647</u>	<u>\$ 1,361,889</u>	<u>\$ 6,065,536</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, 2013**

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
OPERATING REVENUE			
Charges for services	\$ 460,528	\$ 874,475	\$ 1,335,003
Miscellaneous	3,940	5,727	9,667
TOTAL OPERATING REVENUE	<u>464,468</u>	<u>880,202</u>	<u>1,344,670</u>
OPERATING EXPENSES			
Salaries and wages	1,139,264	478,383	1,617,647
Fringe benefits	383,006	176,175	559,181
Utilities	27,502	59,201	86,703
Insurance	28,039	9,296	37,335
Repairs and maintenance	164,358	86,614	250,972
Supplies	62,714	4,731	67,445
Cost of goods sold	-	98,286	98,286
Contracted services	190,461	3,720	194,181
Rentals and leases	48,224	64,616	112,840
Other operating	277,658	150,663	428,321
Depreciation	591,383	67,976	659,359
TOTAL OPERATING EXPENSES	<u>2,912,609</u>	<u>1,199,661</u>	<u>4,112,270</u>
OPERATING LOSS	<u>(2,448,141)</u>	<u>(319,459)</u>	<u>(2,767,600)</u>
OTHER INCOME			
Interest expense	<u>(66)</u>	<u>-</u>	<u>(66)</u>
TOTAL OTHER INCOME	<u>(66)</u>	<u>-</u>	<u>(66)</u>
LOSS BEFORE OPERATING TRANSFERS AND GRANTS	(2,448,207)	(319,459)	(2,767,666)
OPERATING TRANSFERS	459,070	102,690	561,760
GRANTS FOR OPERATIONS	<u>1,395,169</u>	<u>-</u>	<u>1,395,169</u>
LOSS BEFORE CAPITAL TRANSFERS AND GRANTS	(593,968)	(216,769)	(810,737)
CAPITAL TRANSFERS	98,500	-	98,500
GRANTS FOR CAPITAL PROJECTS	<u>234,639</u>	<u>19,610</u>	<u>254,249</u>
NET LOSS	(260,829)	(197,159)	(457,988)
NET POSITION - BEGINNING OF YEAR	<u>4,964,476</u>	<u>1,559,048</u>	<u>6,523,524</u>
NET POSITION - END OF YEAR	<u>\$ 4,703,647</u>	<u>\$ 1,361,889</u>	<u>\$ 6,065,536</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statement of Cash Flows – Non-Major Proprietary Funds
For Year Ended June 30, 2013

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 617,463	\$ 862,805	\$ 1,480,268
Payments to suppliers	(819,388)	(493,699)	(1,313,087)
Payments to employees	(1,509,171)	(653,189)	(2,162,360)
Net Cash from Operating Activities	<u>(1,711,096)</u>	<u>(284,083)</u>	<u>(1,995,179)</u>
Cash Flows from Noncapital Financing Activities			
Operating contributions	1,854,239	102,690	1,956,929
Increase (decrease) in due to/from other funds	(294,298)	183,984	(110,314)
Net Cash from Noncapital Financing Activities	<u>1,559,941</u>	<u>286,674</u>	<u>1,846,615</u>
Cash Flows from Capital and Related Financing Activities			
Interest paid on notes and bond payable	(66)	-	(66)
Acquisition and construction of capital assets	(181,918)	(22,201)	(204,119)
Contribution for capital acquisitions	333,139	19,610	352,749
Net Cash from Capital and Related Financing Activities	<u>151,155</u>	<u>(2,591)</u>	<u>148,564</u>
Net change in cash	-	-	-
Cash, beginning of year	200	800	1,000
Cash, End of Year	<u>\$ 200</u>	<u>\$ 800</u>	<u>\$ 1,000</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (2,448,141)	\$ (319,459)	\$ (2,767,600)
Adjustments to reconcile operating income to net cash			
from operating activities:			
Depreciation	591,383	67,976	659,359
Changes in assets and liabilities:			
Accounts receivable	2,855	(16,697)	(13,842)
Unbilled receivables	770	-	770
Due to/from other government entities	149,370	-	149,370
Inventories	8,132	(6,286)	1,846
Accounts payable and other liabilities	(28,564)	(13,786)	(42,350)
Accrued expenses	9,953	6,317	16,270
Unearned revenue	-	(700)	(700)
Compensated absences	3,146	(1,448)	1,698
Net Cash from Operating Activities	<u>\$ (1,711,096)</u>	<u>\$ (284,083)</u>	<u>\$ (1,995,179)</u>

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BUDGET AND ACTUAL SCHEDULE

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u> <u>Positive (Negative)</u>
REVENUE				
Property Taxes				
Real property tax	\$109,781,770	\$109,781,770	\$ 110,455,066	\$ 673,296
Personal property tax	12,801,340	12,801,340	13,154,665	353,325
Property tax interest income	580,000	580,000	484,168	(95,832)
Other property tax	608,820	608,820	710,937	102,117
State administrative fees	(914,020)	(914,020)	(909,441)	4,579
Property tax discounts and credits	(1,481,740)	(1,481,740)	(1,444,725)	37,015
Total Property Taxes	<u>121,376,170</u>	<u>121,376,170</u>	<u>122,450,670</u>	<u>1,074,500</u>
Other Local Taxes				
Income tax	62,476,000	62,476,000	65,763,209	3,287,209
Admissions and amusement tax	325,000	325,000	308,149	(16,851)
Recordation tax	4,550,000	4,550,000	5,213,999	663,999
Trailer tax	440,000	440,000	461,753	21,753
Total Other Local Taxes	<u>67,791,000</u>	<u>67,791,000</u>	<u>71,747,110</u>	<u>3,956,110</u>
Other Revenues				
Licenses and permits	1,199,600	1,199,600	1,149,568	(50,032)
Court costs and fines	260,900	260,900	377,331	116,431
Charges for services	510,060	510,060	448,406	(61,654)
Revenues from use of property	1,125,230	1,125,230	988,019	(137,211)
Reimbursed expenses	1,007,140	1,021,155	1,095,951	74,796
Miscellaneous revenues	1,350,630	1,393,480	916,610	(476,870)
Grant and shared revenues	1,691,790	4,235,071	3,566,550	(668,521)
Highway revenues	1,667,060	1,668,810	1,683,821	15,011
Total Other Revenues	<u>8,812,410</u>	<u>11,414,306</u>	<u>10,226,256</u>	<u>(1,188,050)</u>
TOTAL REVENUE	<u>197,979,580</u>	<u>200,581,476</u>	<u>204,424,036</u>	<u>3,842,560</u>
EXPENDITURES				
General Government				
Legislative				
County Commissioners	198,320	198,320	192,206	6,114
County Clerk	85,870	85,870	82,512	3,358
County Administrator	244,970	244,970	233,105	11,865
Public Relations	185,590	322,330	319,285	3,045
Purchasing	428,430	428,430	418,944	9,486
Total Legislative	<u>1,143,180</u>	<u>1,279,920</u>	<u>1,246,052</u>	<u>33,868</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u> <u>Positive (Negative)</u>
Judicial				
Circuit Court	\$ 1,320,960	\$ 1,320,960	\$ 1,282,825	\$ 38,135
Orphan's Court	29,820	29,820	27,981	1,839
State's Attorney	2,544,060	2,521,745	2,451,180	70,565
Sheriff - Judicial	1,995,650	1,995,650	1,941,143	54,507
Sheriff - Process Servers	118,240	118,240	121,932	(3,692)
Grants	-	223,851	227,818	(3,967)
Total Judicial	<u>6,008,730</u>	<u>6,210,266</u>	<u>6,052,879</u>	<u>157,387</u>
Election Board	<u>847,680</u>	<u>847,680</u>	<u>785,645</u>	<u>62,035</u>
Financial Administration				
Budget and Finance	1,223,200	1,223,200	1,221,531	1,669
Independent Auditing	70,000	70,000	69,500	500
Treasurer	436,230	436,230	428,697	7,533
Information Technologies	1,749,040	1,749,040	1,750,699	(1,659)
Total Financial Administration	<u>3,478,470</u>	<u>3,478,470</u>	<u>3,470,427</u>	<u>8,043</u>
County Attorney	<u>611,980</u>	<u>611,980</u>	<u>516,492</u>	<u>95,488</u>
Human Resources	<u>654,140</u>	<u>654,140</u>	<u>682,500</u>	<u>(28,360)</u>
Planning and Zoning				
Planning and Zoning	653,950	619,610	518,421	101,189
Board of Zoning Appeals	53,440	53,440	40,322	13,118
Total Planning and Zoning	<u>707,390</u>	<u>673,050</u>	<u>558,743</u>	<u>114,307</u>
Public Works				
Department of Public Works	467,560	525,570	483,242	42,328
Public Works - Plan Review and Permitting	1,451,730	1,505,675	1,420,738	84,937
Public Works - Engineering and Construction	2,603,250	2,538,450	2,510,981	27,469
Total Public Works	<u>4,522,540</u>	<u>4,569,695</u>	<u>4,414,961</u>	<u>154,734</u>
County Owned Buildings				
Martin Luther King Center	120,620	120,620	87,892	32,728
Administrative Building	257,200	257,200	195,471	61,729
Administrative Building II	110,850	110,850	77,645	33,205
Court House	549,910	549,910	539,398	10,512
County Office Building	227,960	227,960	194,819	33,141
Administration Annex	61,400	61,400	50,126	11,274
Central Services	206,810	206,810	184,738	22,072
Rental Properties	2,000	2,000	2,867	(867)
Library Maintenance	35,500	36,600	27,655	8,945
Dwyer Center	32,000	32,000	28,106	3,894
Public Facilities Annex	65,000	65,000	81,770	(16,770)
Total County Owned Buildings	<u>1,669,250</u>	<u>1,670,350</u>	<u>1,470,487</u>	<u>199,863</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u> <u>Positive (Negative)</u>
Community Promotion				
Contributions to Non-profits	\$ 27,290	\$ 27,420	\$ 27,410	\$ 10
Economic Development Commission	792,620	645,370	499,447	145,923
Grants	-	-	-	-
Total Community Promotion	819,910	672,790	526,857	145,933
Total General Government	20,463,270	20,668,341	19,725,043	943,298
Public Safety				
Sheriff Departments				
Patrol	8,228,480	8,245,680	7,985,023	260,657
Sheriff Auxillary	-	-	21,469	(21,469)
Narcotics Task Force	583,350	620,560	587,806	32,754
Grants	-	75,654	125,536	(49,882)
Total Sheriff Departments	8,811,830	8,941,894	8,719,834	222,060
Fire and Rescue Services				
Volunteer Fire and Rescue - County Grants	6,012,160	6,012,160	5,824,758	187,402
Air Unit	25,180	25,180	34,373	(9,193)
Special Operations	351,980	312,880	309,710	3,170
Total Fire and Rescue Services	6,389,320	6,350,220	6,168,841	181,379
Corrections				
Detention Center	11,734,600	11,734,600	11,371,552	363,048
Central Booking	752,690	752,690	736,002	16,688
Total Corrections	12,487,290	12,487,290	12,107,554	379,736
Other Public Safety				
911 - Communications	3,692,140	3,724,365	3,692,520	31,845
Wireless Communciations	1,030,710	1,030,710	1,044,749	(14,039)
Emergency Management	103,530	103,530	111,271	(7,741)
Fire and Rescue Operations	967,380	967,380	1,107,922	(140,542)
Medical Examiner	15,000	15,000	12,470	2,530
Civil Air Patrol	3,600	3,600	3,600	-
Animal Control	1,160,050	1,160,050	1,160,050	-
Children's Village	24,500	24,500	24,500	-
Grants	-	1,036,228	867,208	169,020
Other Public Safety	6,996,910	8,065,363	8,024,290	41,073
Total Public Safety	34,685,350	35,844,767	35,020,519	824,248

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Health	\$ 2,339,270	\$ 2,339,270	\$ 2,339,270	-
Social Services				
Total Contributions to Other Agencies	1,728,760	1,728,760	1,728,896	(136)
Grants	-	1,208,353	592,159	616,194
Total Social Services	<u>1,728,760</u>	<u>2,937,113</u>	<u>2,321,055</u>	<u>616,058</u>
Education	<u>101,817,500</u>	<u>101,817,500</u>	<u>101,816,613</u>	<u>887</u>
Parks, Recreation, and Culture				
Total Contributions to Other Agencies	2,932,000	2,932,000	2,932,000	-
Parks Department	1,723,010	1,725,770	1,649,631	76,139
Martin L. Snook Park Pool	128,500	128,500	104,593	23,907
Fitness and Recreation	737,130	740,570	750,429	(9,859)
Total Parks, Recreation, and Culture	<u>5,520,640</u>	<u>5,526,840</u>	<u>5,436,653</u>	<u>90,187</u>
Conservation of Natural Resources				
Weed Control	118,630	118,630	174,015	(55,385)
Agricultural Extension Service	210,990	210,990	210,990	-
Cooperative Extension	38,730	38,730	38,730	-
Soil Conservation Service	125,130	125,130	125,130	-
Gypsy Moth Program	25,000	25,000	7,980	17,020
Total Conservation of Natural Resources	<u>518,480</u>	<u>518,480</u>	<u>556,845</u>	<u>(38,365)</u>
Highway	<u>8,757,110</u>	<u>8,758,860</u>	<u>8,922,908</u>	<u>(164,048)</u>
General Operations	<u>423,220</u>	<u>423,090</u>	<u>406,666</u>	<u>16,424</u>
Unallocated Employee Insurance and Benefits	<u>4,061,840</u>	<u>4,038,415</u>	<u>5,724,895</u>	<u>(1,686,480)</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
 General Fund
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Intergovernmental				
Golf Course operating transfer	\$ 102,690	\$ 102,690	\$ 102,690	\$ -
HEPMPO operating transfer	5,240	5,240	4,165	1,075
Gaming operating transfer	-	2,830	-	2,830
Land Preservation operating transfer	104,720	104,720	91,870	12,850
Water Quality operating transfer	88,770	88,770	70,576	18,194
Public Transit operating transfer	472,270	472,270	472,270	-
Airport operating transfer	64,500	64,500	64,500	-
Capital Projects operating transfer	1,715,000	1,755,500	6,055,500	(4,300,000)
Solid Waste operating transfer	491,360	491,360	491,360	-
Grants Management operating transfer	250,440	251,770	226,515	25,255
Agricultural Education Center operating transfer	100,850	100,850	100,850	-
Municipality in lieu of bank shares	38,550	38,550	38,543	7
Total Intergovernmental	<u>3,434,390</u>	<u>3,479,050</u>	<u>7,718,839</u>	<u>(4,239,789)</u>
Debt Service	<u>14,229,750</u>	<u>14,229,750</u>	<u>14,230,434</u>	<u>(684)</u>
TOTAL EXPENDITURES	<u>197,979,580</u>	<u>200,581,476</u>	<u>204,219,740</u>	<u>(3,638,264)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 204,296</u>	<u>\$ 204,296</u>
OTHER FINANCING SOURCES (USES)				
Principal amount of new debt for advance refunding			13,587,566	13,587,566
Deposit to escrow fund for advance refunding and repayment of loans			(13,584,527)	(13,584,527)
TOTAL OTHER FINANCING SOURCES (USES)			<u>\$ 3,039</u>	<u>\$ 3,039</u>
NET CHANGES IN FUND BALANCE			207,335	
FUND BALANCE - BEGINNING			<u>38,632,885</u>	
FUND BALANCE - ENDING			<u>\$ 38,840,220</u>	

OTHER SCHEDULES

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Local Management Board - Schedule of Revenue and Expenditures - Regulatory Basis
For the Year Ended June 30, 2013**

REVENUE

Community Partnership Agreement (CPA)	
Governor's Office for Children	\$ 569,579
Non- Community Partnership Agreement (Non-CPA)	
General Fund	226,515
Md State Department of Education	402,028
Total Non-Community Partnership Agreement Revenue	<u>628,543</u>
TOTAL REVENUE	<u>1,198,122</u>

EXPENDITURES

Community Partnership Agreement (CPA)	
Administrative :	
Salaries	48,273
Benefit costs	16,727
Total CPA administrative expenditures	<u>65,000</u>
Programs:	
Rural Out of School Time Initiative	125,000
Juvenile Delinquency Prevention & Diversion	38,904
Tomorrow's Leaders	64,181
Positive Youth Development Coordination	45,000
Post-Secondary Education & Training Coordination	61,020
Family Centered Support Services	36,000
Regional Family Navigation Program	134,474
Total CPA program expenditures	<u>504,579</u>
Non-Community Partnership Agreement (CPA)	
Administrative:	
Salaries	63,450
Benefit costs	33,133
Advertising	347
Community service awards	1,646
Small office equipment	439
Office supplies	1,885
Personal milage	587
Hardware/software	3,400
Contracted/purchased services	306
Copy machine rental	1,480
Telephone expenses	604
Other	32
Total non-CPA administrative expenditures	<u>107,309</u>
Programs:	
Teen Pregancy Prevention	119,206
MSDE - Healthy Families	402,028
Total non-CPA program expenditures	<u>521,234</u>

TOTAL EXPENDITURES 1,198,122

EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES \$ -

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Local Management Board - Schedule of Earned Reinvestment
For the Year Ended June 30, 2013**

BALANCE AS OF JULY 1, 2012	\$ 164,159
REVENUE	
Interest Earned	200
EXPENDITURES	
Juvenile Delinquency Prevention	137,096
CASA Shelter	<u>25,837</u>
TOTAL EXPENDITURES	<u>162,933</u>
BALANCE AS OF JUNE 30, 2013	<u><u>\$ 1,426</u></u>

SINGLE AUDIT REPORT

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

County Commissioners of Washington County
Hagerstown, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 30, 2013. Our report includes a reference to other auditors who audited the financial statements of the Board of Education of Washington County, as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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



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

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

Compliance and Other Matters

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

Purpose of this Report

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

Hunt Valley, Maryland
October 30, 2013



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

County Commissioners of Washington County
Hagerstown, Maryland

Report on Compliance for Each Major Federal Program

We have audited the County Commissioners of Washington County, Maryland's (the County) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2013. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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



Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

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

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

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

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



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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated October 30, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hunt Valley, Maryland
October 30, 2013

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor or Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>DIRECT EXPENDITURES OF FEDERAL AWARDS:</u>			
<u>Department of Transportation</u>			
Acquisition Carol Alpin Property	20.106	AIP-3-24-0019-048	\$ 270,451
Acquisition Winters Property	20.106	AIP-3-24-0019-048	113,233
Airport Improvement Program - Runway 9-27-Phase 10	20.106	AIP-3-24-0019-048	591,356
Airport Improvement Program - Runway 9-27-Phase 10	20.106	AIP-3-24-0019-048	24,960
Total Department of Transportation			1,000,000
<u>Department of Energy</u>			
Energy Efficiency Conservation Block Grant (ARRA)	81.128	DE-SC0002639	36,477
<u>Department of Justice</u>			
State Criminal Alien Assistance Program WC Detention Center	16.606	2010-AP-BX-1405	16,848
Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0339	3,606
Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0221	2,285
Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2667	16,314
Total Department of Justice			39,053
<u>Appalachian Regional Commission</u>			
USDA-ARC: HRG Regional Airport Marketing Plan	10.766	MD-17452-302-12	62,728
USDA-ARC: HRG Regional Airport Terminal Renovations Projects	10.766	MD-17114-214-11	200,000
Total Appalachian Regional Commission			262,728
TO TAL DIRECT FEDERAL EXPENDITURES			1,338,258
<u>INDIRECT EXPENDITURES OF FEDERAL AWARDS:</u>			
<u>Department of Health and Human Services</u>			
Passed through Maryland Department of Human Resources			
Child Support Enforcement Administration	93.563	CSEA-CRA-12-041	41,904
Child Support Enforcement Administration	93.563	CSEA-CRA-13-041	131,511
Total Department of Health and Human Services			173,415
<u>Department of Housing and Urban Development</u>			
Passed through Maryland Department of Housing and Community Development			
Appalachian Area Development	23.002	MD-10-CD-7	677,124
CBDG-MD Neighborhood Conservation Initiative Program*	14.228	MD-NCI-4 NSP3	169,687
CBDG-MD Neighborhood Conservation Initiative Program	14.228	MD-NCI-4	17,137
Emergency Shelter Grants Program FFY2010*	14.231	11ESG22	3,204
Emergency Shelter Grants Program FFY2011*	14.231	12ESG22-2011A	21,500
Emergency Shelter Grants Program FFY2012*	14.231	12ESG22-2012	13,090
Emergency Solutions Supplement Grants Programs FY2012*	14.231	12ESG22-2011B	19,182
Total Department of Housing and Urban Development			920,924

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor or Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Transportation</u>			
Passed through Maryland Department of Transportation			
Federal Transit Metropolitan Planning Grant HEMPO	20.505	FY2013 UPWP	\$ 213,899
Federal Transit Formula Grant "Jobs"	20.507	WA125307O2013	62,021
Federal Transit Formula Grant "ADA-PARA-Transit"	20.507	WA125307O2013	104,152
Federal Transit Formula Grant "Small Urban Public Trans"	20.507	WA125307O2013	529,626
Federal Transit Formula Grant "WCTC Capital Grant"	20.507	WA125307C2013	100,797
Federal Transit Formula Grant "WCTC Capital Maint"	20.507	MD-90-0101	6,917
Federal Transit Formula Grant "WCTC Facilities Rehab"	20.507	MD-90-0118	2,239
Federal Transit Formula Grant "WCTC Capital Maint"	20.507	WA125307O2012	26,944
Federal Transit Formula Grant "WCTC Facilities Rehab"	20.507	MD-90-0118	11,969
Federal Transit Formula Grant "WCTC Capital Maint"	20.507	WA125307C2013	29,799
Federal Transit Formula Grant "WCTC Capital Maint"	20.507	MD-90-0134	76,162
			<u>1,164,525</u>
Passed through Maryland Emergency Management Agency			
LEPC Interagency Hazardous Materials Public Sector FFY12 Planning Grant	20.703	HMEP FFY12 PLANNING	14,000
LEPC Interagency Hazardous Materials Public Sector FFY12 Training Grant	20.703	HMEP FFY12 TRAINING	10,800
LEPC Interagency Hazardous Materials Public Sector FFY13 Training Grant	20.703	HMEP FFY13 TRAINING	268
			<u>25,068</u>
Total Department of Transportation			<u>1,189,593</u>
<u>Department of Health and Human Services</u>			
Passed Through Maryland Institute for Emergency Medical Services System			
MEIMSS Bio-Terrorism Preparedness FY2011	93.889	BT-IX-03	15,238
MEIMSS Bio-Terrorism Preparedness FY2012	93.889	BT 10-003	13,326
			<u>28,564</u>
Total Department of Health and Human Services			<u>28,564</u>
<u>Department of Homeland Security</u>			
Passed Through Maryland Emergency Management Agency			
Law Enforcement Officer Reimbursement "Leo"	97.090	HST S0209HSLFR350	16,474
Law Enforcement Officer Reimbursement "Leo"	97.090	HST S0213HSLR805	40,830
Homeland Security Grant Program "EMPG"	97.042	EMW-2010-EP-00005-S01	96,419
Homeland Security Grant Program "SHSGP"	97.053	2010-SS-TO-0025	264,412
Homeland Security Grant Program- Citizen Emer Response	97.053	2010-SS-TO-0025	3,136
Homeland Security Grant Program- Citizen Emer Response	97.053	2011-SS-00044-S01	206
Interoperable Emergency Communications Program	97.055	2008-IOT-80051	105,750
Interoperable Emergency Communications Program	97.055	2010-IP-TO-0015	162,788
Homeland Security Grant Program- "SHSGP"	97.073	2010-SS-TO-00044-S01-SHS	144,464
Homeland Security Grant Program- "SHSP"	97.073	2012-SS-TO-00044-S01-SHS	628
			<u>835,107</u>
Total Department of Homeland Security			<u>835,107</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor or Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Commerce</u>			
Passed Through the Maryland State Highway Administration			
Economic Development Grants for Public Works- Burhans	20.205	WA427ZM1	\$ 1,168
Economic Development Grants for Public Works- Marble	20.205	WA213ZM1	2,093
Economic Development Grants for Public Works- Coffman	20.205	WA417ZM1	1,828
Economic Development Grants for Public Works- Old Forge	20.205	WA417ZM1	1,828
Economic Development Grants for Public Works- Garis	20.205	WA384ZM1	652
Economic Development Grants for Public Works- Leiters	20.205	WA395ZM1	789
Economic Development Grants for Public Works- Eastern	20.205	WA367ZM1	<u>13,650</u>
Total Department of Commerce			<u>22,008</u>
TOTAL INDIRECT EXPENDITURES OF FEDERAL AWARDS			<u>3,169,611</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,507,869</u>

* These grants are provided to subrecipients

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

Notes to Schedule of Expenditures of Federal Awards June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Washington County (the County) are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133 (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. The programs on the Schedule of Expenditures of Federal Awards represent all Federal award programs and other grants within fiscal year 2013 cash or non-cash expenditures activities. For our single audit testing, we tested Federal award programs within 2013 cash and non-cash expenditures in excess of \$300,000 to ensure coverage of at least 25% of Federally granted funds. Our actual coverage was 37%.

<u>Major Programs</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Acquisition Carol Alpin Property	20.106	\$ 270,451
Acquisition Winters Property	20.106	113,233
Airport Improvement Program - Runway 9-27-Phase 10	20.106	591,356
Airport Improvement Program - Runway 9-27-Phase 10	20.106	24,960
Appalachian Area Development	23.002	677,124
		<u>\$ 1,677,124</u>

2. BASIS OF PRESENTATION

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013**

Section I - Summary of Independent Public Accountants' Results

Financial Statements

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

Federal Awards

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

Identification of Major Programs:

Major Programs	Federal CFDA Number	Federal Expenditures
Acquisition Carol Alpin Property	20.106	\$ 270,451
Acquisition Winters Property	20.106	113,233
Airport Improvement Program - Runway 9-27-Phase 10	20.106	591,356
Airport Improvement Program - Runway 9-27-Phase 10	20.106	24,960
Appalachian Area Development	23.002	677,124
		\$ 1,677,124
Threshold for distinguishing between Type A and B programs		\$ 300,000
Did the County qualify as a low risk auditee?		Yes

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013**

Section II - Financial Statement Findings

None Noted.

Section III - Federal Award Findings

None Noted.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Prior Year Findings
For the Year Ended June 30, 2013**

There are no prior year findings to disclose.

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