

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

New Issue-Book-Entry Only

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

\$24,540,000
WASHINGTON COUNTY, MARYLAND
(COUNTY COMMISSIONERS OF WASHINGTON COUNTY)
GENERAL OBLIGATION BONDS

Consisting of

\$12,000,000
PUBLIC IMPROVEMENT BONDS OF 2013

\$12,540,000
REFUNDING BONDS OF 2013

Dated:	Date of delivery
Due:	The Public Improvement Bonds are due July 1 and the Refunding Bonds are due January 1, as shown on the inside cover page
Interest Payable:	January 1 and July 1
First Interest Payment Due:	January 1, 2014
Denomination:	Integral multiples of \$5,000
Form:	Registered, book-entry only through the facilities of The Depository Trust Company ("DTC")
Optional Redemption:	The Public Improvement Bonds maturing on or after July 1, 2024 are redeemable prior to maturity at the County's option as set forth in "THE BONDS—Redemption" herein. The Refunding Bonds are not subject to optional redemption prior to maturity.
Security:	The Bonds are general obligations of County Commissioners of Washington County (the "County") for the payment of which its full faith and credit and unlimited taxing power are pledged (see "THE BONDS—Sources of Payment" herein).

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

Conditions Affecting Issuance: The Bonds of each series are offered when, as and if issued, subject to, among other conditions, the delivery of such Bonds and the approving legal opinion of Funk & Bolton, P.A., Bond Counsel, with respect thereto and other conditions specified in the official Notice of Sale. Delivery will occur through the facilities of DTC on or about May 16, 2013.

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

Dated: May 7, 2013

\$12,000,000 County Commissioners of Washington County Public Improvement Bonds of 2013**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS**

Maturing July 1	Principal Amount	Interest Rate*	Yield*	CUSIP	Maturing July 1	Principal Amount	Interest Rate*	Yield*	CUSIP
2014	\$ 445,000	2.000%	0.350%	937751 2B0	2024	\$ 600,000	3.000%	2.150%**	937751 2M6
2015	460,000	2.000	0.450	937751 2C8	2025	620,000	3.000	2.360**	937751 2N4
2016	470,000	3.000	0.600	937751 2D6	2026	635,000	3.000	2.560**	937751 2P9
2017	485,000	3.000	0.750	937751 2E4	2027	655,000	3.000	2.700**	937751 2Q7
2018	500,000	4.000	0.950	937751 2F1	2028	675,000	3.000	2.850**	937751 2R5
2019	515,000	4.000	1.170	937751 2G9	2029	695,000	3.000	3.000	937751 2S3
2020	535,000	4.000	1.380	937751 2H7	2030	720,000	3.000	3.050	937751 2T1
2021	550,000	4.000	1.590	937751 2J3	2031	740,000	3.000	3.100	937751 2U8
2022	565,000	4.000	1.770	937751 2K0	2032	765,000	3.000	3.150	937751 2V6
2023	585,000	3.000	2.000	937751 2L8	2033	785,000	3.000	3.200	937751 2W4

\$12,540,000 County Commissioners of Washington County Refunding Bonds of 2013**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS**

Maturing January 1	Principal Amount	Interest Rate*	Yield*	CUSIP	Maturing January 1	Principal Amount	Interest Rate*	Yield*	CUSIP
2016	\$ 145,000	2.000%	0.550%	937751 2Z7	2022	\$1,365,000	4.000%	1.650%	937751 3F0
2017	905,000	4.000	0.650	937751 3A1	2023	1,435,000	4.000	1.850	937751 3G8
2018	1,145,000	4.000	0.850	937751 3B9	2024	1,495,000	2.000	2.100	937751 3H6
2019	1,200,000	4.000	1.050	937751 3C7	2025	1,530,000	2.125	2.350	937751 3J2
2020	1,250,000	4.000	1.250	937751 3D5	2026	755,000	2.250	2.500	937751 3K9
2021	1,315,000	4.000	1.450	937751 3E3					

*The interest rates shown above are those resulting from the successful bids for the Bonds of such series on May 7, 2013 and were furnished by the successful bidder therefor. The yields shown above were furnished by the successful bidder therefor. Other information concerning the terms of the reoffering of the Bonds of each series, if any, should be obtained from the successful bidder for such series and not from the County. (See "MISCELLANEOUS--Sale at Competitive Bidding" herein.) Janney Montgomery Scott LLC was the successful bidder for the Public Improvement Bonds and a syndicate led by Robert W. Baird & Co., Inc. was the successful bidder for the Refunding Bonds.

**Priced at the stated yield to the first optional redemption date of July 1, 2023.

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

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

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

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

CUSIP numbers are copyright 2013 by the American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and the County does not take any responsibility for the accuracy thereof. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau's information.

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

COUNTY COMMISSIONERS

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

ADMINISTRATION

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

COUNTY TREASURER

Todd L. Hershey

FINANCIAL ADVISOR

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Baltimore, Maryland

INDEPENDENT AUDITOR

SB & Company, LLC
Hunt Valley, Maryland

BOND REGISTRAR AND PAYING AGENT

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

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
I. THE BONDS		IV. FINANCIAL INFORMATION	
Introduction.....	1	Accounting System.....	30
Description of Bonds.....	1	Fund Structure.....	30
DTC and Book-Entry Only System.....	2	Basis of Accounting, Measurement Focus, and Financial Statement Presentation.....	30
Book-Entry Only System—Miscellaneous.....	3	Accounting Enterprise System.....	30
Authorization.....	3	Capital Budget Preparation Software.....	31
Application of Proceeds.....	4	Distinguished Budget Presentation Award.....	31
Refunding Plan.....	4	Budget Process and Schedule.....	31
Redemption.....	5	General Fund Revenues and Expenditures.....	33
Sources of Payment.....	6	Anticipated Results for Fiscal Year 2013.....	35
Bondholders' Remedies.....	6	Sources of Tax Revenue.....	35
Tax Matters.....	6	General Fund Balance Sheet.....	40
		Key Financial Statistics.....	41
		DEBT AND CAPITAL REQUIREMENTS	
II. GOVERNMENT AND ADMINISTRATION		V. Debt Management Policy.....	42
Location.....	9	General Obligation and Revenue Bonds.....	42
Form of Government.....	9	Water and Sewer Bonds.....	43
Legislative and Administrative Officials.....	10	Capital Lease Obligations and Other Contracts.....	45
Washington County Government Organizational Chart.....	12	Special Obligation Bonds.....	45
County Employment.....	12	Bonded Indebtedness of Incorporated Municipalities.....	45
Pension and Retirement System.....	12	Direct and Underlying Debt.....	46
Other Post-Employment Benefits.....	13	Debt Service Requirements on County Debt.....	47
Insurance.....	14	Capital Requirements.....	50
Certain Services and Responsibilities.....	14		
		MISCELLANEOUS	
III. ECONOMIC AND DEMOGRAPHIC INFORMATION		VI. Litigation.....	51
Economic Development Commission.....	21	Ratings.....	51
Economic Development.....	22	Continuing Disclosure Undertaking.....	51
Foreign Trade Zone.....	24	Sale at Competitive Bidding.....	51
Utilities, Transportation, and Communication.....	24	Legal Matters.....	51
Population.....	25	Independent Auditors.....	51
Income	26	Financial Advisor.....	52
Area Labor Supply.....	26	Verification of Mathematical Computations.....	52
Employment.....	27		
Unemployment Rate.....	27	Appendix A - General Purpose Financial Statements.....	A
Construction Activity.....	28	Appendix B - Proposed Forms of Opinions of Bond Counsel.....	B
Housing Starts.....	28	Appendix C - Notice of Sale	C
Agriculture.....	29	Appendix D - Proposed Form of Continuing Disclosure Agreement.....	D

I. The Bonds

Introduction

The purpose of this Official Statement, including the cover page and appendices, is to provide information for prospective purchasers and others regarding County Commissioners of Washington County (the “County”), its \$12,000,000 Public Improvement Bonds of 2013 (the “Public Improvement Bonds”) and its \$12,540,000 Refunding Bonds of 2013 (the “Refunding Bonds”). The Public Improvement Bonds and the Refunding Bonds are referred to herein collectively as the “Bonds” and individually as a “Bond”. As described herein, at or prior to the sale of the Bonds, the County may determine not to issue the Refunding Bonds. (See “THE BONDS—Application of Proceeds” herein and the form of the official Notice of Sale in Appendix C hereto.)

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

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

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

Description of Bonds

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

Interest on each series of the Bonds, calculated on the basis of a 30-day month/360-day year factor, will be payable at the interest rates specified on the inside cover page of this Official Statement on January 1, 2014, and semiannually thereafter on the first day of July and January of each year until the date of maturity unless redeemed prior to that date. Interest payments will be made to the persons who are registered owners of record as of the 15th day of the month next preceding each such interest payment date. Each Bond shall bear interest from the most recent date to which interest has been paid or, if no interest has been paid, from its date of delivery.

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

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

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

So long as the Bonds of a series are maintained in book-entry form, transfers of ownership interests will be made as described below under “DTC and Book-Entry Only System.” At any other time, any Bond may be exchanged for a Bond or Bonds of the same series in authorized denominations of \$5,000 or integral multiples thereof in aggregate principal amount equal to the principal amount of the Bond transferred or exchanged and maturing on the same date and bearing interest at the same

rate. The transfer of any Bond may be registered upon presentation and surrender of such Bond at the office of the Bond Registrar and Paying Agent, together with a written instrument of transfer duly executed by the registered owner or his attorney or legal representative. The Bond Registrar and Paying Agent may require the person requesting any such exchange or transfer to reimburse it for any tax, fee or other governmental charge, shipping charges and insurance payable in connection therewith.

DTC and Book-Entry Only System

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

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

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

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

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

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

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

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

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

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

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

Book-Entry Only System - Miscellaneous

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

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

Authorization

The Public Improvement Bonds are issued pursuant to the authority of Chapter 392 of the Laws of Maryland of 2007 ("Chapter 392").

The Refunding Bonds are issued pursuant to the authority of Chapter 110 of the Laws of Maryland of 1999, as amended ("Chapter 110"), Chapter 205 of the Laws of Maryland of 2004 ("Chapter 205"), and Section 24 of Article 31 of the Annotated Code of Maryland, as amended (the "Refunding Act"), as applicable, and in accordance with a resolution adopted by the Board of County Commissioners of Washington County (the "Board") on April 23, 2013, as supplemented (the "Resolution"), copies of which are available at the office of the Finance Director. As described in the official Notice of Sale set

forth in Appendix C hereto, the County, at or prior to the sale of the Bonds, may determine not to issue the Refunding Bonds.

Chapters 392, 110, and 205 are collectively referred to in this Official Statement as the “Act”.

Application of Proceeds

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

Use	Amount
Infrastructure Projects	\$ 8,223,000
Education Projects	2,639,300
Public Facilities	952,400
Public Safety	185,300
	<u>\$ 12,000,000</u>

A portion of the proceeds of the Refunding Bonds, including any premium paid by the successful bidder therefor, will be used to refund (i) that portion of the County’s outstanding Public Improvement and Refunding Bonds of 2005, dated June 1, 2005 (the “2005 Bonds”), identified below, and (ii) that portion of the County’s outstanding Public Improvement Bonds of 2006, dated March 1, 2006 (the “2006 Bonds”), identified below. The refunded portions of the 2005 Bonds and the 2006 Bonds are collectively referred to in this Official Statement as the “Refunded Bonds”.

The Refunded Bonds are as follows:

Bond Issue	Principal Amount Outstanding	Principal Amount Refunded	Maturities Refunded	Redemption Date	Redemption Price
2005 Bonds	\$17,140,000	\$6,310,000 ⁽¹⁾	2016-2025	January 1, 2015	100%
2006 Bonds	\$7,685,000	\$6,245,000	2017-2026	January 1, 2016	100%

⁽¹⁾ The 2005 Bonds maturing on January 1 in the years 2016 through 2018, inclusive, are being refunded in part only in the following respective amounts: (A) 2016 maturity - \$500,000; (B) 2017 maturity - \$525,000; and (C) 2018 maturity - \$550,000. The portions of such maturities of the 2005 Bonds remaining outstanding and *not* being refunded are as follows: (A) 2016 maturity - \$2,480,000; (B) 2017 maturity - \$1,985,000; and (C) 2018 maturity - \$785,000.

Refunding Plan

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

That portion of the proceeds of the Refunding Bonds used to refund the Refunding Bonds, together with other available funds, if applicable, will be applied to the purchase of non-callable direct obligations of or obligations the principal and interest on which are guaranteed by the United States of America (the “Restricted Acquired Obligations”). The Restricted Acquired Obligations, together with any cash held uninvested, will be held in trust in an escrow fund (the “Escrow Deposit Fund”) by Manufacturers and Traders Trust Company (the “Escrow Agent”) pursuant to an Escrow Deposit Agreement between the Escrow Agent and the County. The Restricted Acquired Obligations will mature at such times and in such amounts and will bear interest payable at such times and in such amounts, together with any cash held uninvested, so that sufficient money will be available to pay when due, interest on the Refunded Bonds to and including their respective dates of redemption and to redeem the Refunded Bonds on their respective dates of redemption. (See “MISCELLANEOUS--Verification of Mathematical Computations” herein.) The Escrow Agent will apply the maturing principal of and interest on the Restricted Acquired Obligations and any cash held uninvested to the payment of the interest on the Refunded Bonds prior to their respective

redemption dates and has been irrevocably instructed to redeem the Refunded Bonds on their respective first available redemption dates at a price equal to the outstanding principal amount thereof plus accrued interest. The Restricted Acquired Obligations will be pledged only to payment of the principal of and interest on the Refunded Bonds and are not available for the payment of principal and premium, if any, of or interest on the Bonds or any other obligations of the County.

Redemption

Optional Redemption

The Public Improvement Bonds that mature on or before July 1, 2023 are not subject to redemption at the option of the County prior to their maturities. The Public Improvement Bonds that mature on or after July 1, 2024 are subject to redemption at the option of the County as a whole or in part at any time on or after July 1, 2023, in any order directed by the County, at a redemption price of the principal amount of the Public Improvement Bonds (or portions thereof) to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium or penalty.

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

Selection of Public Improvement Bonds for Redemption; Notice of Redemption

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

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

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

Sources of Payment

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

Bondholders' Remedies

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

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

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

Tax Matters

State of Maryland and Local Income Tax

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

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

Federal Income Tax

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

Bond Counsel will issue a separate opinion with respect to each series of the Bonds. Bond Counsel's opinions will be given in reliance (without independent investigation) on certifications, covenants and agreements by representatives of the

County as to certain facts material to both the opinions and the requirements of the Code. The County will covenant and agree to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds, the use of the Bond-financed projects and the timely payment to the United States of America of any arbitrage rebate amounts with respect to the Bonds or payments in lieu thereof. Bond Counsel assumes no responsibility for, and will not monitor, compliance with the covenants and agreements of the County. In the event of noncompliance with such covenants and agreements, available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes retroactively to the date of issue.

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

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

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

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

Effects of Future Enforcement, Regulatory or Legislative Actions

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

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

From time to time, there are Presidential proposals, proposals of various federal committees, or legislative proposals in the United States Congress or various state legislatures that, if enacted, could alter or amend the federal tax matters referred to above, state treatment of the tax status of the Bonds or adversely affect the market value of the Bonds. Furthermore, such proposals may affect the marketability or market value of the Bonds merely by virtue of being proposed. It cannot be predicted whether or in what form any such proposal may be enacted or whether, if enacted, it would apply to tax-exempt obligations issued prior to enactment. In addition, legislation enacted after issuance of the Bonds may directly or indirectly cause interest on the Bonds to be subject to federal or state income taxation or reduce the benefit of the

excludability of interest on the Bonds under existing law. Each purchaser of the Bonds should consult with his or its own tax advisor regarding any pending or proposed federal or state tax legislation. Bond Counsel will not express any opinion regarding pending or proposed federal or state enforcement actions, regulations, litigation or legislative actions.

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

II. Government and Administration

Location

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

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

Form of Government

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

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

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

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

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

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

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

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

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

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

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

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

County Treasurer

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

Administrative Officials

GREGORY B. MURRAY, County Administrator, is a summa cum laude graduate with a B.S. degree in Business Administration and is currently enrolled in the Master of Public Administration program at the University of Baltimore, a University System of Maryland college. He is a native of Washington County, a credentialed manager through the International City/County Management Association (ICMA-CM), and was appointed County Administrator on February 27, 2007 after 10 years as the Director of the County's Department of Water Quality. Mr. Murray has 30 years of public administration service and leadership, giving him an extensive knowledge of the County's infrastructure needs, planning and regulatory issues. He is a member of the American Society of Public Administration, the American Public Works Association, the County Engineers Association of Maryland, the American Water Works Association, and the Water Environment Federation as well as numerous advisory boards and commissions. Mr. Murray also holds several environmental licenses for management of public utilities and was appointed by Maryland's Governor as Chair of the Chesapeake Bay Restoration Fund Advisory Committee. He has worked closely with the Environmental Protection Agency, the Maryland Department of the Environment, and the Maryland Department of Planning to help guide policy decisions that improve the quality of available resources in the State.

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

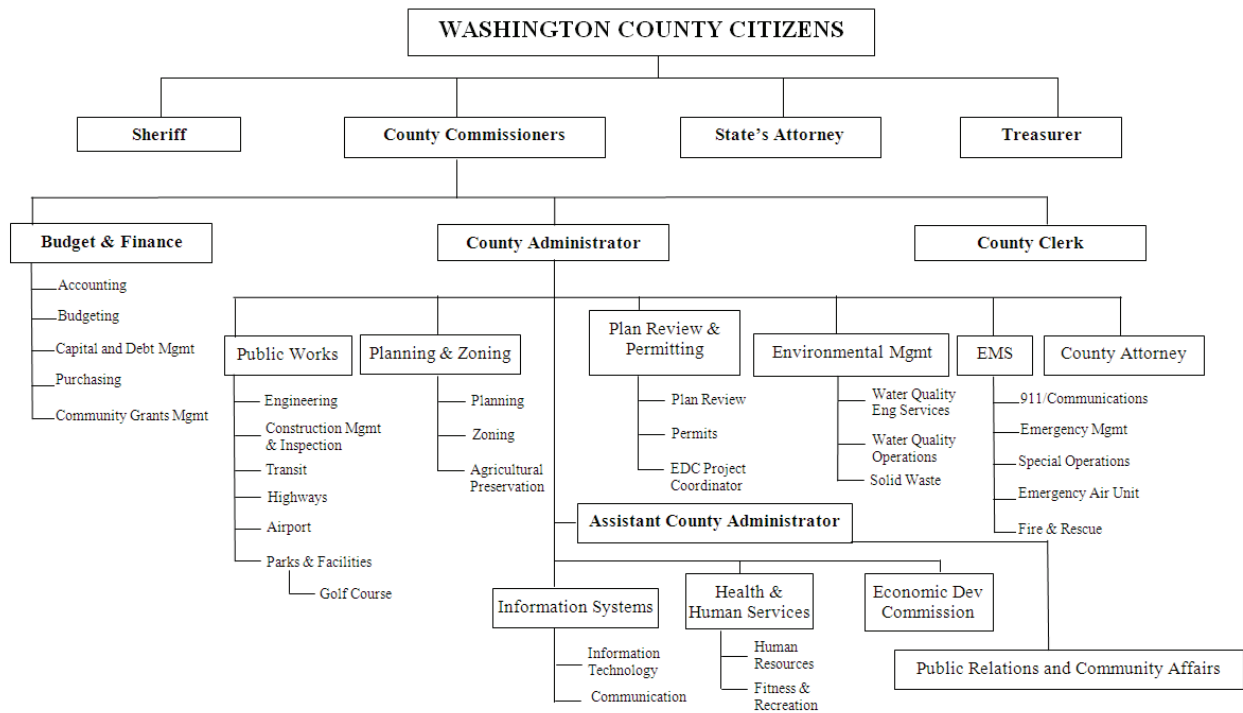
JOHN M. MARTIRANO, County Attorney, attended West Virginia University and the University of Pittsburgh. He holds a B.A. degree, *cum laude*, from West Virginia University and a J.D. degree from the University of Pittsburgh. He was admitted to the Maryland Bar in 1990 and to the West Virginia Bar in 1994.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

KEVIN L. LEWIS, Director of Emergency Services and the County's Emergency Manager, is a career Paramedic with over 30 years of volunteer firefighting and medic experience. Mr. Lewis was hired by Washington County in August 2006 as Deputy Director of Fire and Emergency Services and was promoted to Director in July 2008. He graduated from Hagerstown Community College ("HCC") as a Radiologic Technologist and is currently enrolled in the management program from HCC and is completing a Bachelor of Science in Emergency Management through the University of Maryland University College at the Hagerstown Campus of University of Maryland. Mr. Lewis is also a field instructor at University of Maryland, Maryland Fire and Rescue Institute, teaching fire and emergency medical services courses. Mr. Lewis continues to volunteer with the Williamsport Fire and Emergency Medical Services.

JENNIFER M. SMITH, P.E., Director of the Division of Plan Review and Permitting, is a Maryland Registered Professional Engineer with over 25 years of experience in the field of environmental and civil engineering, specializing in stormwater management and land development regulation. Ms. Smith holds a Bachelor of Science degree and a Master of Science degree in Engineering from the Virginia Polytechnic Institute & State University (Virginia Tech). Ms. Smith served as the Deputy Director for the Division of Public Works, Land Development Engineering prior to becoming the Director of the Division of Plan Review and Permitting in 2011. She is a member of the County Engineers Association of Maryland, the American Water Resources Association, the Maryland Stormwater Association, the Maryland Association of Floodplain and Stormwater Managers and the Washington County Transportation Advisory Committee. Ms. Smith is a former and founding member of the Board of Directors for the Low Impact Development Center and currently sits on the Streets and Roads Commission for the Town of Mount Airy.

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

Washington County Government Organizational Chart



County Employment

As of June 30, 2012 the County employed 750 full-time employees and 429 part-time employees, including seasonal positions. The County has a compensation and classification plan, which is complemented by a performance evaluation system. There are 140 employees of the County's Division of Public Works, Division of Emergency Services, and Division of Environmental Management represented by a collective bargaining agreement that expires on June 30, 2013. The Board and representatives of the American Federation of State, County, and Municipal Employees signed a new agreement on February 12, 2013. The new agreement is effective July 1, 2013 and expires in five years on June 30, 2018. The County has not experienced a work stoppage due to labor relation disputes and considers its relationships with employees to be good.

Pension and Retirement System

Employees of the County government are provided retirement benefits through a pension plan (the "Plan"). Participation in the Plan is mandatory and there were 986 participants as of June 30, 2012. All full-time County employees are eligible to participate in the Plan. The Plan also provides death and disability benefits. The employees and the County fund the guaranteed allowance. Non-uniformed participants contribute to the Plan at the rate of 5.5% of their annual salary and uniformed employees contribute 6% of their annual salary.

The County's contribution is comprised of two parts: (i) contribution to cover current service costs and (ii) annual accrued liability contribution to liquidate the County's unfunded accrued liability by June 30, 2029. Contributions for items (i) and (ii) above are based on an assumed investment rate of 7.75% compounded annually. Contributions for items (i) and (ii) are currently funded at 16.66% of total salary expense. Salaries are assumed to increase at an annual rate of 4.0%. Contributions from participants and from the County are pooled to provide the guaranteed allowance for each member.

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

As of July 1	Current Service Costs	Recommended Payment for Unfunded Accrued Liability	Total	Unfunded Accrued Liability
2008	\$2,503,710	\$1,755,572	\$4,259,282	\$21,850,376
2009	2,517,527	1,768,561	4,286,088	21,298,099
2010	2,872,075	2,062,728	4,934,803	24,036,755
2011	2,940,903	2,151,124	5,092,027	24,178,332
2012	3,402,453	2,570,315	5,972,768	27,826,378

Source: CBIZ Benefits & Insurance Services, Inc.

Other Post-Employment Benefits

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

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

There is no vesting in the post-employment health benefits and they are subject to change at any time. All employees who retire from the County may participate in the program. In order to be eligible, the retiree must have (i) a minimum of five years of County service, and (ii) immediately preceding retirement, been enrolled in a medical, vision, or prescription drug insurance plan offered to active employees in the County. The retirees pay 50% of the health insurance premium. Retirees are also covered by a death benefit equal to their final annual salary, not to exceed \$100,000. These benefits cease when the retiree attains age 65 or becomes Medicare eligible. As of June 30, 2012, 43 retirees were receiving OPEB benefits and 64 employees were retirement-eligible.

The OPEB plan's funding policy provides for the County to contribute to the trust at least the actuarially determined annual required contribution (ARC). For the fiscal year ended June 30, 2012, the County contributed \$1,623,800 to the trust and for the fiscal year ending June 30, 2013, it has budgeted \$1,606,600. The required contribution amount and OPEB expense per the most recent Actuarial Valuation Report (provided every two years) as of June 30, 2012 are presented below:

OPEB Information	
Actuarial Unfunded Accrued Liability	\$18,526,736
Amortization of Actuarial Unfunded Accrued Liability	578,826
Normal Cost	724,844
Annual Required Contribution	1,303,670
ARC Funding	1,889,809
Net OPEB Obligation	(225,885)

Source: CBIZ Benefits & Insurance Services, Inc.

Actuarial Factors	
Actuarial valuation date	June 30, 2012
Actuarial cost method	Projected Unit Credit
Amortization method	30 years using level percentage of pay
Asset valuation method	Standard balanced portfolio expectation for plan assets
Actuarial trend assumption	An annual healthcare cost trend of 12% initially, reduced by decrements to an ultimate rate of 5% after three years
Interest assumption	7.75% investment rate of return (net of administrative expenses)
Salary assumption	4% increase

Source: CBIZ Benefits & Insurance Services, Inc.

Insurance

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

Certain Services and Responsibilities

Education

The Board of Education of Washington County (the "Board of Education") implements all educational policies and programs for public schools in Washington County under the administration of the State Board of Education. The Board of Education, composed of seven members elected for four-year terms, oversees 22,402 students (including 489 in pre-kindergarten), in 46 elementary and secondary schools, which include middle and combined schools. The staff to student ratio in 2011-12 averaged better than one staff member for every 22.25 pupils; the average unrestricted pupil expenditure was \$11,115 for the 2011-12 school year.

The largest General Fund appropriation by the County in its adopted budget for fiscal year 2013 is \$92,952,490 for the Board of Education, which represents 47.3% of the General Fund budget. The appropriation is for all operating expenditures, including amounts for one-time costs. In addition, the County appropriated \$3,769,000 in its capital budget for fiscal year 2013 for Board of Education projects.

The following table presents the percentage of eighth grade students who attained the advanced proficiency level in the Maryland School Assessment ("MSA") functional tests for selected peer group counties and the State of Maryland for 2012.

MSA Tests	Washington County	Frederick County	Cecil County	Carroll County	Charles County	St. Mary's County	State of Maryland
Mathematics	42.30%	40.30%	33.40%	44.30%	38.50%	43.30%	33.10%
Reading	47.00%	53.80%	37.40%	56.70%	41.50%	49.40%	44.20%

Source: Maryland Board of Education

Washington County's high school graduation rate for the 2011-2012 school year as compared to other selected peer group counties and the State of Maryland is as follows:

Washington County	Frederick County	Cecil County	Carroll County	Charles County	St. Mary's County	State of Maryland
89.76%	92.78%	84.07%	95.00%	89.76%	87.70%	83.57%

Source: Maryland Board of Education

Training/Higher Education

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

Training

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

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

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

Pittsburgh Institute of Aeronautics (“PIA”) established the Federal Aviation Administration (FAA) - approved Aviation Maintenance Technician (AMT) education program at the Hagerstown Regional Airport. With the skills PIA graduates acquire from the program, they are equipped to work in many industries including aviation, mechanical systems, hydro-mechanical systems and the green technology field.

Higher Education

Kaplan University-Hagerstown, a private institution since 1938, offers 13 master degree programs, 16 bachelor degrees, 10 associate degrees and three certificate programs in the areas of business, allied health, criminal justice, paralegal studies, graphic design, human services and information technology. Online and traditional, on-ground courses are available.

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

The County appropriated \$8,865,010 in its fiscal year 2013 operating budget for HCC. HCC receives the balance of its funding from student tuition, State grants, and other miscellaneous sources. In addition, the County appropriated \$250,300 in its capital budget for fiscal year 2013 for HCC projects.

University System of Maryland at Hagerstown (“USMH”) opened in January 2005 and is located in Hagerstown’s historic City Center. USMH is part of a regional system offering more than 20 undergraduate and graduate degree programs from five respected universities within the Maryland systems: Frostburg State University, University of Maryland University College, University of Maryland, College Park, Towson University, and Salisbury University. Students can complete a bachelor’s degree or earn a master’s degree. USMH also offers access to on-site academic advising, computer labs, and a full-service library.

Planning and Zoning

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

From the original adoption in 1973 and through amendments in 2002, 2005 and 2012, the Zoning Ordinance provides seven classifications for industrial development: (i) "Industrial General" which encompasses heavy manufacturing plants requiring extensive transportation, water and sewerage facilities; (ii) "Industrial Restricted" which encompasses light manufacturing such as processing or assembly or previously processed materials; (iii) "Planned Industrial" which encompasses the planned development of industrial park locations; (iv) "Airport" which permits industrial uses that have a need to be located near the airport or provide airport related services and include height limitations located around the Hagerstown Regional Airport; (v) "Highway Interchange District" which allows light industrial uses in the vicinity of interstate interchanges to take advantage of transportation needs and opportunities; (vi) "Office, Research and Technology" which is geared toward the development of corporate offices, research facilities, and high-tech communication land uses and (vii) "Office, Research and Industry" which allows a mix of technology and selected industries with increased performance standards. The zoning regulations as well as the 2012 edition of the International Building Code administered by the Division of Plan Review and Permitting govern the development of these areas.

The Planning Department continues to update and revise the Subdivision Ordinance, the Zoning Ordinance and other documents that relate to land development in Washington County. In keeping with the recommendations of the 2002 Comprehensive Plan, major revisions were made in July 2005 to the zoning regulations that govern the rural areas of Washington County. In July 2012 the County adopted major revisions to the zoning text and map for the Urban and Town Growth areas to implement the recommendations of the Comprehensive Plan. Those revisions are designed to create a more desirable and efficient urban living environment. The amendments include improvements to the design guidelines in the industrial districts mentioned above. A new educational zone, called Education, Research and Technology is designed specifically to allow Hagerstown Community College to partner with emerging high-tech industries and expand its role as business partner in the community. In an effort to coordinate development and infrastructure needs, staff is continuing to review the Adequate Public Facilities and Excise Tax Ordinances for possible improvement.

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

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

Hospital and Medical Care**Meritus Health**

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

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

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

Washington County Health Department

The Washington County Health Department, which provides various health services to the citizens of Washington County, is budgeted to receive a total of \$2,339,270 in fiscal year 2013 from the County. Along with the main headquarters, it has staff and programs based at eight other sites. The Health Department employs a total of 196 full-time and part-time personnel in five divisions.

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

Other Medical Facilities

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

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

*Safety***Law Enforcement**

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

Emergency Services

The County's Division of Emergency Services ("DES") oversees Emergency Communication/911, Emergency Management, Fire Department Special Operations, Fire Department Support Services, and the Emergency Medical Services Operations Program. DES is led by a full-time career Director and full-time Deputy Director. There are 86 full-time and part-time personnel working directly within the division and approximately 40 volunteers.

Emergency Communications

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

Emergency Management

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

Fire Department Special Operations

The County has a vision to become the regional leader in providing and coordinating efficient public services. In response to that vision the Special Operations Team has both volunteer and career personnel who complete extensive training in various technical and/or specialized areas including hazardous materials, trench rescue, rope rescue, water rescue, structural collapse and confined space rescue.

Emergency Medical Services

The Emergency Medical Services ("EMS") section provides leadership, direction, support and coordination to the County's EMS system in order to continuously improve the efficiency and quality of services being provided to those who reside and travel within the County. EMS is comprised of a coordinator, eight full-time advanced life support ("ALS") technicians and five part-time ALS technicians. This team deploys two highly specialized ALS chase units which support the eight independent EMS companies in the delivery of the highest quality pre-hospital care. Additionally, three ALS support vehicles and a fully equipped ALS ambulance are available for supplemental staffing to the independent companies and are available to provide additional resources for high risk events and large public gatherings.

Fire and Rescue

Fire and rescue protection is coordinated through the DES. Working collaboratively with the Washington County Volunteer Fire and Rescue Association (the "WCVFRA"), DES coordinates the services provided by 14 volunteer fire companies and eight volunteer ambulance companies throughout Washington County. All volunteer companies belong to the WCVFRA. The association has approximately 700 volunteers who provide a combination of firefighting, rescue, and administrative services to the community. Several volunteer companies have hired career personnel to supplement the volunteer staff during times of low

volunteer availability.

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

Environmental Management

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

Solid Waste

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

Water Supply and Wastewater Facilities

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

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

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

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

The County bills its customers quarterly except for those for which wastewater treatment service is provided by the City of Hagerstown, in which case the County’s charges are billed and collected on its behalf by the City of Hagerstown. The following table shows the total Number of Services and EDUs of the County’s water and wastewater systems and the annual residential user rates effective July 1, 2012. For customers receiving County collection services only, treatment is provided by the City of Hagerstown.

WATER SYSTEM

	No. of Services	No. of EDUs	Residential Annual (Avg) User Rate
Full Service.....	1,320	1,571	\$584.04

WASTEWATER SYSTEM

	No. of Services	No. of EDUs	Residential Annual (Avg) User Rate
Full Service	6,845	10,249	\$539.84
Collection Service Only	3,516	3,874	\$208.00
Wholesale	5	4,714	
Total.....	10,366	18,837	

Source: Washington County Department of Budget and Finance

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

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

III. Economic and Demographic Information

Economic Development Commission

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

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

The EDC currently has three full-time employees to conduct the day-to-day operations of the office. The staff works to fulfill the strategic priorities that are put in place by the EDC.

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

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

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

The EDC administers the Enterprise Zone Program, identifying eligible businesses that qualify for local real property tax credits and State income tax credits in the City of Hagerstown, the Town of Hancock, and elsewhere in Washington County. For tax year 2012-13, the City of Hagerstown, the Town of Hancock, and the County granted \$203,700, \$1,419, and \$603,210, respectively, in real property tax credits for private capital investment. The State of Maryland is expected to reimburse \$101,850 to the City of Hagerstown, \$710 to the Town of Hancock, and \$301,605 to the County for these credits.

Economic Development

New and Expanding Businesses

In 2012 the County experienced new and expanding businesses highlighted by the creation of more than 375 new jobs and known new investments of approximately \$106.4 million. Many of these achievements are a result of incentive packages provided through partnerships of the County and State to provide training programs, State financing, and Enterprise Zone tax credits. Significant projects announced in 2012 and 2013 that are expected to provide an additional 746 new jobs and an additional \$52.2 million of new investments are noted in the following table:

Hagerstown-Washington County, Maryland -- Significant Business Activity for 2012

Company Name	Business Type	Expected Completion	Project Cost ⁽¹⁾	#New Jobs ⁽¹⁾	Type of Activity
Completed Projects Announced in 2012					
Citi	Finance	1Q12	n/a	200	New Jobs
Evolve Composites	Manufacturing	1Q12	\$3,000,000	60	New Jobs/Lease
Eyecare Specialists	Health Care & Social Assistance	1Q12	\$1,000,000	n/a	New Construction
Fountainhead One	Class A Office Building	2Q13	\$6,500,000	n/a	New Construction
Hadley Farms	Manufacturing	1Q12	n/a	40	New Jobs
Hendershots Sporting Goods, Inc.	Retail	1Q12	\$500,000	6	Lease
Lehigh Phoenix	Printing	4Q12	\$4,000,000	20	Expansion
Maryland Solar LLC	Energy manufacturing	4Q12	\$70,000,000	2	New Equipment/Jobs
Misty Meadow Creamery	Retail	3Q12	\$600,000	6	New Construction/Jobs
New England Motor Freight	Transportation	3Q12	\$3,261,000	30	New Construction/Jobs
Parkway Neurosciences	Health Care & Social Services	1Q12	\$8,840,000	0	New Construction
Potomac Edison	Utility	4Q12	\$3,200,000	12	New Jobs/Expansion
Spectrum Fire Protection, Inc.	Construction	4Q12	\$480,000	0	New Construction
Trilogy Professional Center	Real Estate/Rental & Leasing	3Q12	\$5,000,000	0	New Construction
Projects Under Development Announced in 2012/2013					
Duvinage, LLC	Manufacturing	4Q17	\$400,000	38	New jobs/Acquisition
FedEx Ground	Transportation & Warehousing	3Q14	\$35,000,000	267	New Jobs/Expansion
Freightliner	Transportation & Warehousing	2Q13	\$4,000,000	30	New Jobs/Construction
Valley Mall	Retail	3Q13	\$2,300,000	175	New Jobs/Construction
Southner Ionics, Inc	Manufacturing	3Q13	\$6,000,000	18	New Jobs/Purchase
Casa Rio	Hospitality	2Q13	\$1,250,000	26	New Jobs/Construction
Tilted Kilt	Hospitality	2Q13	\$1,750,000	162	New Jobs/Construction
National Golden Tissue ⁽²⁾	Wholesale/Retail	4Q13	\$1,500,000	30	New Jobs/Expansion
Totals for Projects Announced in 2012/2013:			\$158,581,000	1,122	

Source: Hagerstown-Washington County Economic Development Commission

(1) Estimates based on company announcements.

(2) Company plans to further expand with the purchase of a former paper manufacturer's building for paper production. This expansion would be a phased investment over several years, with capital expenditures for manufacturing equipment of nearly \$50 million. National Golden Tissue could employ 340 people once all phases are completed.

Business Parks and Sites

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

<i>Park</i>	<i>Total Acreage</i>	<i>Available Acreage</i>	<i>Ownership</i>
Airport Enterprise Zone:			
Washington County Business Airpark	67	30	County
City of Hagerstown—Washington County Enterprise Zone:			
Valley Business Park	188	125	Private
Other Locations:			
Airport Business Park	39	39	Nonprofit
Friendship Business Park	450	300	Private
Gateway Business Park.....	65	12	Private
Hancock Industrial Park.....	38	38	Town
Hub Business Park.....	80	80	Private
Hunter's Green Business Center.....	631	160	Private
Light Business Park	27	14	Private
Newgate Industrial Park.....	245	20	Nonprofit
Showalter Business Park.....	162	162	Private
Showalter Road Center.....	88	88	Private
Westgate Industrial Complex.....	175	175	Private
Mount Aetna Technology Park at Hagerstown (MATH).....	179	179	Nonprofit

Source: Hagerstown-Washington County Economic Development Commission

New Jobs Tax Credit Program

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

Enterprise Zones

Approximately 6,200 acres in Washington County are within three State-designated Enterprise Zones. The *City of Hagerstown/Washington County Enterprise Zone* was renewed and expanded by the State in 2012. This zone now encompasses approximately 4,000 acres located within the City of Hagerstown and Washington County. The zone has more than doubled and includes Hopewell Valley Industrial Park, Washington County Business Park, CSX Valley Park, the City of Hagerstown Business Park, and the Central Business District in downtown Hagerstown. The *Hagerstown Regional Airport Enterprise Zone* was renewed in 2004. This 700-acre zone includes the Hagerstown Regional Airport, Bowman Air Park Center at Hagerstown, Topflight Airpark, the Washington County Business Airpark, and several commercial properties along U. S. Route 11. The *Hancock Enterprise Zone* was approved in 2005. This 1,500 acre zone surrounds the Town of Hancock, stretching from the Pennsylvania border to the Potomac River. The zone includes commercial and industrial development opportunities in select areas of Hancock as well as commercial frontage along Main Street. Local and State incentives are available to new or expanding companies in these zones to promote growth of the industrial and commercial base. Qualified businesses can receive local property tax credits for capital investment and State income tax credits for the creation of new jobs. Each Enterprise Zone is approved by the State for a 10 year period.

Pad-Ready Commercial Stimulus Program

The Board adopted the “Pad-Ready” Commercial Stimulus Program on October 25, 2011. The program is designed to encourage developers/builders to bring undeveloped land to a shovel-ready state, but is also intended for sites with existing buildings in need of redevelopment. Under the program, undeveloped parcels of land, demolitions, renovations and expansions of existing buildings qualify for incentives. Qualifying projects are entitled to priority plan review by the Washington County Development Advisory Committee, deferral of County site-plan application and review fees, and a real-estate tax credit issuance once buildings are constructed and occupied. The tax credit is to be 0.4 of one percent (.004) of the construction cost of the new improvement as determined by the EDC and will apply for three consecutive years.

High Performance Building Tax Credit Program

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

Foreign Trade Zone

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

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

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

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

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

Transportation

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

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

Rail: CSX Transportation and Norfolk Southern Corporation Railways provide economical shipment anywhere on the Atlantic seaboard. CSX, with a public siding, operates daily trains and connects with other major carriers for long-distance shipping. The Norfolk Southern mainline is just outside of Hagerstown and a CSX interchange with Norfolk

ECONOMIC AND DEMOGRAPHIC INFORMATION

Southern is in Hagerstown for nationwide access. In January 2013, Norfolk Southern Rail opened a 200 acre intermodal terminal in Greencastle, Pennsylvania, immediately adjacent to Washington County. The County is also only 19 miles from CSX's 115 acre intermodal terminal in Chambersburg, Pennsylvania. Daily Amtrak and weekday MARC passenger services are available from Martinsburg, West Virginia (23 miles south of Hagerstown). MARC passenger service from neighboring Frederick County to Washington, D.C. is also available.

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

Communication

Newspapers: The daily newspaper, The Herald-Mail, has a circulation of 31,957. Two weekly local newspapers, The Hancock News, with a weekly circulation of 2,000, and The Picket News, with a weekly circulation of 10,000, also serve Washington County. Several metropolitan newspapers, including the Washington Post and The Baltimore Sun, are available daily to residents.

Television: WHAG provides local news, weather, community information, sports coverage and programming to the tri-state area. Antietam Cable Television and Comcast offer cable and digital television services. Satellite television is available through private vendors. HMTV6 produces news, weather and special features, airing 24 hours a day, seven days a week.

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

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

Population

The following table illustrates the population growth of Washington County, the State of Maryland, and the United States from 1970 to 2012.

Population Growth						
Year	<u>Washington County</u>		<u>State of Maryland</u>		<u>United States</u>	
	<u>Population</u>	<u>Percent Change</u>	<u>Population</u>	<u>Percent Change</u>	<u>Population</u>	<u>Percent Change</u>
1970	103,829	—	3,923,897	—	203,302,000	—
1980	113,086	9.9	4,216,000	7.4	226,505,000	11.4
1990	121,393	7.3	4,781,753	13.4	249,633,000	10.2
2000	131,923	8.7	5,296,486	10.8	281,421,906	12.7
2010	147,430	11.8	5,787,988	9.0	308,845,538	9.7
2012	154,000	4.5	5,884,563	1.7	313,914,040	1.6

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

Bureau of the Census, U.S. Department of Commerce for 2012 estimates for the State of Maryland and the United States.

Maryland State Data Center for 2012 estimates for Washington County.

Income

Median household Effective Buying Income (“EBI”) in Washington County was estimated at \$48,984 for the year 2012. The median household EBI for Washington County, the State of Maryland and the United States are estimated to be as follows:

	Median Household Effective Buying Income				
	2012	2011	2010	2009	2008
Washington County	\$48,984	\$40,614	\$42,775	\$41,995	\$42,327
State of Maryland	52,108	52,627	55,983	54,640	53,914
United States	41,644	41,368	43,252	42,413	42,303

Source: Demographics USA®, a publication of ACNielsen Trade Dimensions, Wilton, CT for 2008 data; and Nielsen-Claritas, Inc. for 2009, 2010, 2011, and 2012 data.

Comparative statistics relating to the distribution of 2012 EBI are presented in the following table:

2012 Distribution of Effective Buying Income

Households By EBI Group	Washington County Percent	State of Maryland Percent	United States Percent
Under \$35,000	34.4	40.7	61.8
\$35,000-74,999	38.2	38.4	20.5
\$75,000+	27.4	20.9	17.7

Source: Nielsen-Claritas, Inc for Washington County.

Bureau of the Census, U.S. Department of Commerce for 2012 estimates for the State of Maryland and the United States.

Area Labor Supply

Washington County has an available civilian labor force of approximately 69,114. In addition, businesses can pull workforce from Allegany and Frederick counties in Maryland; Franklin and Fulton counties in Pennsylvania; and portions of Berkeley, Jefferson and Morgan counties in West Virginia. The civilian labor force for all these counties totals more than 405,754.

Employment

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

Employer	Employment
Washington County Public Schools.....	2,985
Meritus Health, Inc.....	2,860
Citi.....	2,750
State of Maryland*	2,568
First Data.....	2,322
Volvo Group.....	1,350
Washington County Government.....	1,159
Hagerstown Community College.....	893
Bowman Group, LLP (The).....	755
Federal Government*	705
FedEx Ground.....	648
Staples Distribution Center.....	567
Merkle Response Management Group.....	520
Sierra Nevada Corporation.....	486
City of Hagerstown.....	461

Source: Hagerstown - Washington County Economic Development Commission

*2012 annual average as reported by the Maryland Department of Labor; Licensing, and Regulation

Unemployment Rate

Unemployment in Washington County has averaged 9.0% over a five-year period between 2008 and 2012, and has decreased by 2.3% in just the past two years. The following table indicates the County's average unemployment rate as compared with the State of Maryland for the years 2008 through 2012:

	Unemployment Rate – Annual Average				
	2012	2011	2010	2009	2008
Washington County	8.6%	9.8%	10.9%	10.2%	5.6%
State of Maryland	6.8%	7.0%	7.8%	7.4%	4.3%

Source: Maryland Department of Labor, Licensing and Regulation

Construction Activity

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

Building Permits (Value in Thousands)

Year Ended Dec. 31	Residential New		Other Permits		Total	
	Number	Value	Number	Value	Number	Value
2012	152	\$ 32,660	1,536	\$ 47,306	1,688	\$ 79,966
2011	159	26,941	1,632	57,509	1,791	84,450
2010	161	33,372	1,766	71,463	1,927	104,835
2009	133	27,721	1,881	73,869	2,014	101,590
2008	178	37,040	2,160	344,130 ⁽¹⁾	2,338	381,170

Source: Washington County Department of Permits and Inspections

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

Housing Starts

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

Year Ended December 31	Single Family (One and Two-Unit Structures)
2012	133
2011	128
2010	137
2009	104
2008	104

Source: Washington County Department of Permits and Inspections

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

Agriculture

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

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

Washington County Agriculture Statistics

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

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

The U.S.D.A. conducts a census every five years; 2012 data has not yet been published.

IV. Financial Information

Accounting System

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

Fund Structure

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

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

Basis of Accounting, Measurement Focus, and Financial Statement Presentation

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

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

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

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

Accounting Enterprise System

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

Capital Budget Preparation Software

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

Distinguished Budget Presentation Award

The County received the Distinguished Budget Presentation Award for its 2013 Budget Document from the GFOA. The award is given to those entities that satisfy nationally recognized guidelines for effective budget presentation. Those guidelines are designed to assess how well an entity's budget serves as a policy document, a financial plan, an operations guide, and a communication device. The County has received the award for nine consecutive years. The award reflects the commitment of the County to meet the highest standards in governmental budgeting.

Budget Process and Schedule

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

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

Financial Capacity and Analysis Phase

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

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

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

The County annually undertakes a detailed analysis of its financial position. The County then plots and converts its financial position into certain financial ratios and examines its performance trend. Most of the financial trend analysis includes peer group median and historical data. Trend indicators are tracked for specific elements of the County's fiscal policies for evaluation.

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

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

Budget Development Start

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

Budget Development Phase

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

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

It is the CIP Committee’s responsibility to review all requests that County departments and agencies submit. Based on the results of the priority ranking, and current and future needs, as developed in the six-year capital plan, and available funding sources, the CIP Committee determines which capital projects best meet established criteria for the current fiscal year Capital Improvement Budget and the 10-year forecast. Operating impacts of current and proposed capital projects are also taken into consideration by staff when developing the Capital Improvement Budget.

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

Review/Modification Phase

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

Adoption Phase

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

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

Start Up

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

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

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

General Fund Revenues and Expenditures

The General Fund's major function is to provide funding for education, public safety, courts, planning, permits, public works, parks and recreation, general operations, and economic development. The major revenue sources to provide these programs and services for the public are: Real and Personal Property Tax, Income Tax and Recordation Tax. The following table displays the County's General Fund actual revenues and expenditures compared to the final budget for fiscal year 2012, budgeted revenues and expenditures for fiscal year 2013, and the proposed budget for fiscal year 2014.

County Commissioners of Washington County				
Budget Comparison General Fund				
Fiscal Years 2012, 2013 and 2014				
	Fiscal Year 2012		Fiscal Year 2013	Fiscal Year 2014
	Final Budget	Actual Amounts	Original Budget ⁽¹⁾	Proposed Budget
REVENUES				
Property Tax				
Real Property Tax.....	\$ 111,560,210	\$ 111,861,921	\$ 109,781,770	\$ 107,702,080
Personal Property Tax.....	13,580,270	12,040,349	12,801,340	12,405,580
Property Tax Interest Income.....	580,000	484,932	580,000	480,000
Other Property Tax.....	649,850	676,967	608,820	740,860
Property Tax Discounts, Credits, and Fees.....	(2,106,590)	(2,394,357)	(2,395,760)	(2,132,650)
Total Property Taxes.....	\$ 124,263,740	\$ 122,669,812	\$ 121,376,170	\$ 119,195,870
Other Local Taxes				
Income Tax.....	\$ 59,380,000	\$ 64,578,939	\$ 62,476,000	\$ 68,730,000
Admissions and Amusement Tax.....	360,000	319,859	325,000	300,000
Recordation Tax.....	4,550,000	3,556,946	4,550,000	5,000,000
Trailer Tax.....	440,000	475,065	440,000	470,000
Total Other Local Taxes.....	\$ 64,730,000	\$ 68,930,809	\$ 67,791,000	\$ 74,500,000
Other Revenues				
Licenses and Permits.....	\$ 1,304,860	\$ 1,278,654	\$ 1,199,600	\$ 1,358,100
Court Costs and Fines.....	244,400	323,625	260,900	351,750
Charges for Services.....	458,680	497,092	510,060	331,950
Revenues from Use of Property.....	1,088,700	1,066,799	1,125,230	1,146,040
Reimbursed Expenses.....	1,000,135	1,136,308	1,007,140	1,002,400
Miscellaneous Revenues.....	1,507,090	566,480	1,350,630	1,672,170
Grant and Shared Revenues.....	4,636,132	3,547,046	1,691,790	1,630,990
Highway Revenues ⁽²⁾	765,830	1,291,748	8,973,080	9,371,820
Total Other Revenues.....	\$ 11,005,827	\$ 9,707,752	\$ 16,118,430	\$ 16,865,220
TOTAL REVENUES.....	\$ 199,999,567	\$ 201,308,373	\$ 205,285,600	\$ 210,561,090
EXPENDITURES				
General Government.....	\$ 20,574,508	\$ 19,552,837	\$ 20,463,270	\$ 20,367,740
Public Safety.....	34,945,927	33,771,477	34,685,350	36,759,740
Health.....	2,339,270	2,876,643	2,339,270	2,339,270
Social Services.....	2,827,612	2,248,270	1,728,760	1,575,810
Education.....	101,693,900	101,693,900	101,817,500	103,495,890
Parks, Recreation, and Culture.....	5,248,320	5,230,239	5,520,640	6,044,250
Conservation of Natural Resources.....	518,390	514,055	518,480	581,790
Highway ⁽²⁾	8,621,850	9,262,056	8,973,080	9,371,820
General Operations.....	443,080	400,480	423,220	428,930
Unallocated Employee Insurance and Benefits.....	1,922,480	2,546,596	4,061,840	4,090,240
Intergovernmental.....	7,506,610	9,357,259	10,740,410	10,815,080
Debt Service.....	13,357,620	13,588,170	14,013,780	14,690,530
TOTAL EXPENDITURES.....	\$ 199,999,567	\$ 201,041,982	\$ 205,285,600	\$ 210,561,090
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ 266,391	\$ -	\$ -

Source: Washington County Department of Budget and Finance

(1) Budget revisions are possible until the close of the year on June 30, 2013.

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

The following table displays the County's General Fund revenues and expenditures for fiscal years 2008 through 2012.

County Commissioners of Washington County					
Statement of Revenues, Expenditures and Changes in Fund Balance					
General Fund					
Year Ended June 30					
	2012	2011	2010	2009	2008
Revenues:					
Taxes, interest and penalties	\$ 191,600,621	\$ 189,634,078	\$ 191,007,533	\$ 190,257,911	\$ 187,521,785
Shared taxes and grants	4,838,794	4,961,523	6,380,438	4,434,273	4,542,025
Licenses and permits	1,278,654	1,173,403	1,221,484	1,478,435	2,037,087
Revenues from use of money and property	1,066,799	1,280,462	1,096,492	3,732,024	7,950,234
Charges for services	497,092	388,337	389,192	428,735	720,672
Other revenue	2,026,413	1,517,133	1,804,558	1,487,826	1,606,602
Total revenues	<u>\$ 201,308,373</u>	<u>\$ 198,954,936</u>	<u>\$ 201,899,697</u>	<u>\$ 201,819,204</u>	<u>\$ 204,378,405</u>
Expenditures:					
General government	\$ 19,552,837	\$ 17,985,815	\$ 18,645,300	\$ 18,401,087	\$ 22,195,697
Public safety	33,771,477	34,183,751	34,105,397	29,072,606	26,893,371
Health	2,876,643	2,389,270	2,389,270	2,389,270	2,381,770
Social services	2,248,270	2,400,068	3,026,322	2,293,875	2,182,308
Education	101,693,900	101,360,380	102,109,070	99,740,838	96,558,230
Recreation and culture	5,230,239	5,351,051	5,394,998	5,103,958	4,980,043
Conservation of natural resources	514,055	541,918	511,966	599,285	543,570
Intergovernmental	38,543	38,543	2,026,798	1,945,466	1,860,049
General operations	2,947,076	2,087,905	2,064,718	3,890,730	3,022,990
Highway ⁽¹⁾	9,262,056	8,095,183			
Debt service:					
Principal	9,216,975	8,843,224	8,529,813	7,886,698	6,202,564
Interest	4,371,195	4,223,536	4,377,912	4,286,588	3,926,404
Total Expenditures	<u>\$ 191,723,266</u>	<u>\$ 187,500,644</u>	<u>\$ 183,181,564</u>	<u>\$ 175,610,401</u>	<u>\$ 170,746,996</u>
Excess of revenues over expenditures	<u>\$ 9,585,107</u>	<u>\$ 11,454,292</u>	<u>\$ 18,718,133</u>	<u>\$ 26,208,803</u>	<u>\$ 33,631,409</u>
Other financing sources(uses):					
Net bond proceeds	\$ 34,443	\$ -	\$ 30,254	\$ 121,053	\$ -
Proceeds of capital leases	759,137	-	-	-	-
Operating transfers in	-	-	6,630	-	66,615
Operating transfers out	(9,318,716)	(10,035,386)	(18,674,313)	(26,104,971)	(32,769,003)
Total other financing sources(uses)	<u>\$ (8,525,136)</u>	<u>\$ (10,035,386)</u>	<u>\$ (18,637,429)</u>	<u>\$ (25,983,918)</u>	<u>\$ (32,702,388)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ 1,059,971</u>	<u>\$ 1,418,906</u>	<u>\$ 80,705</u>	<u>\$ 224,885</u>	<u>\$ 929,021</u>
Consolidation of Highway Fund ⁽¹⁾	-	(644,789)	-	-	-
Fund balances at beginning of year	37,572,914	36,798,797	36,718,092	36,493,207	35,564,186
Fund balance at end of year	<u>\$ 38,632,885</u>	<u>\$ 37,572,914</u>	<u>\$ 36,798,797</u>	<u>\$ 36,718,092</u>	<u>\$ 36,493,207</u>
Fund Balance:					
As a percent of revenue	19.2%	18.9%	18.2%	18.2%	17.9%
As a percent of expenditures	20.2%	20.0%	20.1%	20.9%	21.4%
Unassigned fund balance:	\$ 3,687,215	\$ 3,687,215	\$ 261,837	\$ -	\$ -
As a percent of revenue	1.8%	1.9%	0.1%	0.0%	0.0%
As a percent of expenditures	1.9%	2.0%	0.1%	0.0%	0.0%
Debt Service:	\$ 13,588,170	\$ 13,066,760	\$ 12,907,725	\$ 12,173,286	\$ 10,128,968
As a percent of revenue	6.7%	6.6%	6.4%	6.0%	5.0%
As a percent of expenditures	7.1%	7.0%	7.0%	6.9%	5.9%

Source: Washington County Department of Budget and Finance

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

Anticipated Results for Fiscal Year 2013

Fiscal year 2013 final results are not available as of the date of this Official Statement. However, based on current review, the County's two largest revenue sources, real estate and income taxes, are projected to be above current year budget and all expenditures are in-line with the approved budget. Overall the financial results for fiscal year 2013 are expected to end on the positive side, with total revenues in excess of total expenditures. The County expects to maintain its cash reserves for fiscal year 2013.

Sources of Tax Revenue

Ad valorem property taxes, the County's largest source of tax revenues, were 66% of total tax revenues in fiscal year 2011 and 64% in fiscal year 2012. During the same period, income tax revenues as a percentage of all tax revenues were 31.3% of the total tax revenues in fiscal year 2011 and 33.7% in fiscal year 2012. The following table presents the County's tax revenues by source for each of the last five fiscal years as well as the budgeted amounts for fiscal year 2013.

Tax Revenues by Source

Fiscal Year Ended June 30	Total Taxes	Local Property Taxes⁽¹⁾	Local Income Taxes	Other Local Taxes⁽²⁾
Budgeted 2013	\$189,187,960	\$121,396,960	\$62,476,000	\$5,315,000
2012	191,600,621	122,669,812	64,578,939	4,351,870
2011	189,634,078	125,462,990	59,279,436	4,891,652
2010	191,007,533	129,232,852	57,025,046	4,749,635
2009	190,257,911	121,717,428	63,540,483	5,506,605
2008	187,521,785	112,455,338	66,257,074	8,809,373

Source: Washington County Department of Budget and Finance

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

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

Local Property Taxes

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

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

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

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

The State also provides a tax credit based on the ability of homeowners to pay property taxes. The credit is calculated by use of a scale, which indicates a maximum tax liability for various income levels. This tax credit for local property taxes for Washington County for fiscal year 2012 was \$1,614,809 and the credit for fiscal year 2013 is budgeted at \$1,599,154.

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

Assessed Value, Tax Rates and Tax Levy

The following table sets forth the assessed value of all taxable property in Washington County for each of its five most recent fiscal years and the County and State tax rate applicable in each of those years. Assessed value of tax-exempt properties owned by Federal, State and County governments, churches, schools, fraternal organizations, cemeteries, disabled veterans and the blind, aggregating \$1,760,066,000 for the fiscal year ended June 30, 2012, is not included in the table. Under applicable law, there is no limit to the total tax levy for property taxes. In the opinion of the County, the tax rate established by it for each fiscal year, when applied to the property subject thereto, is sufficient to provide revenues to discharge the County's obligations to pay principal and interest maturing on its outstanding general obligation indebtedness in each fiscal year.

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

	2012	2011	2010	2009	2008
Real property.....	\$12,740,518	\$13,650,208	\$14,283,690	\$13,202,837	\$11,349,194
Personal property:					
Railroads and public utilities.....	162,932	168,373	175,109	184,446	184,308
Business corporations.....	379,500	379,500	401,772	391,800	398,020
Total property	<u>\$13,282,950</u>	<u>\$14,198,081</u>	<u>\$14,860,571</u>	<u>\$13,779,083</u>	<u>\$11,931,522</u>
Change in market value of property	(6.4)%	(4.5)%	7.8%	15.5%	17.7%
County tax rate (per \$100 assessed value)	\$0.948	\$0.948	\$0.948	\$0.948	\$0.948
State tax rate (per \$100 assessed value)	0.112	0.112	0.112	0.112	0.112

Source: Maryland State Department of Assessments and Taxation

There were no changes to the property tax rates for the County or the State in fiscal year 2013. As of the date of this Official Statement, there are no proposed changes to the County or State property tax rates for fiscal year 2014.

Tax Collection

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

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

Fiscal Year Ending June 30	Taxes Levied	Taxes Collected in Year of Levy		Total Taxes Collected (Current and Delinquent)		Taxes Receivable	Taxes Receivable as a Percentage of Total Taxes Collected
		Amount	Percent	Amount	Percent		
2012	\$125,425,501	\$124,342,889	99.14	\$125,166,347	99.79	\$1,282,411	1.02
2011	127,163,603	126,537,616	99.51	128,579,492	101.11	1,023,256	0.80
2010	131,684,166	129,501,507	98.34	129,767,019	98.54	2,439,147	1.88
2009	122,217,894	121,926,911	99.76	122,561,057	100.28	522,000	0.43
2008	113,038,344	112,371,965	99.41	113,009,423	99.97	865,162	0.77

Source: Washington County Department of Budget and Finance

Principal Taxpayers

The 20 largest taxpayers in the County as of June 30, 2012, ranked by assessed value, are listed below.

Name of Taxpayer	Assessed Value	Percentage of Assessed Value
PR Valley Limited Ptsp	\$ 103,099,240	
Outlet Village of Hagerstown	98,967,210	
Potomac Edison	67,322,070	
Bowman Group	60,582,410	
Washington Real Estate	58,041,533	
FedEx Ground Package System Inc.	55,122,260	
254 Hagerstown/Citigroup/Citicorp.	51,215,430	
Staples of Maryland LLC	47,179,257	
Verizon-Maryland	45,775,560	
Walmart Stores/Wal-Mart R.E./Sam's R.E./Sam's East	43,843,357	
Sub-total	\$ 631,148,327	4.75%
IIT Hagerstwon Distribution Center	\$ 40,959,100	
Liberty Property Limited	37,607,067	
GP Hagerstown Limited Ptsp	36,957,300	
Lowe's Home Centers Inc.	35,549,620	
FR Hagerstown LLC	33,795,800	
T. Rowe Price/TRP	33,756,680	
Mack Trucks Inc.	30,298,480	
Tractor Supply Company	30,061,843	
Norfolk Southern Combined Rail	25,598,730	
Columbia Gas of Maryland	17,785,060	
Total	\$ 953,518,007	7.18%

Source: Washington County Treasurer's Office

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

Local Income Tax

Effective January 1, 2012, the personal State income tax rates for Maryland residents start at 2% on the first \$1,000 of taxable income and increase up to a maximum of 5.75% on incomes exceeding \$250,000 (or \$300,000 for taxpayers filing jointly, head of household or qualifying widow(ers)). Pursuant to State law, each county and Baltimore City must levy a local income tax at the rate of at least 1.25%, but not more than 3.20%, of the State income tax liability of individuals domiciled in their respective jurisdictions.

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

Other Local Taxes and Revenues

In addition to general property taxes and income taxes, the County levies and collects miscellaneous taxes, the largest of which is the recordation tax on instruments conveying title to property and securing debt. Revenues from this tax in the fiscal year ended June 30, 2012 were \$3,556,946. The County also receives revenues from the amusement and admission tax and the trailer

tax. Another significant source of local revenue is generated from the issuance of building and other permits. Revenues from all these sources, including recordation taxes, in the fiscal year ended June 30, 2012 were \$5,630,524.

State and Federal Financial Assistance

State Payment of Public School Capital Construction Costs

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

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

State and Federal Grants

During the County's fiscal year ended June 30, 2012, an aggregate of \$5,221,628 in Federal and State funds was received by all County departments for use in operations. The largest single categorical source was a Federal and State grant for \$719,181, which was for the Small Urban Area Public Transportation Grant. The County also received a total of \$12,890,773 in Federal and State funds for capital projects in the fiscal year ended June 30, 2012. The County projects that \$6,781,723 in Federal and State funds will be received in fiscal year 2013 for operations and \$4,500,000 in Federal and State funds will be received for capital projects.

During the fiscal year ended June 30, 2012, the Board of Education received \$152,746,994 in State funds and \$22,215,255 in Federal funds for operating and food service expenses. In fiscal year 2013, the Board of Education anticipates receiving \$157,539,066 in State funds and \$21,647,322 in Federal funds for operations.

General Fund Balance Sheet

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

County Commissioners of Washington County

Balance Sheet
General Fund

As of June 30

	2012	2011 ⁽¹⁾	2010	2009	2008
ASSETS					
Cash and short-term investments	\$ 315,956	\$ 42,231	\$ 41,556	\$ 35,563	\$ 51,493
Investment in U.S. Government					
Agency Securities	135,948,740	157,231,094	135,815,730	150,876,572	155,177,620
Property taxes receivable (net)	1,051,056	396,186	1,973,862	190,614	565,826
Accounts receivable	407,981	499,021	631,754	213,816	492,171
Due from other funds	20,000	125,943	227,672	325,372	419,220
Due from other governments	15,804,020	19,014,127	20,289,733	28,216,883	31,509,019
Inventories	816,175	675,242	32,801	43,296	40,348
Other assets	666,189	921,702	817,562	814,206	1,615,153
Total assets	<u>\$ 155,030,117</u>	<u>\$ 178,905,546</u>	<u>\$ 159,830,670</u>	<u>\$ 180,716,322</u>	<u>\$ 189,870,850</u>
LIABILITIES					
Accounts payable	\$ 2,230,907	\$ 1,707,908	\$ 1,298,727	\$ 1,744,186	\$ 3,420,090
Accrued expenses	786,727	1,018,396	3,325,481	1,737,431	1,458,013
Liabilities on unpaid claims	2,220,225	1,961,141	1,743,984	2,535,158	2,800,000
Due to other funds	100,568,990	122,242,678	100,396,027	113,650,265	118,230,707
Deferred revenue	9,279,273	12,630,582	14,130,595	21,361,282	23,248,827
Other liabilities	1,311,110	1,771,927	2,137,059	2,969,908	4,220,006
Total liabilities	<u>\$ 116,397,232</u>	<u>\$ 141,332,632</u>	<u>\$ 123,031,873</u>	<u>\$ 143,998,230</u>	<u>\$ 153,377,643</u>
FUND EQUITY					
Reserved fund balances:	\$ -	\$ -	\$ 644,200	\$ 920,602	\$ 1,215,442
Unreserved fund balances:					
Designated	-	-	35,892,760	35,797,490	35,277,765
Undesignated	-	-	261,837	-	-
Total fund equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,154,597</u>	<u>\$ 35,797,490</u>	<u>\$ 35,277,765</u>
Total liabilities and fund equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,830,670</u>	<u>\$ 180,716,322</u>	<u>\$ 189,870,850</u>
Nonspendable	\$ 24,713	\$ 77,777			
Restricted	1,180,746	539,434			
Committed	36,294,934	33,246,307			
Assigned	1,132,492	22,181			
Unassigned	-	3,687,215			
Total fund equity	<u>\$ 38,632,885</u>	<u>\$ 37,572,914</u>			
Total liabilities and fund equity	<u>\$ 155,030,117</u>	<u>\$ 178,905,546</u>			

Source: Washington County Department of Budget and Finance

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

Key Financial Statistics

General Fund Cash Reserves and Fund Balance

The following table illustrates the ratio of the General Fund fund balance as a percentage of total revenues for the last five fiscal years. Also included in the table are the ratios of cash reserves as a percentage of General Fund revenues. It is the intention of the County to maintain a minimum reserve level of 17 percent, which represents 60 days of working capital. It is anticipated that the County will meet or exceed the 17 percent reserve level in fiscal year 2013.

Fiscal Year	Revenues	Fund Balance	Fund Balance as Percentage of Revenues	Reserves as Percentage of Revenues
2008	\$204,378,405	\$36,493,207	17.86	17.18
2009	201,819,204	36,718,092	18.19	17.60
2010	201,899,697	36,798,797	18.23	17.90
2011	198,954,936	37,572,914	18.89	18.56
2012	201,308,373	38,632,885	19.19	18.59

Source: Washington County Department of Budget and Finance

Use of Year-End Surplus

The table below shows the disposition of the General Fund's year-end surplus for fiscal years 1998 to 2012. In each fiscal year, part of the surplus was used to increase reserves. In addition to the increase in reserves, the surplus was used to fund capital projects, except in fiscal years 2009 and 2010. In those two years, pay go funds were reduced from the amounts originally budgeted.

Disposition of Year-End Surplus History (Fiscal Years 1998-2012)

Fiscal Year	Increase in Reserves	Increase/(Reduction) In Pay Go Funding for CIP
1998	\$ 1,997,846	\$ 3,100,000
1999	997,514	2,124,556
2000	431,506	3,400,000
2001	830,448	1,372,868
2002	1,075,946	1,412,756
2003	2,854,411	- 0 -
2004	3,953,712	2,600,000
2005	4,444,725	8,499,770
2006	6,021,624	10,730,260
2007	3,698,504	19,807,100
2008	929,021	7,780,790
2009	224,885	(1,500,000)
2010	80,705	(5,000,000)
2011	774,117	800,000
2012	471,723	900,000

Source: Washington County Department of Budget and Finance

V. Debt and Capital Requirements

Debt Management Policy

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

General Obligation and Revenue Bonds

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

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

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

The County may issue general obligation bonds in an amount up to \$80,000,000 pursuant to Chapter 392. The principal amount of bonds issued pursuant to Chapter 392, at June 2012, was \$53,327,278. The unused authorization available under Chapter 392 prior to the issuance of the Bonds is \$26,672,722.

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

As part of the annual budget process, an annual debt affordability analysis is prepared by the Finance Department. It is an effective tool for debt planning and management.

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

The following table sets forth the amount of the County’s general obligation bonded debt issued and outstanding as of June 30, 2012, exclusive of certain water and sewer bonds (see “Water and Sewer Bonds” herein). Outstanding bonds do not include those maturities of the Public Improvement Bonds of 2003 and Public Improvement and Refunding Bonds of 2003, Series A for the payment of which non-callable direct obligations of the United States have been placed in escrow. Outstanding amounts have not been adjusted for discounts or premiums.

Statement of General Obligation Bonded Debt

Issued and Outstanding*

As of June 30, 2012

	Date of Issue	Amount Issued	Amount Outstanding			
			General Fund	Solid Waste Fund	Airport Fund	Total
Public Improvement Bonds.....	Mar 2002	\$ 10,700,000	\$ 496,344	\$ 3,656	\$ -	\$ 500,000
Refunding Bonds.....	Mar 2002	11,085,000	2,769,439	250,561	-	3,020,000
Public Improvement Bonds.....	Jan 2003	7,450,000	345,755	4,245	-	350,000
Public Improvement and Refunding Bonds..	Oct 2003	16,570,000 ⁽¹⁾	2,446,281	218,719	120,000	2,785,000
Public Improvement Bonds.....	June 2005	30,740,000	19,184,115	570,885	-	19,755,000
Public Improvement Bonds.....	Mar 2006	10,500,000	8,120,000	-	-	8,120,000
Public Improvement Bonds.....	May 2007	16,000,000	11,451,211	2,333,789	-	13,785,000
Public Improvement Bonds.....	June 2008	18,539,530 ⁽²⁾	15,686,580	-	-	15,686,580
Public Improvement and Refunding Bonds..	June 2009	18,371,300 ⁽³⁾	12,382,616	2,677,674	-	15,060,290
Public Improvement Series A Bonds.....	May 2010	6,992,993 ⁽⁴⁾	4,566,901	1,807,755	-	6,374,656
Taxable Build America Series B Bonds.....	May 2010	9,711,007 ⁽⁵⁾	6,957,113	2,753,894	-	9,711,007
Public Improvement and Refunding Bonds..	May 2010	13,790,000	10,403,874	3,256,126	-	13,660,000
Public Improvement Bonds.....	May 2011	14,170,000	10,949,900	3,220,100	-	14,170,000
Public Improvement Bonds.....	May 2012	12,068,100 ⁽⁶⁾	12,068,100	-	-	12,068,100
Refunding Bonds.....	May 2012	7,740,000	6,098,320	40,020	1,601,660	7,740,000
MWQFA ⁽⁷⁾ Financing Cell 3.....	Nov 2004	2,498,427	-	1,748,954	-	1,748,954
MWQFA ⁽⁷⁾ Solid Waste Refinancing.....	Feb 2005	7,248,761	1,722,240	4,731,521	-	6,453,761
MWQFA ⁽⁷⁾ Resh Road Cap Phase I.....	Dec 2006	5,000,000	4,023,648	-	-	4,023,648
		<u>\$ 219,175,118</u>	<u>\$ 129,672,437</u>	<u>\$ 23,617,899</u>	<u>\$ 1,721,660</u>	<u>\$ 155,011,996</u>

Source: Washington County Department of Budget and Finance
 * Exclusive of Water and Sewer bonded debt.

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

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

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

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

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

(6) Total issue amount for all County funds was \$17,765,000.

(7) Maryland Water Quality Financing Administration.

Water and Sewer Bonds

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

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

The following table sets forth the amount of the County's water and sewer debt issued and outstanding as of June 30, 2012. Outstanding amounts have not been adjusted for discounts or premiums. Debt subject to the Water and Sewer Act is referred to as "Water and Sewer" debt herein.

**Statement of Water and Sewer Bonded Debt
Issued and Outstanding
As of June 30, 2012**

	<u>Date of Issue</u>	<u>Issued</u>	<u>Outstanding</u>
Series A Bonds	June 1996	\$ 9,606,968	\$ 4,756,652
Public Improvement Bonds	June 2008	1,410,470 ⁽¹⁾	1,193,420
Public Improvement & Refunding Bonds	June 2009	3,758,700 ⁽²⁾	3,289,710
Public Improvement Series A Bonds	May 2010	867,007 ⁽³⁾	790,344
Taxable Build America Series B Bonds	May 2010	1,203,993 ⁽⁴⁾	1,203,993
Public Improvement Bonds	May 2012	5,696,900 ⁽⁵⁾	5,696,900
MWQFA ⁽⁶⁾ Loan	May 1993	10,222,550	153,077
MWQFA ⁽⁶⁾ Loan	Mar 2000	3,620,697	1,762,019
MWQFA ⁽⁶⁾ Loan	May 2004	10,750,000	3,425,000
MWQFA ⁽⁶⁾ Loan	May 2004	8,091,063	4,726,063
MWQFA ⁽⁶⁾ Loan	Oct 2006	560,000	430,268
		<u>\$ 55,788,348</u>	<u>\$ 27,427,446</u>

Source: Washington County Department of Budget and Finance

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

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

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

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

(5) Total issue amount for all County funds was \$17,765,000.

(6) Maryland Water Quality Financing Administration.

**Water and Sewer Bonded Debt
Schedule of Legal Debt Margin
As of June 30, 2012**

Assessed Value of Property in Washington County	\$13,282,950,000
Debt Limit: % of Assessed Value ⁽¹⁾	10%
Water and Sewer Borrowing Limitation	1,328,295,000
Water and Sewer Debt	27,427,446
Debt Margin	1,300,867,554
Ratio of Water and Sewer Debt to Assessed Value	.21%

Source: Washington County Department of Budget and Finance

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

Capital Lease Obligations and Other Contracts

The County has entered into several five-year capital lease agreements. The outstanding balance of these obligations as of June 30, 2012 was \$666,371. The lease agreements are primarily for heavy-duty equipment. The leases have been recorded as capital leases in the appropriate County funds in the financial statements.

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

Special Obligation Bonds

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

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

Bonded Indebtedness of Incorporated Municipalities

Eight of the nine incorporated municipalities of Washington County have outstanding indebtedness estimated to be \$86,291,177 as of June 30, 2012. The County is not obligated to pay such debt or the interest thereon and neither the faith and credit nor taxing power of the County is pledged to the payment of principal or interest on such indebtedness.

County Commissioners of Washington County Outstanding Underlying Debt As of June 30, 2012

Towns	Amount
Boonsboro.....	\$10,567,835
Clear Spring.....	905,840
Funkstown.....	1,506,844
Hagerstown.....	66,346,565
Hancock.....	1,955,326
Keedysville.....	1,922,200
Smithsburg.....	903,303
Williamsport.....	2,183,264
Total	\$86,291,177

Source: Washington County Department of Budget and Finance

Direct and Underlying Debt

The following schedules present the County's bonded debt outstanding as of June 30, 2012, and the ratios of such debt to the County's population and real and personal property assessed market values.

County Commissioners of Washington County
Direct and Overall Bonded Debt
As of June 30, 2012
(Excludes this Issue)

Direct Debt - Tax-Supported:	
General Government Debt (1).....	\$ 129,672,437
Direct Debt - Self-Supported:	
Solid Waste (2).....	23,617,899
Water and Sewer (2).....	27,427,446
Airport (2).....	1,721,660
Total Direct Debt.....	182,439,442
Underlying Debt.....	<u>86,291,177</u>
Overall Bonded Debt.....	<u><u>\$ 268,730,619</u></u>

Source: Washington County Department of Budget and Finance

(1) Includes Highway debt which is currently considered tax-supported.

(2) Solid Waste, Airport, and Water and Sewer debt are considered self-supporting.

County Commissioners of Washington County
Debt Per Capita and Ratio of Debt to Assessed Values
As of June 30, 2012
(Excludes this Issue)

Per Capita (Estimated Population 148,830):

Direct Tax-Supported Debt (1).....	\$ 871
Overall Bonded Debt.....	\$ 1,806

Percentage of Assessed Value of \$13,282,950,000:

Direct Tax-Supported Debt (1).....	0.98%
Overall Bonded Debt.....	2.02%

Source: Washington County Department of Budget and Finance

(1) Includes Highway debt which is currently considered tax-supported.

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

<u>Fiscal Year Ended June 30</u>	<u>Direct Tax- Supported Debt (000)</u>	<u>Estimated Population (000)</u>	<u>Assessed Value (000)</u>	<u>Per Capita</u>	<u>Direct Tax- Supported Debt as a Percentage of Assessed Value</u>
2012	\$129,672	149	\$13,282,950	\$871	0.98
2011	127,250	150	14,198,081	851	0.90
2010	125,143	148	14,860,571	847	0.84
2009	123,273	148	13,779,083	836	0.89
2008	119,888	146	11,931,522	821	1.00

Source: Washington County Department of Budget and Finance

Debt Service Requirements on County Debt

The following tables set forth the debt service requirements for the County's general obligation bonded debt as of June 30, 2012, adjusted to reflect issuance of the Bonds, and the rapidity of repayment for the County's direct tax-supported debt.

DEBT AND CAPITAL REQUIREMENTS

Washington County Schedule of Debt Service
Requirements on Long-term Obligations
As of June 30, 2012
Adjusted to Reflect Issuance of Bonds*

Year Ending June 30	Tax-Supported Debt Service**			Self-Supporting Debt Service**			Total Debt Service**		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 9,878,011	\$ 4,214,773	\$ 14,092,784	\$ 4,450,970	\$ 1,885,748	\$ 6,336,718	\$ 14,328,981	\$ 6,100,521	\$ 20,429,502
2014	10,020,624	3,572,722	13,593,346	4,562,985	1,962,767	6,525,752	14,583,609	5,535,489	20,119,098
2015	9,702,503	3,249,626	12,952,129	4,416,526	1,990,367	6,406,893	14,119,029	5,239,993	19,359,022
2016	8,670,164	2,908,588	11,578,752	3,523,765	2,457,821	5,981,586	12,193,929	5,366,409	17,560,338
2017	7,858,769	2,619,844	10,478,613	3,356,939	2,434,284	5,791,223	11,215,708	5,054,128	16,269,836
2018	7,067,811	2,357,175	9,424,986	3,840,389	2,417,031	6,257,420	10,908,200	4,774,206	15,682,406
2019	6,323,111	2,123,074	8,446,185	4,391,635	2,378,775	6,770,410	10,714,746	4,501,849	15,216,595
2020	6,346,744	1,906,496	8,253,240	3,886,701	2,334,654	6,221,355	10,233,445	4,241,150	14,474,595
2021	6,260,556	1,689,775	7,950,331	2,569,748	576,030	3,145,778	8,830,304	2,265,805	11,096,109
2022	5,293,831	1,492,471	6,786,302	2,671,786	516,348	3,188,134	7,965,617	2,008,819	9,974,436
2023	5,094,811	1,329,829	6,424,640	2,814,167	459,343	3,273,510	7,908,978	1,789,171	9,698,149
2024	4,992,632	1,166,035	6,158,667	1,603,294	399,124	2,002,418	6,595,926	1,565,159	8,161,085
2025	4,804,337	996,282	5,800,619	1,538,680	347,889	1,886,569	6,343,017	1,344,170	7,687,187
2026	4,976,397	832,676	5,809,073	1,493,506	296,723	1,790,229	6,469,903	1,129,399	7,599,302
2027	5,174,789	659,388	5,834,177	1,553,263	243,723	1,796,986	6,728,052	903,111	7,631,163
2028	5,080,100	476,423	5,556,523	1,579,898	187,602	1,767,500	6,659,998	664,025	7,324,023
2029	2,908,296	307,638	3,215,934	1,331,705	133,119	1,464,824	4,240,001	440,757	4,680,758
2030	2,209,944	200,885	2,410,829	995,056	84,796	1,079,852	3,205,000	285,681	3,490,681
2031	2,289,449	122,118	2,411,567	1,030,551	49,944	1,080,495	3,320,000	172,062	3,492,062
2032	1,538,513	54,631	1,593,144	591,486	22,051	613,537	2,129,999	76,682	2,206,681
2033	808,389	14,664	823,053	381,611	5,963	387,574	1,190,000	20,627	1,210,627
2034	-	-	-	-	-	-	-	-	-
	\$ 117,299,781	\$ 32,295,113	\$ 149,594,894	\$ 52,584,661	\$ 21,184,102	\$ 73,768,763	\$ 169,884,442	\$ 53,479,215	\$ 223,363,657

Source: Washington County Department of Budget and Finance

* Totals may not foot due to rounding.

** Reflects refunding of 2005 and 2006 Bonds.

DEBT AND CAPITAL REQUIREMENTS

Washington County Schedule of Debt Service
Requirements of Long-term Obligations
As of June 30, 2012
Adjusted to Reflect Issuance of the Bonds*

Year Ending June 30	Outstanding Debt Service**			2013 Bonds			Total Debt Service**		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 14,328,981	\$ 6,100,521	\$ 20,429,502	\$ -	\$ -	\$ -	\$ 14,328,981	\$ 6,100,521	\$ 20,429,502
2014	14,583,609	5,535,489	20,119,098	-	502,812	502,812	14,583,609	6,038,301	20,621,910
2015	14,119,029	5,239,993	19,359,022	445,000	800,050	1,245,050	14,564,029	6,040,043	20,604,072
2016	12,193,929	5,366,409	17,560,338	605,000	791,000	1,396,000	12,798,929	6,157,409	18,956,338
2017	11,215,708	5,054,128	16,269,836	1,375,000	776,450	2,151,450	12,590,708	5,830,578	18,421,286
2018	10,908,200	4,774,206	15,682,406	1,630,000	725,925	2,355,925	12,538,200	5,500,131	18,038,331
2019	10,714,746	4,501,849	15,216,595	1,700,000	662,850	2,362,850	12,414,746	5,164,699	17,579,445
2020	10,233,445	4,241,150	14,474,595	1,765,000	594,550	2,359,550	11,998,445	4,835,700	16,834,145
2021	8,830,304	2,265,805	11,096,109	1,850,000	523,550	2,373,550	10,680,304	2,789,355	13,469,659
2022	7,965,617	2,008,819	9,974,436	1,915,000	449,250	2,364,250	9,880,617	2,458,069	12,338,686
2023	7,908,978	1,789,171	9,698,149	2,000,000	372,350	2,372,350	9,908,978	2,161,521	12,070,499
2024	6,595,926	1,565,159	8,161,085	2,080,000	294,875	2,374,875	8,675,926	1,860,034	10,535,960
2025	6,343,017	1,344,170	7,687,187	2,130,000	247,200	2,377,200	8,473,017	1,591,370	10,064,387
2026	6,469,903	1,129,399	7,599,302	1,375,000	196,388	1,571,388	7,844,903	1,325,787	9,170,690
2027	6,728,052	903,111	7,631,163	635,000	160,575	795,575	7,363,052	1,063,686	8,426,738
2028	6,659,998	664,025	7,324,023	655,000	141,225	796,225	7,314,998	805,250	8,120,248
2029	4,240,001	440,757	4,680,758	675,000	121,275	796,275	4,915,001	562,032	5,477,033
2030	3,205,000	285,681	3,490,681	695,000	100,725	795,725	3,900,000	386,406	4,286,406
2031	3,320,000	172,062	3,492,062	720,000	79,500	799,500	4,040,000	251,562	4,291,562
2032	2,129,999	76,682	2,206,681	740,000	57,600	797,600	2,869,999	134,282	3,004,281
2033	1,190,000	20,627	1,210,627	765,000	35,025	800,025	1,955,000	55,652	2,010,652
2034	-	-	-	785,000	11,775	796,775	785,000	11,775	796,775
	\$ 169,884,442	\$ 53,479,215	\$ 223,363,657	\$ 24,540,000	\$ 7,644,950	\$ 32,184,950	\$ 194,424,442	\$ 61,124,165	\$ 255,548,607

Source: Washington County Department of Budget and Finance

* Totals may not foot due to rounding.

** Reflects refunding of 2005 and 2006 Bonds.

Rapidity of Direct Tax-Supported Debt Principal Payment
June 30, 2012

Number of Years	Before Issuance of Bonds		After Issuance of Bonds	
	Principal Amount	Percent	Principal Amount	Percent
5	\$ 47,645,449	36.74	\$ 50,131,448	35.42
10	84,819,368	65.41	90,531,443	63.97
15	114,837,746	88.56	122,358,495	86.46
20	128,864,048	99.38	139,932,256	98.88
25	129,672,437	100.00	141,515,265	100.00

Source: Washington County Department of Budget and Finance

Capital Requirements

Capital Improvement Program Summary

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

VI. Miscellaneous

Litigation

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

Ratings

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

Continuing Disclosure Undertaking

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

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

Sale at Competitive Bidding

Each series of the Bonds was offered by the County at competitive bidding on May 7, 2013, in accordance with the official Notice of Sale (a copy of which is attached as Appendix C). The interest rates shown on the inside cover page of this Official Statement are the interest rates resulting from the award of the Bonds of each series at the competitive bidding. The yields or prices shown on the inside cover page of this Official Statement for each series of the Bonds was furnished by the successful bidder for such series of the Bonds. All other information concerning the nature and terms of any re-offering should be obtained from the successful bidder for each series of the Bonds and not from the County.

Legal Matters

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

Independent Auditors

The financial statements as of June 30, 2012, and for the year then ended, included in this Official Statement, have been audited by SB & Company, LLC, independent auditors, as stated in their report appearing herein.

Financial Advisor

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

Verification of Mathematical Computations

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

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

COUNTY COMMISSIONERS OF
WASHINGTON COUNTY

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

Appendix A

General Purpose Financial Statements

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COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

For the Year Ended June 30, 2012

JUNE 30, 2012

CONTENTS

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

County Commissioners of Washington County
Hagerstown, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County Commissioners of Washington County, Maryland (the County), as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of Washington County. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit presentation of the Board of Education of Washington County, is based on the report of the other auditor.

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

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



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

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

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

Hunt Valley, MD
October 22, 2012

SB & Company, LLC

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

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

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

1) Government-wide Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 14-16 of this report.

2) Fund Financial Statements

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

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 17-20 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

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

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

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

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

4) *Supplementary Information*

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

In addition to this MD&A, required supplementary information can be found on page 82-96 of this report.

Financial Analysis on Government-Wide Financial Statements

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

Washington County, Maryland
Net Assets
(Government-Wide)

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

The largest portion of the County's net assets reflects its investments in capital assets (e.g., land, roads, and bridges); less related outstanding debt used to acquire those assets in the amount of \$576.8 million. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the County's net assets (\$31.9 million) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$3.9 million) may be used to meet the County's obligations to citizens and creditors.

Unrestricted net assets in governmental activities have been reduced by \$49.6 million in long-term debt, resulting in unrestricted net assets of \$17.2 million. This long-term debt was incurred by the County's general fund for the purpose of capital asset acquisition for the Board of Education of \$46.3 million and Hagerstown Community College of \$3.3 million. The capital assets acquired with these bonds are not reflected in the County's primary government financial statements.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY
Management's Discussion and Analysis

June 30, 2012

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

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

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY
Management's Discussion and Analysis

June 30, 2012

- ❑ Water Quality's net assets increased by \$2.8 million, for a total of \$121 million. The increase resulted from increases in user rates designed to provide resources to meet operational costs, projected debt service, capital requirements, elimination of general fund subsidies and to provide for stable reserves.
- ❑ Solid Waste's total net assets decreased by \$.9 million for a total of \$13.3 million, mainly related to depreciation expense of \$2.7 million. The 40 West landfill site was re-designed which increased the life of the landfill by 62 years generating an additional 4 million cubic yards of available air space. This change in accounting estimate had no effect on the total estimated closure and post closure cost which are in compliance with State financial assurance requirements as of June 30, 2012.
- ❑ Airport's total net assets are \$78.2 million as of June 30, 2012, representing a \$3.4 million decrease. The net decrease is mainly the result of increased depreciation related to the runway acquisition of which a majority was funded with federal and state grants

Financial Analysis on Government Fund Financial Statements

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

Governmental Funds:

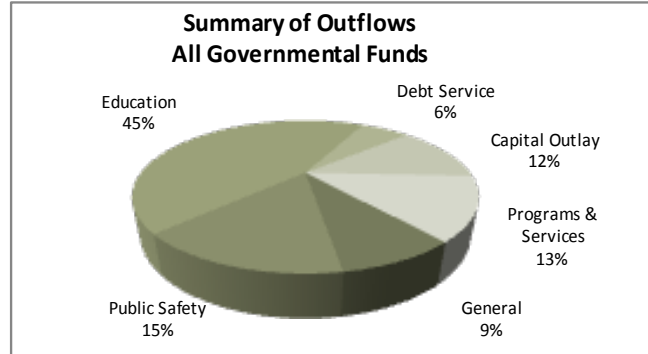
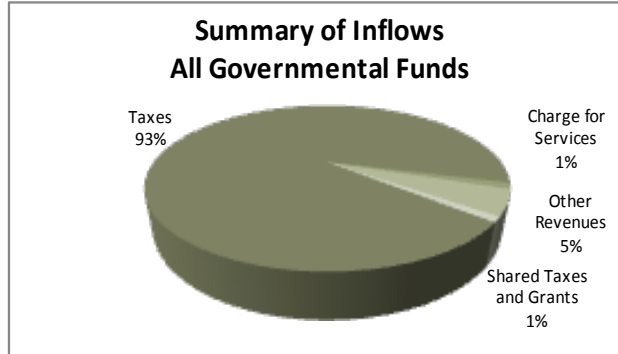
The focus of the County's governmental funds is to provide information on near term inflows, outflow, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources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

As of the end of the current fiscal year, the County's governmental funds reported combined fund balances of \$112.3 million, an increase of \$.9 million in comparison with the prior year. Approximately \$36.3 million of this amount is designated for the general fund cash reserve and \$74.5 million is restricted or committed for construction projects and designated programs. The remaining amount is appropriated for other program services and assigned costs. In the combined governmental activities the County maintains eleven separate funds. Shown below are fund balances and net changes in fund balance for each.

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

Governmental Activities – Fund Statements	Fund Balance			Net Change in Fund Balance		
	2012	2011	% Change	2012	2011	% Change
<i>General Fund</i>	\$ 38,632,885	\$ 37,572,914	3%	\$ 1,059,971	\$ 1,418,906	-25%
<i>Capital Improvement Fund</i>	71,995,786	71,824,732	0%	171,054	(13,755,096)	-101%
<i>Local Management Board</i>	164,159	408,076	-60%	(243,917)	(61,735)	295%
<i>Inmate Welfare Fund</i>	95,546	446,213	-79%	(350,667)	3,692	-9598%
<i>Contraband Fund</i>	282,121	45,619	518%	236,502	(3,265)	-7344%
<i>Agricultural Education Fund</i>	67,773	120,131	-44%	(52,358)	(53,959)	-3%
<i>Hotel Rental Tax Fund</i>	826,103	562,998	47%	263,105	200,485	31%
<i>Gaming Fund</i>	5,725	(1,931)	-396%	7,656	(21,721)	-135%
<i>Land Preservation Fund</i>	256,418	397,632	-36%	(141,214)	78,344	-280%
<i>HEPMPO</i>	(18,145)	(749)	2323%	(17,396)	(749)	2223%
<i>Foreign Trade Zone Fund</i>	-	-	0%	-	308	-100%
Total	\$ 112,308,371	\$ 111,375,635	1%	\$ 932,736	\$ (12,195,098)	-108%

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



- The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year total fund balance reached \$38.6 million. As a measure of the General Fund's liquidity, it may be useful to compare both committed fund balance and total fund balance to total fund expenditures. Committed fund balance represents \$36.3 million that is for cash reserve while \$.6 million is reserved for specific program funds.

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

Major Revenue Factors:

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

Major Expenditure Factors:

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

- Remaining cost centers accounted for \$1.4 million in savings that resulted from position turnovers, utility savings due to mild winter, and the housing unit that has a delayed opening due to construction delays.
- The **Capital Project Fund** is used to account for major capital acquisition and construction of County operations. At the end of the current fiscal year the Capital Project Fund has a total fund balance of \$72 million all of which is designated for capital related projects. Major funding sources for projects are pay-go-funding, debt proceeds, fees and taxes, and grants. Fund balance increased by \$.2 million for the current fiscal year. The change in fund balance is the result of timing differences in projects with funding proceeds and project expenditures.
- The County's **Community Partnership, Inmate Welfare, Contraband, Agricultural Education, Foreign Trade Zone, Hotel Rental Tax, Gaming, HEPMPO, and Land Preservation Funds** combined have a fund balance of \$1.7 million. The net decrease in fund balance during the current year was \$.3 million. These funds represent monies designated for specific programs and services.

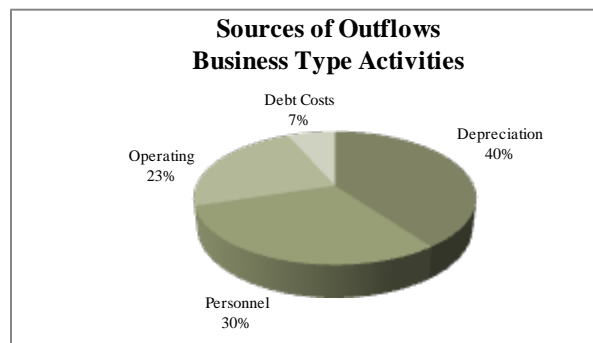
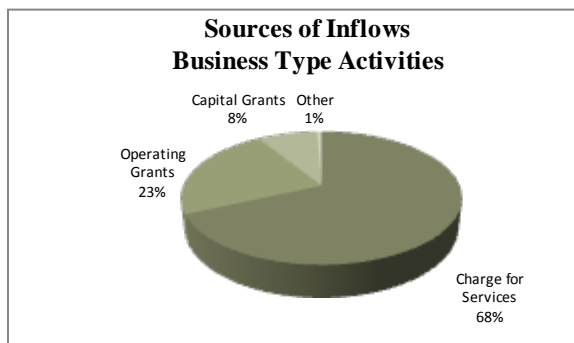
Proprietary Funds:

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

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

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

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



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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY
Management's Discussion and Analysis

June 30, 2012

General Fund Budgetary Analysis – Government Fund Financial Statement Basis

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

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

Original Budget vs. Final Budget:

The net budgetary change of \$3.0 million resulted mainly from grant transactions. Increases in grants reflected as revenue were received or expended during the fiscal year from additional state or federal grants of \$3.0 million.

Final Budget vs. Actual Results:

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

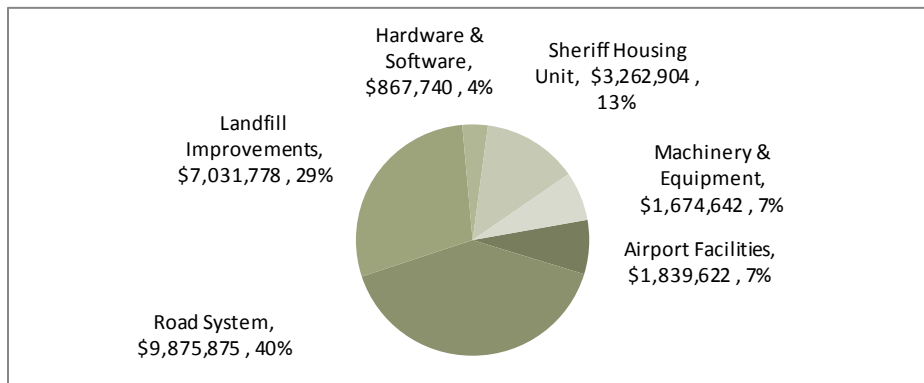
Capital Asset Administration – Government Wide Statements

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$656 million (net of depreciation). This investment in capital assets includes land, buildings, bridges, roads, equipment, and operational facilities.

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

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

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



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

Debt Administration

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

Washington County, Maryland
Outstanding Debt
(Government – Wide)

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

The County's credit ratings for fiscal year 2012 are as follows: 1) Standard and Poor's rated AA, 2) Fitch rated AA, and 3) Moody's Investors Service rated Aa2. All rated with stable outlook.

Under the Code of Public Local Law, the amount of general obligation debt the County may issue associated with water quality debt is limited to 10 percent of its total assessed valuation of all real estate in the County that is subject to taxation. The current estimated debt limitation for water quality is \$1.4 billion, which is significantly in excess of the County's current water quality general obligation debt.

Additional information on the County's long-term debt can be found in note 8 on pages 52-57 of this report.

Economic Factors and Fiscal Year 2013

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

Requests for Information

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Net Assets As of June 30, 2012

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Activities For the Year Ended June 30, 2012

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

General revenue:

Taxes

Property taxes

Income taxes

Income on investments

Reimbursed expenses

Miscellaneous

Special items- gain (loss) on disposal

Transfers

TOTAL GENERAL REVENUE

Change in Net Assets

Net Assets- beginning of year

Net Assets- end of year

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Activities

For the Year Ended June 30, 2012

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Balance Sheet – Governmental Funds As of June 30, 2012

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Assets As of June 30, 2012

Fund balance of governmental funds	\$ 112,308,371
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Amounts reported for governmental activities in the statement of net assets are different because:

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

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

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

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

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

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

Net assets of governmental activities	<u>\$ 393,414,537</u>
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COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For Year Ended June 30, 2012

Net changes in fund balances in governmental funds	\$	932,736
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Amounts reported for governmental activities in the statement of activities are different because:

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

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

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

(181,537)

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

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

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

(951,616)

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

(2,468,479)

Change in Net Assets of Governmental Activities	\$	<u><u>(17,704,275)</u></u>
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COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Cash Flows – Proprietary Funds For Year Ended June 30, 2012

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The primary government is the County Commissioners of Washington County, referred to herein as the County or the County Commissioners. The County is governed by an elected five-member board.

The accompanying financial statements are presented as of June 30, 2012 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the *GASB's Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

Reporting Entity

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued)

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

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

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

Government-Wide and Fund Financial Statements

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

The government reports the following major governmental funds:

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fiduciary funds:

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Use of Estimates in the Preparation of Financial Statements

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

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

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

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

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

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

Long-Term Obligations

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Obligations (continued)

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

Investments

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

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

Inventories

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

Employee Benefit Programs

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefit Programs (continued)

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

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

Taxes and County Services

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

Real Estate and Personal Property Taxes

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Real Estate and Personal Property Taxes (continued)

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

Rate of County Taxes:

Income tax	2.8% of Maryland taxable income (2011 and 2012 calendar years)
Recordation tax	\$3.80 per \$500
Trailer park	15% of gross rentals
Property taxes	\$0.948 per \$100 of assessable base

Cash Flows

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

Concentrations of Credit Risk

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

Unrestricted Net Assets

Governmental activities unrestricted net assets have been reduced by \$49.6 million in long-term debt, resulting in unrestricted net assets of \$18.3 million. This long-term debt was incurred by the County's General Fund for the purpose of capital asset acquisition for the Board of Education of \$46.3 million and Hagerstown Community College of \$3.3 million. The capital assets acquired with these bonds are not reflected in the primary government financial statements.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets and Fund Equity

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

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

Financial Capacity and Analysis Phase

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Financial Capacity and Analysis Phase (continued)

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

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

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

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

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

Budget Development Start

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Budget Development Phase

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

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

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

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

Review and Modification Phase

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Adoption Phase

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

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

Start Up

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

Balanced Budget

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

Costing of Services

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Amendment to the Budget

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

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

3. CASH AND SHORT-TERM INVESTMENTS

County

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

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

Deposits

As of June 30, 2012, the carrying amount of the County's deposits was \$31,964,019 and the bank balances were \$33,715,581. All deposits are carried at cost plus accrued interest. There were no significant violations of the collateralization requirements during the year ended June 30, 2012. The County's deposit policy specifies that all deposits must be entirely covered by Federal depository insurance, deposit surety bond, or by collateral in the form of pledged securities, according to state statute. In order to anticipate market changes and provide a level of security for all funds, the collateralization level is required to be at least 102% of market value of principal and accrued interest.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk. As of June 30, 2012, the County's bank balance of \$33,715,581 was not exposed to custodial credit risk as \$250,000 of interest bearing accounts and \$250,000 of noninterest bearing accounts are insured by FDIC and \$60,000,000 is insured by a deposit surety bond issued by Harford Fire Insurance Company.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments

As of June 30, 2012, the County had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Investments held in County's name:					
U.S. government obligations, municipal and corporate bonds	\$ 135,785,411	\$ 115,780,311	\$ 20,005,100	\$ -	\$ -
Certificates of Deposit	400,000	-	400,000	-	-
Total investments held in County's name	136,185,411	115,780,311	20,405,100	-	-
Investments held by trustee of					
Pension plan:					
U.S. government obligations, municipal and corporate bonds	16,179,472	2,798,419	1,543,370	4,121,935	7,715,748
Fixed income securities	2,204,601	2,204,601	-	-	-
Corporate stocks	21,428,878	21,428,878	-	-	-
Equity funds	21,210,844	21,210,844	-	-	-
Money market funds	1,878,605	1,878,605	-	-	-
Interest and dividends receivable	139,918	139,918	-	-	-
Total Investments held by trustee of pension plan	63,042,318	49,661,265	1,543,370	4,121,935	7,715,748
Investments held by trustee of					
LOSAP plan:					
U.S. government obligations and corporate bonds	1,410,059	251,362	176,010	342,867	639,820
Corporate stocks	1,815,548	1,815,548	-	-	-
Fixed income funds	251,870	251,870	-	-	-
Equity funds	1,851,246	1,851,246	-	-	-
Money market funds	97,146	97,146	-	-	-
Interest and dividends receivable	12,658	12,658	-	-	-
Total Investments held by trustee of LOSAP plan	5,438,527	4,279,830	176,010	342,867	639,820
Investments held by trustee of					
OPEB plan:					
U.S. government obligations and corporate bonds	2,444,867	407,087	351,911	457,170	1,228,699
Corporate stocks	2,471,510	2,471,510	-	-	-
Equity funds	3,780,418	3,780,418	-	-	-
Money market funds	375,780	375,780	-	-	-
Interest and dividends receivable	25,116	25,116	-	-	-
Total Investments held by trustee of OPEB plan	9,097,691	7,059,911	351,911	457,170	1,228,699
Total investments	\$ 213,763,947	\$ 176,781,317	\$ 22,476,391	\$ 4,921,972	\$ 9,584,267

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments (continued)

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

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

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

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

Credit Risk: It is the County's investment policy to only invest in U.S. Government Treasury obligations, agencies and sponsored instrumentalities. Also the County's investment policy allows for investments in banks located in the State of Maryland (Certificates of Deposit) with the exception of Bankers Acceptances. Commercial banks must have a short-term rating of at least investment grade from the appropriate bank rating agencies. Bankers' Acceptances from domestic banks, which also include United States affiliates of large international banks, must have a rating of A1 from Standards and Poor's Corporation and P1 from Moody's Investor Services. As of June 30, 2012, the County's investments were 100% in U.S. Treasury and Agency obligations and certificates of deposit.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments (continued)

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

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, 2012, none of the County's investments are exposed to custodial credit risk because they are held in the County's name.

Board of Education

Cash:

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education (continued)

Compliance is summarized as follows:

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

Investments:

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education (continued)

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

4. RECEIVABLES

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

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

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

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of the end of the current fiscal year deferred revenue for delinquent property taxes receivable reported in the General Fund was \$275,335. Receivables do not include various taxes collected by the State of Maryland on behalf of the County, including income taxes. These amounts are included in Due From Other Governmental Agencies.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

5. CAPITAL ASSETS

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

Primary Government

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

5. CAPITAL ASSETS (continued)

Business-type Activities

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

5. CAPITAL ASSETS (continued)

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

Governmental Activities:

General Government	\$ 20,284,909
Public Safety	4,091,051
Recreation	373,604
Conservation of Natural Resources	5,556
Highway	512,968
Total Depreciation Expense - Governmental Activities	\$ 25,268,088

Business-Type Activities:

Transit Fund	\$ 570,788
Airport Fund	6,335,325
Golf Course Fund	74,849
Water Quality Fund	2,877,340
Solid Waste Fund	2,714,362
Total Depreciation Expense – Business-Type Activities	\$ 12,572,664

Board of Education (Discretely presented component unit)

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

5. CAPITAL ASSETS (continued)

Board of Education (continued)

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

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

6. INTERFUND RECEIVABLES AND PAYABLES

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

6. INTERFUND RECEIVABLES AND PAYABLES (continued)

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

Due to/from primary government and component unit:

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

7. INTERFUND TRANSACTIONS

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

8. LONG-TERM AND CAPITAL LEASE OBLIGATIONS

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. During the year, general obligation bonds totaling \$17,765,000 were issued for new projects and \$7,740,000 were issued to refund bonds and loans outstanding. General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as 20-year serial bonds with different amounts of principal maturing each year. General obligation bonds and capital lease obligations currently outstanding are as follows:

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

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

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

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

The County Commissioners have received bonding authority from the State Legislature to issue public facilities bonds for the purpose of financing various capital projects. As of June 30, 2012, the unused authorization was \$26,672,722.

Conduit Debt

From time to time, the County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received in the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. In accordance with governmental accounting standards, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2012, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$58,464,744.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

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

Agricultural Land Preservation Installments

The County has entered into installment contracts to purchase easements for agricultural land preservation purposes. Under the terms of the installment contracts, the County pays the property owner annual interest and principal payments over the ten year term of the contract. The primary source of revenue for repayment of the indebtedness is a portion of the transfer tax on all transfers of real property in the County. The annual requirements to amortize agricultural preservation installments outstanding as of June 30, 2012, are as follows:

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

For the year ended June 30, 2012, total principal and interest incurred related to agricultural land preservation installments was \$517,736 and \$77,062, respectively.

Capital Leases

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

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

Capital Leases (continued)

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

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

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

	<u>Capitalized Amount</u>	<u>Accumulated Depreciation</u>	<u>NBV June 30, 2012</u>
General Fund	\$ 1,281,325	\$ 32,451	\$ 1,248,874
Solid Waste	314,975	98,873	216,102
	<u>\$ 1,596,300</u>	<u>\$ 131,324</u>	<u>\$ 1,464,976</u>

Board of Education

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 780,120	\$ 417,638	\$ 1,197,758
2014	628,493	361,160	989,653
2015	648,159	312,229	960,388
2016	372,666	260,802	633,468
2017	389,818	243,650	633,468
2018-2022	2,235,320	932,022	3,167,342
2023-2027	2,799,327	368,015	3,167,342
2028	157,185	1,182	158,367
	<u>\$ 8,011,088</u>	<u>\$ 2,896,698</u>	<u>\$ 10,907,786</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

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

Advance Refunding

In prior years, the County has partially defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for certain future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the partially defeased bonds are not included in the County's financial statements. As of June 30, 2012, \$14,450,000 of long-term obligations outstanding are considered defeased.

9. OPERATING LEASE AGREEMENTS

County

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

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

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

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

During year ending June 30, 2012, rental income for the above leases of \$770,701 was recognized in the Airport Fund.

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

The term of the lease runs for a period of ninety-nine years with fixed monthly rent payments of \$28,800. During the year ended June 30, 2012, outsourcing revenue of \$345,600 was recognized in the Water Quality Fund.

Black Rock Golf Course had a lease agreement for golf carts which expired in December 2011. On January 19, 2012, Black Rock Golf Course entered into a new lease for golf carts. The agreement called for lease payments of \$8,077 payable from April through November of each year. The lease term is for six years commencing on March 1, 2012. Total lease payments for the year ended June 30, 2012, were \$60,155.

10. UNUSED VACATION AND SICK LEAVE

County

The County accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30 2012, and is capped at 25 days. The accrual of sick leave is based on payment upon retirement at a rate of \$10 per day for each unused sick leave day up to a total of 130 days. Total unpaid vacation and sick leave accrued at June 30, 2012, was \$2,347,663 and \$569,734, respectively. Unused vacation and sick leave will be liquidated by the respective government and enterprise funds where the current employee costs are recorded.

Board of Education

The School System accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30. The accrual of sick leave is based on payment upon retirement at rates set forth in the various negotiated agreements. Sick leave is estimated to be earned once an employee has obtained 25 years of service or 55 years of age. Total unpaid vacation and sick leave accrued as of June 30, 2012, was \$6,460,986. Total employee related costs associated and accrued with these compensated absences amounted to \$459,141 as of June 30, 2012. For governmental funds, \$795,234 as of June 30, 2012, is considered payable with current sources and is included in accrued liabilities. The remaining amounts are estimated to be used in subsequent fiscal years and are maintained separately and represent a reconciling item between the fund and government-wide financial statement presentations.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

11. RETIREMENT PLANS

County Defined Benefit Pension Plan

Plan Description

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

Funding Policy

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

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

Membership of the Plan

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

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

Annual Pension Cost and Net Pension Obligation

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

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

The annual required contribution for the current year was determined as part of the July 1, 2011, actuarial valuation using the projected unit credit cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), and (b) projected salary increases of 2.0% through 2012 and 4.0% per year thereafter. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined by the market value of investments. The unfunded actuarial accrued liability is being amortized at a level dollar over 25 years. The effect of an unfunded actuarial accrued liability (funding excess) is amortized immediately.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

11. RETIREMENT PLANS (continued)

Trend Information

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

Board of Education

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

11. RETIREMENT PLANS (continued)

Board of Education (continued)

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

11. RETIREMENT PLANS (continued)

Board of Education (continued)

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

Fiscal Year Ending June 30,	Total Annual Pension Cost (APC)	APC Contributed by School System	APC Contributed by State	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 21,374,608	\$ 1,999,671	\$ 19,374,937	100%	-
2011	20,537,456	1,978,382	18,559,074	100%	-
2010	17,946,215	1,365,507	16,580,780	100%	-
2009	14,644,559	1,203,511	13,441,048	100%	-
2008	13,777,983	1,268,670	12,509,313	100%	-

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

12. RISK MANAGEMENT

County

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

12. RISK MANAGEMENT (continued)

County (continued)

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

The liability for estimated claims was determined to be \$988,731 which is reflected in the accompanying financial statements as of June 30, 2012. Changes in the claims liability were as follows:

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

The County uses a third party administrator to process and pay claims. The County has purchased a stop-loss insurance policy in which the insurance company covers individual claims once they exceed \$175,000. Under this policy, the County was liable for the first 125% of expected claims paid in the current fiscal year. Any claims in excess of this amount are to be paid by the insurance company under the stop-loss policy.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

12. RISK MANAGEMENT (continued)

County (continued)

The County Commissioners have also established a self-insurance plan for Workers' Compensation claims whereby the County is liable for the first \$500,000 per occurrence. As required by the State of Maryland, \$175,000 in U.S. Treasury Notes is held by the State Workers' Compensation Commission and is included in investments on the balance sheet. The County extends coverage under this plan to the employees of other governmental and nonprofit agencies. These agencies are charged a "premium", however the County bears the risk of loss. The liability for estimated claims was determined to be \$1,231,494, which is reflected in the accompanying financial statements as of June 30, 2012. Changes in the claims liability were as follows:

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

Board of Education

The School System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disaster. The School System is one of seventeen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Group Insurance Pool (the Pool), a public entity risk pool organized as a trust. The School System pays an annual premium to the Pool for its property, liability, and automobile coverage. Such premiums are actuarially calculated for the Pool as a whole based on loss data and are allocated to members based on student enrollment and number and type of vehicles as well as experience modification factors. The Pool is reinsured on a claims-made basis for legal liability covering claims aggregating \$3 million per district per year.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

12. RISK MANAGEMENT (continued)

Board of Education (continued)

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

12. RISK MANAGEMENT (continued)

Board of Education (continued)

In accordance with the Governmental Accounting Standards Board's Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," charges to other funds must be accounted for as revenue by an internal service fund and expenditures/expenses by the other funds. The amounts of these charges were \$29,864,325 and \$26,953,572 for the years ended June 30, 2012 and 2011, respectively.

The Self-Insurance Fund's accrued liabilities include an estimate of the amount to be paid for self-insured claims incurred prior to June 30, 2012 and 2011. This estimate is prepared based upon the School System's experience and other relevant facts. Changes in the Fund's claims liability amount were as follows:

	Years Ended June 30,	
	2012	2011
Liability, beginning of year	\$ 1,968,033	\$ 2,043,031
Claims and changes in estimates during the year	32,782,786	31,250,926
Claims paid and accrued	(32,575,817)	(31,325,924)
Liability, end of year	<u>\$ 2,175,002</u>	<u>\$ 1,968,033</u>

13. DEFERRED COMPENSATION PLAN

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

14. SEGMENT INFORMATION

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

14. SEGMENT INFORMATION (continued)

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

15. CLOSURE AND POST-CLOSURE CARE COST

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

The Hancock Landfill was closed in 1993. The remaining estimated costs associated with the closure and post-closure care costs of \$190,343 are reported as a liability in the Solid Waste Fund. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2012.

The Resh Landfill has reported a landfill post-closure care liability of \$5,797,371 in the Solid Waste Fund. The total capacity has been used. The Resh Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2012.

The Rubble Landfill began operating during August 1995. The estimated cost associated with post-closure care of \$2,202,400 is reported as a liability in the Solid Waste Fund at June 30, 2012. The Rubble Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2012.

The 40 West Landfill began operation in fiscal year 2001. The estimated life of this landfill is approximately 120 years as of June 30, 2012, it is estimated that approximately 14.6% of the capacity has been used. The estimated costs associated with closure and post-closure care of \$6,873,488 was reported as a liability in the Solid Waste Fund at June 30, 2012. The County will recognize \$47,055,727 of estimated cost associated with the closure and post-closure care as capacity is filled. During the fiscal year 2012 engineering re-designed the cells at 40 West Landfill. This change in estimate increased the airspace by 4 million cubic yards along with the life of the landfill by 62 years. This change in accounting estimate has no effect on the total estimated cost but will extend the landfill life from 58 years to 120 years.

The above estimates are based on estimated current costs to perform all closure and post-closure care. Actual costs may be higher due to inflation, deflation, changes in technology, or changes in applicable laws or regulations. The County is required by state and federal laws and regulations to meet certain closure and post-closure financial assurance requirements. The County has satisfied these requirements by demonstrating in information submitted by the Director of Finance that they meet the Local Government Financial Test as of June 30, 2012, as specified in 40CFR258.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (OPEB)

County

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

County (continued)

Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,303,670
Interest on Net OPEB Obligation	(17,506)
Adjustment to Annual Required Contribution	13,751
Annual OPEB Cost (Expense)	1,299,915
Contributions Made or Accrued	1,889,809
Increase in Net Obligation	(589,894)
Net OPEB Asset (BOY)	(225,885)
Net OPEB Asset (EOY)	\$ (815,779)

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:

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

County (continued)

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

In the June 30, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 12% initially, reduced by decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar charge on an open basis. The remaining amortization period as of July 1, 2012, was 26 years.

Board of Education

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

Board of Education (continued)

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2012

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

Board of Education (continued)

Funded Status and Funding Progress

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

The funded status of the plan as of June 30, 2012, was as follows:

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

Actuarial Methods and Assumptions

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

17. CONTINGENCIES AND COMMITMENTS

County

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

The County Commissioners and the Sheriff of Washington County are defendants in various legal proceedings as of June 30, 2012. There are also certain unasserted claims that could possibly be asserted. The Commissioners intend to defend all litigations against them. In the Commissioners' opinion, the liability, if any, in or arising from these litigations or any other legal proceedings in which the County is involved, will not have a material adverse effect on its financial condition.

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

Board of Education

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

As of June 30, 2012, the School System had entered into various school construction commitments, which are not reflected in the financial statements since they will be funded by the State of Maryland or County sources, totaling approximately \$2,707,959.

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

17. CONTINGENCIES AND COMMITMENTS (continued)

Board of Education (continued)

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

18. COMMITTED AND ASSIGNED FUND BALANCES

Fund balances reflected in the governmental funds balance sheet as of June 30, 2012 are categorized as follows:

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2012

19. RETIREMENT PLAN - FIRE AND RESCUE VOLUNTEERS

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

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

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

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

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

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Funding Progress June 30, 2012

Pension Trust

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

Length of Service Award Program (LOSAP) Trust

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

Other Postemployment Benefit (OPEB) Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$ -	\$ 14,950,000	\$ 14,950,000	0.00%	\$ 29,299,129	51.03%
7/1/2008	1,211,350	16,549,200	15,337,850	7.32%	31,652,038	48.46%
7/1/2009	1,501,721	18,333,616	16,831,895	8.19%	33,576,069	50.13%
7/1/2012	9,122,297	18,526,736	9,404,439	49.24%	34,479,726	27.28%

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statements of Financial Schedules June 30, 2012

Non-Major Governmental Funds

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

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

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

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statements of Financial Schedules June 30, 2012

Non-Major Proprietary Funds

The Public Transit Fund accounts for the activities of the public bus transportation system.

The Golf Course Fund accounts for activities at the Black Rock Golf Course including an 18 hole golf course, a full service pro shop, and a public restaurant.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Balance Sheet – Non-Major Governmental Funds As of June 30, 2012

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds For the Year Ended June 30, 2012

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statement of Revenue, Expenses and Changes in Fund Net Assets – Non-Major Proprietary Funds For the Year Ended June 30, 2012

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

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

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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, 2012

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual General Fund For the Year Ended June 30, 2012

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual General Fund For the Year Ended June 30, 2012

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual General Fund For the Year Ended June 30, 2012

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

OTHER SCHEDULES

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

REVENUE

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

TOTAL REVENUE

1,205,343

EXPENDITURES

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

Programs:

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

Non-Community Partnership Agreement (CPA)

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

Programs:

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

TOTAL EXPENDITURES

1,205,343

EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES

\$ -

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

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

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

PROPOSED FORM OF OPINION REGARDING THE PUBLIC IMPROVEMENT BONDS

[Date of Issuance]

County Commissioners of Washington County
Hagerstown, Maryland

Dear County Commissioners:

We have acted as Bond Counsel to County Commissioners of Washington County (the “Issuer”) in connection with the issuance of its \$12,000,000 County Commissioners of Washington County Public Improvement Bonds of 2013 (the “Bonds”), dated the date hereof. All capitalized terms not defined herein shall have the meanings set forth in the Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

Very truly yours,

PROPOSED FORM OF OPINION REGARDING THE REFUNDING BONDS

[Date of Issuance]

County Commissioners of Washington County
Hagerstown, Maryland

Dear County Commissioners:

We have acted as Bond Counsel to County Commissioners of Washington County (the “Issuer”) in connection with the issuance of its \$12,540,000 County Commissioners of Washington County Refunding Bonds of 2013 (the “Refunding Bonds”), dated the date hereof. All capitalized terms not defined herein shall have the meanings set forth in the Refunding Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

Very truly yours,

NOTICE OF SALE

WASHINGTON COUNTY, MARYLAND
(County Commissioners of Washington County)

\$12,000,000* PUBLIC IMPROVEMENT BONDS OF 2013

\$12,980,000* REFUNDING BONDS OF 2013

**(Full Faith and Credit Obligations of the
County Commissioners of Washington County)**

Dated Date of Delivery

DTC Book-Entry

Overview and Amortization

Electronic proposals will be received via **Parity®** on behalf of the Board of County Commissioners of Washington County (the “Board”) by the Director of the Office of Budget and Finance of Washington County, Maryland (the “Finance Director”), at the County Commissioners’ Meeting Room (Room 227), 100 West Washington Street, Hagerstown, Maryland 21740 until 11:00 a.m. Prevailing Eastern Time on Tuesday, May 7, 2013 (the “Bid Date”, unless postponed as described in this Notice of Sale) for the purchase of all (but not less than all) of the Public Improvement Bonds of 2013 (the “Public Improvement Bonds”) and until 11:15 a.m. Prevailing Eastern Time for the purchase of all (but not less than all) of the Refunding Bonds of 2013 (the “Refunding Bonds”) (collectively, the Public Improvement Bonds and the Refunding Bonds are herein sometimes referred to as the “Bonds”) of County Commissioners of Washington County (the “County”), all dated their date of delivery, and all bearing interest payable on January 1, 2014, and semiannually thereafter on July 1 and January 1 until maturity or earlier redemption, as applicable. The Public Improvement Bonds are issued under the provisions of Chapter 392 of the Laws of Maryland of 2007 (“Chapter 392”). The Refunding Bonds are issued under the provisions of Chapter 110 of the Laws of Maryland of 1999, as amended (“Chapter 110”), Chapter 205 of the Laws of Maryland of 2004 (“Chapter 205”) and Section 24 of Article 31 of the Annotated Code of Maryland, as amended, as applicable. Both series of the Bonds are issued in accordance with a Resolution adopted by the Board on April 23, 2013, as supplemented.

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

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

*Preliminary; subject to change

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

Pulic Improvement Bonds of 2013

<u>Maturing July 1 *</u>	<u>Principal Amount*</u>	<u>Maturing July 1 *</u>	<u>Principal Amount</u>
2014	\$445,000	2024	\$ 600,000
2015	460,000	2025	620,000
2016	470,000	2026	635,000
2017	485,000	2027	655,000
2018	500,000	2028	675,000
2019	515,000	2029	695,000
2020	535,000	2030	720,000
2021	550,000	2031	740,000
2022	565,000	2032	765,000
2023	585,000	2033	785,000

*Preliminary; subject to change

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

Refunding Bonds of 2013

<u>Maturing January 1 *</u>	<u>Principal Amount*</u>	<u>Maturing January 1 *</u>	<u>Principal Amount</u>
2014	\$ 25,000	2021	\$ 1,340,000
2015	25,000	2022	1,395,000
2016	265,000	2023	1,465,000
2017	1,035,000	2024	1,495,000
2018	1,150,000	2025	1,540,000
2019	1,215,000	2026	755,000
2020	1,275,000		

*Preliminary; subject to change

Adjustments to Principal Amounts

Pre-sale, the County reserves the right to change the PIB Preliminary Amounts and/or the Refunding Preliminary Amounts from time to time up until 9:30 a.m. Prevailing Eastern Time on the Bid Date, by changing the aggregate principal amount of the applicable series of the Bonds and/or the principal amount of one or more of the maturities of the applicable series of the Bonds, including (without limitation), with respect to the Refunding Bonds, because the County has determined that sufficient cost savings will not be achieved by refunding any portion of the outstanding 2005 Bonds or 2006 Bonds identified under “Purpose of Issue” below. Should a revision to the aggregate principal amount of the Public Improvement Bonds and the principal amortization schedule for the Public Improvement Bonds be made (the “PIB Revised Amounts”) and/or should a revision to the aggregate principal

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

After selecting the winning proposal for the Refunding Bonds, the maturity schedule of the Refunding Bonds may be adjusted as necessary in the determination of the County's financial advisor in increments of \$5,000 in order to best achieve the County's goal of maximizing debt service savings with respect to any refunding of the 2005 Bonds and/or the 2006 Bonds. Such adjustments will not change the aggregate principal amount of the Refunding Bonds from the Refunding Revised Amounts by more than 10%. The dollar amount bid for the principal of the Refunding Bonds by the successful bidder will be adjusted proportionately to reflect any reduction or increase in the aggregate principal amount of the Refunding Bonds, but the coupon rates specified by the successful bidder for all maturities of the Refunding Bonds will not change; however, the adjustment may result in the elimination of one or more maturities of the Refunding Bonds. Any such maturity schedule adjustments will be communicated to the successful bidder for the Refunding Bonds within six hours of the opening of the bids therefor. The successful bidder for the Refunding Bonds may not withdraw its bid or change the interest rates bid or initial reoffering prices as a result of any changes made to the principal amount of the Refunding Bonds within these limits.

Serial Bonds and/or Term Bonds

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

Purpose of Issue

The Public Improvement Bonds are to be issued to provide a portion of the financing for infrastructure projects, public facilities projects, educational projects and public safety projects. The Refunding Bonds are to be issued to provide funds to advance refund all or a portion of certain outstanding maturities of the County's Public Improvement and Refunding Bonds of 2005, dated June 1, 2005 (the "2005 Bonds") and/or the County's Public Improvement Bonds of 2006, dated March 1, 2006 (the "2006 Bonds").

Bid Specifications

Bidders may submit a bid for the Public Improvement Bonds and/or the Refunding Bonds, provided that, a separate bid shall be submitted for each series of the Bonds if a bidder determines to bid for both series. Each proposal for a series of the Bonds must be submitted electronically as described below. No bid of less than 100% of the aggregate principal amount of a series of the Bonds, no bid of greater than 110% of the aggregate principal amount of the Refunding Bonds, no oral or written bid, and no bid for less than all of a series of the Bonds described in this Notice of Sale will be considered by the Board.

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

Each bidder shall submit one proposal on an “all or none” basis for a series of the Bonds. Each proposal must specify the amount bid for such series of the Bonds (not less than 100% of the aggregate principal amount of such series of the Bonds and, for the Refunding Bonds, not greater than 110% of the aggregate principal amount of the Refunding Bonds) and must specify in multiples of one-eighth ($\frac{1}{8}$) or one-twentieth ($\frac{1}{20}$) of one percent (1%) the rate or rates of interest per annum which such series of the Bonds are to bear but shall not specify (a) more than one interest rate for any Bonds of the same series having the same maturity, (b) a zero rate of interest, (c) any interest rate for any Bonds which exceeds the interest rate stated in such proposal for any other Bonds in such series by more than three percent (3%), or (d) for maturities 2024 through 2033, inclusive, of the Public Improvement Bonds, no interest rate may be bid that is lower than the interest rate in the immediately preceding year (i.e., interest rates must ascend or remain level on a year-to-year basis from a base year of 2023).

Electronic Bids Only

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

Disclaimer

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

Electronic Bidding Procedures

Electronic bids must be submitted for the purchase of a series of the Bonds via **Parity®**. Bids will be communicated electronically to the County on May 7, 2013 (or such later Bid Date as announced in accordance with this Notice of Sale) at 11:00 a.m. Prevailing Eastern Time for the Public Improvement Bonds and at 11:15 a.m. Prevailing Eastern Time for the Refunding Bonds. Prior to those respective times, a prospective bidder may (1) submit the proposed terms of its bid via **Parity®**, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the applicable series of the Bonds, or (3) withdraw its proposed bid. Once the bids are communicated electronically via **Parity®** to the County, each bid will constitute an irrevocable offer to purchase the applicable series of the Bonds on the terms therein provided. The County shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, **Parity®**, the use of such facilities being the sole risk of the prospective bidder. For purposes of the electronic bidding process, the time as maintained on **Parity®** shall constitute the Prevailing Eastern Time.

No electronic bid will be finally accepted unless the bidder has submitted a good faith deposit as described below.

If any provision of this Notice of Sale shall conflict with the information provided by **BidCOMP®/ Parity®** as the approved provider of electronic bidding services, this Notice of Sale shall control.

Basis of Award

Proposals will be opened on the Bid Date promptly after 11:00 a.m. Prevailing Eastern Time for the Public Improvement Bonds and promptly after 11:15 a.m. Prevailing Eastern Time for the Refunding Bonds. The successful bidder for each series of the Bonds will be determined based on the lowest interest cost to the County for such series of the Bonds. The lowest interest cost shall be determined in accordance with the true interest cost ("TIC") method by doubling the semiannual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds of a series and to the price bid. If two or more bidders offer to purchase a series of the Bonds at the same lowest interest cost, then such award will be made to the bidder offering the highest purchase price. If two or more bidders offer to purchase a series of the Bonds at the same lowest interest cost, with the same purchase price, the County shall have the right to award all of the Bonds of such series to one bidder.

Good Faith Deposit

The respective successful bidders for the Bonds shall submit a good faith deposit in the amount of \$200,000 for the Public Improvement Bonds and \$200,000 for the Refunding Bonds (each, a "Good Faith Deposit") as provided below. The Good Faith Deposit will secure the County from any loss resulting from the failure of a successful bidder to comply with the terms of its bid. The successful bidder for each series of the Bonds shall transfer the applicable Good Faith Deposit by wire transfer directly to the County upon notification of the preliminary award of the applicable series of the Bonds, as indicated on **Parity®** (in each case, the "Preliminary Award"), but in any case no later than 4:00 p.m. Prevailing Eastern Time on the Bid Date. Wire instructions will be provided to each successful bidder by the County's financial advisor upon notification of the Preliminary Award.

The successful bidder for a series of the Bonds will provide as quickly as it is available evidence of the wire transfer to the County's financial advisor by providing to the County's financial advisor the federal funds reference number. The formal award of a series of the Bonds shall not be made until the County's financial advisor has confirmation of receipt of the Good Faith Deposit therefor, and if a successful bidder fails to so deliver the applicable Good Faith Deposit by the time designated above, the County will have the option to withdraw the Preliminary Award for such series of the Bonds and the successful bidder for such series shall be responsible to the County for all consequential damages arising from such withdrawal.

At the time of the delivery of the Bonds of each series, the Good Faith Deposit of each series will be applied against the purchase price for the Bonds of such series or will be retained as liquidated damages upon the failure of a successful bidder to take and pay for the applicable series of the Bonds in accordance with the terms of its proposal. The successful bidder for a series of the Bonds shall have no right in or to the Good Faith Deposit for such series if it fails to complete the purchase of, and payment in full of, such series of the Bonds for any reason whatsoever, unless such failure of performance shall be caused by an act or omission of the County. No interest will be paid upon a Good Faith Deposit to the applicable successful bidder. Notwithstanding the foregoing, should a successful bidder fail to pay for the applicable series of the Bonds at the price and on the date agreed upon, the County retains the right to seek further compensation for damages sustained as a result of the successful bidder so doing.

If the aggregate principal amount of a series of the Bonds is adjusted as described above under "Adjustments to Principal Amounts", no adjustment will be made to the applicable Good Faith Deposit.

Security

The full faith and credit and unlimited taxing power of the County are unconditionally pledged to the payment of the principal of the Bonds and the interest to accrue thereon.

Book-Entry Only

Each series of the Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. One bond certificate for each maturity of each series will be issued to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), and immobilized in DTC's custody or in the custody of the Bond Registrar and Paying Agent. The book-entry system will evidence ownership of each series of the Bonds in the principal amount of \$5,000 and integral multiples thereof, with transfers of ownership interest of each actual purchaser of a Bond effected on the records of DTC and its participants. The successful bidder for each series of the Bonds, as a condition to delivery of such series of the Bonds, shall be required to deposit the applicable bond certificates with DTC or with the Bond Registrar and Paying Agent to be held under DTC's "FAST" system, registered in the name of Cede & Co., DTC's nominee. All fees due DTC shall be paid by the successful bidder for a series of the Bonds.

Principal will be paid to Cede & Co., nominee of DTC, as registered owner of the Bonds on the dates such principal is payable. Interest on the Bonds is payable on January 1, 2014 and semiannually thereafter on July 1 and January 1 of each year to Cede & Co., nominee of DTC as the registered owner of the Bonds.

Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments to beneficial owners of the Bonds by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The County will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

DTC may determine not to continue to act as securities depository for a series of the Bonds at any time by giving notice to the County. The County may determine to select a different securities depository for a series of the Bonds or the County may determine not to continue the book-entry system for a series of the Bonds. If the County does not identify another qualified securities depository to replace DTC, the County will deliver replacement bonds for the applicable series in the form of fully-registered certificates.

Optional Redemption

Public Improvement Bonds that mature on or before July 1, 2023, are not subject to redemption at the option of the County prior to their maturities. Public Improvement Bonds which mature on or after July 1, 2024, are subject to redemption at the option of the County in whole or in part on any date on or after July 1, 2023, in any order directed by the County, at a redemption price of the principal amount of the Public Improvement Bonds (or portions thereof) to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium or penalty.

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

Legal Opinions

The Bonds will be issued and sold subject to approval as to legality by Funk & Bolton, P.A., Baltimore, Maryland, bond counsel. The approving opinion of Funk & Bolton, P.A. with respect to a series of the Bonds will be delivered, upon request, to the successful bidder for such series of the Bonds, without charge, and the text of the applicable approving opinion will also be printed on, or attached to, each Bond.

Undertakings of the Successful Bidder(s)

Upon award of each series of the Bonds, the successful bidder therefor shall advise the County of the initial reoffering prices to the public of each maturity of such series of the Bonds. Simultaneously with or before delivery of a series of the Bonds, the successful bidder therefor shall furnish to the County a certificate in form and substance acceptable to bond counsel (a) certifying that a bona fide offering of such series of the Bonds has been made to the public (excluding bond houses, brokers, and other intermediaries), and (b) stating the prices at which a substantial portion of each maturity of such series of the Bonds were sold to the public (excluding bond houses, brokers, and other intermediaries).

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print any such number on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder for a series of the Bonds to accept delivery of and pay for such series of the Bonds in accordance with the terms of this Notice of Sale.

Official Statement

Within seven business days after the award of the Bonds to the successful bidders therefor on the Bid Date, the County will authorize its Official Statement, which is expected to be substantially in the form of the Preliminary Official Statement referred to below. The Preliminary Official Statement has been deemed final by the County for the purpose of Rule 15c2-12 of the Securities and Exchange Commission, subject to revision, amendment and completion in a final Official Statement. The County will also issue any supplement or amendment to the Official Statement that may be necessary between the date of the Official Statement and the date of delivery of the Bonds. If requested and furnished to the County in writing by a successful bidder at or before the close of business on the Bid Date, the County will include in the Official Statement such pricing and other information relating to the reoffering of a series of the Bonds, if any, as may be so furnished. If the successful bidders furnish no such information, the Official Statement will include the interest rates on each series of the Bonds resulting from the proposal of the successful bidder therefor and the other statements with respect to reoffering contained in the Preliminary Official Statement. Whether or not any such information is included in the Official Statement, the successful bidders shall be responsible to the County and its officials in all respects for the accuracy, fairness and completeness of such information, and for all decisions made with respect to the use or omission of such information in any reoffering of the applicable series of the Bonds, including the presentation or exclusion of any such information in any documents, including the Official Statement. Within seven business days after the award of the Bonds, the successful bidders will also be furnished, without cost, with a reasonable number of copies of the Official Statement (and any amendment or supplement thereto, except to the extent any such amendment or supplement is required due to a change in the reoffering information provided by or on behalf of a successful bidder).

Continuing Disclosure

In order to assist the successful bidders in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"), the County will undertake, pursuant to a continuing disclosure agreement, to provide certain information annually and notices of the occurrence of certain events. The substantially final form of Continuing Disclosure Agreement is included in the Preliminary Official Statement as Appendix D.

It shall be a condition to the obligation of the successful bidder for each series of the Bonds to accept delivery and pay for such series of the Bonds that, simultaneously with or before delivery of and payment for such series of the Bonds, said successful bidder shall be furnished, without cost, with the continuing disclosure agreement of the County dated as of the date of delivery of the Bonds, pursuant to which the County undertakes to provide continuing disclosure as required by the Rule.

Delivery of the Bonds

Delivery of the Bonds will be made to the successful bidders through the facilities of DTC on or about May 16, 2013. Payment for the Bonds shall be made in immediately available funds.

The Bonds will be accompanied by the customary closing documents, including a no litigation certificate, effective as of the date of delivery, stating that there is no litigation pending affecting the validity of the Bonds. It shall be a condition to the obligation of the successful bidder for each series of the Bonds to accept delivery of and pay for such series of the Bonds that, simultaneously with or before delivery and payment for such series of the Bonds, said successful bidder shall be furnished a certificate of the President of the Board and the Finance Director to the effect that, to the best of his knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the reoffering information and except as to information regarding DTC and DTC's book-entry system provided by DTC, as to which no view will be expressed) as of the Bid Date and as of the date of delivery of the Bonds does not

Amendment and Postponement

The County reserves the right to postpone, from time to time, the date established for the receipt of bids. Any such postponement will be communicated through TM3. If any date fixed for the receipt of bids and the sale of the Bonds is postponed, any alternative Bid Date will be announced via TM3 at least 24 hours prior to such alternative Bid Date. In addition, the County reserves the right, on the date established for the receipt of bids, to reject all bids for either series of the Bonds and establish a subsequent date on which bids for any such series of the Bonds will again be received. If all bids for a series of the Bonds are rejected and a subsequent date for receipt of bids for such series of the Bonds established, notice of the subsequent Bid Date will be announced via TM3 at least 24 hours prior to such subsequent Bid Date. On any such alternative or subsequent Bid Date, any bidder may submit a proposal for the purchase of the applicable series of the Bonds in conformity in all respects with this official Notice of Sale except for the Bid Date and except for the changes announced by TM3 at the time the alternative or subsequent Bid Date and time are announced.

Additional Information

COUNTY COMMISSIONERS OF
WASHINGTON COUNTY

By: /s/ Terry L. Baker

**Terry L. Baker, President
Board of County Commissioners
of Washington County**

**PROPOSED FORM OF
CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by **COUNTY COMMISSIONERS OF WASHINGTON COUNTY** (the “Issuer”) in connection with the issuance of its \$12,000,000 Public Improvement Bonds of 2013 and \$12,540,000 Refunding Bonds of 2013 (collectively, the “Bonds”). The Bonds are being issued pursuant to a Resolution adopted on April 23, 2013, as supplemented. The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the owners and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Issuer’s obligations hereunder shall be limited to those required by written undertaking pursuant to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth above, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Listed Events**” shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board. To the extent the Rule is amended to refer to any additional or different repositories, references in this Disclosure Agreement to the MSRB shall be deemed to such additional or different repositories to the extent required by the Rule. As of the date of execution and delivery of this Disclosure Agreement, any of the notices or materials required by this Disclosure Certificate to be filed with the MSRB shall be filed with the Electronic Municipal Market Access maintained by the MSRB at <http://www.msrb.emma.org> in accordance with the Rule.

“**Official Statement**” shall mean the Official Statement dated May 7, 2013 relating to the Bonds.

“**Participating Underwriter**” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“**Rule**” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Financial Information, Operating Data and Audited Information.

(a) The Issuer shall provide to the MSRB annual financial information and operating data generally consistent with the information contained under the headings “General Fund Revenues and Expenditures”, “General Fund Balance Sheet” and “General Obligation and Revenue Bonds” in the Official Statement, such information to be made available within 240 days after the end of the Issuer’s fiscal year, commencing with the fiscal year ending June 30, 2013.

(b) The Issuer shall provide to the MSRB annual audited combined financial statements for the Issuer, such information to be made available within 240 days after the end of the Issuer’s fiscal year, commencing with the fiscal year ending June 30, 2013, unless the audited financial statements are not available on or before such date, in which event said financial statements will be provided promptly when and if available. In the event that audited financial statements are not available within 240 days after the end of the Issuer’s fiscal year (commencing with the fiscal year ending June 30, 2013), the Issuer will provide unaudited financial statements within said time period.

(c) The presentation of the financial information referred to in paragraph (a) and in paragraph (b) shall be made in accordance with the same accounting principles as utilized in connection with the presentation of applicable comparable financial information included in the Official Statement, provided, that the Issuer may modify the accounting principles utilized in the presentation of financial information by amending this Disclosure Agreement pursuant to the

provisions of Section 7 hereof. Changes in Generally Accepted Accounting Principles, where applicable to financial information to be provided by the Issuer, shall not require the Issuer to amend this Disclosure Agreement.

(d) If the Issuer is unable to provide the annual financial information and operating data within the applicable time periods specified in (a) and (b) above, the Issuer shall send in a timely manner a notice of such failure to the MSRB.

(e) If the Issuer changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the Issuer would otherwise be required to provide financial information and operating data pursuant to this Section 3.

(f) The financial information and operating data to be provided pursuant to this Section 3 may be set forth in full in one or more documents or may be incorporated by specific reference to documents available to the public on the MSRB's Internet Website or filed with the Securities and Exchange Commission.

(g) All information provided to the MSRB pursuant to subsections (a), (b) or (d) of this Section 3 shall be in an electronic format as prescribed by the MSRB.

SECTION 4. Reporting of Listed Events.

(a) This Section 4 shall govern the giving of notices of the occurrence of any of the following Listed Events with respect to the Bonds:

- i) principal and interest payment delinquencies;
- ii) non-payment related defaults, if material;
- iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- v) substitution of credit or liquidity providers, or their failure to perform;
- vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
- vii) modifications to rights of Bond holders, if material;
- viii) Bond calls, if material, and tender offers;
- ix) defeasances;
- x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- xi) rating changes;
- xii) bankruptcy, insolvency, receivership or similar event of the Issuer;
- xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purpose of the event identified in clause (xii) of this Section 4(a), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(b) Notice of any of the Listed Events identified in Section 4(a) shall be given to the MSRB in a timely manner not in excess of ten (10) business days after the occurrence of the event.

(c) All information provided to the MSRB pursuant to this Section 4 shall be in an electronic format as prescribed by the MSRB.

SECTION 5. Termination of Reporting Obligations. The Issuer's obligations under this Disclosure Agreement shall terminate upon the payment in full of all of the Bonds either at their maturity or by early redemption. In addition, the Issuer may terminate its obligations under this Disclosure Agreement if and when the Issuer no longer remains an obligated person with respect to the Bonds within the meaning of the Rule.

SECTION 6. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel, expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule. To the extent applicable, the reasons for any amendment and the impact of the change in the type of operating data or financial information being provided will be explained in information provided with the annual financial information containing the amended operating data or financial information.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any disclosure made pursuant to Section 3(a) or (b) hereof or notice of occurrence of a Listed Event in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any disclosure made pursuant to Section 3(a) or (b) hereof or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future disclosure made pursuant to Section 3(a) or (b) hereof or notice of occurrence of a Listed Event.

SECTION 9. Limitation of Remedies. The Issuer shall be given written notice at the address set forth below of any claimed failure by the Issuer to perform its obligations under this Disclosure Agreement, and the Issuer shall be given 15 days to remedy any such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the Issuer shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action. Written notice to the Issuer shall be given to the Director of Finance, Washington County Administration Building, Room 304, 100 W. Washington Street, Hagerstown, MD 21740, or at such alternate address as shall be specified by the Issuer with disclosures made pursuant to Section 3(a) or (b) hereof or a notice of occurrence of a Listed Event.

SECTION 10. Relationship to Bonds. This Disclosure Agreement constitutes an undertaking by the Issuer that is independent of the Issuer's obligations with respect to the Bonds; any breach or default by the Issuer under this Disclosure Agreement shall not constitute or give rise to a breach or default under the Bonds.

SECTION 11. Law of Maryland. This Disclosure Agreement, and any claim made with respect to the performance by the Issuer of its obligations hereunder, shall be governed by, subject to, and construed according to the laws of the State of Maryland.

SECTION 12. Limitation of Forum. Any suit or other proceeding seeking redress with regard to any claimed failure by the Issuer to perform its obligations under this Disclosure Agreement must be filed in the Circuit Court for Washington County, Maryland.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the owners, including beneficial owners, from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Compliance with MSRB Requirements. All documents provided to the MSRB pursuant to this Disclosure Agreement and the Rule shall be accompanied by identifying information as prescribed by the MSRB.

Date: _____, 2013

ATTEST:

COUNTY COMMISSIONERS OF
WASHINGTON COUNTY

Vicki C. Lumm, County Clerk

By: _____
Terry L. Baker, President
Board of County Commissioners
of Washington County