

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

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

For the Year Ended June 30, 2015



JUNE 30, 2015

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

County Commissioners of Washington County
Hagerstown, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County Commissioners of Washington County, Maryland (the County) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

Opinions

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information, of Washington County, Maryland, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 20 to the financial statements, during the year ended June 30, 2015, the County adopted new accounting guidance from Governmental Accounting Standards Board Statement No. 68, "Accounting and Financial Reporting for Pensions." Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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



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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying combining and individual fund statements, local management board schedule of revenue and expenditures regulatory basis, schedule of earned reinvestment and the schedule of expenditures of Federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Hunt Valley, Maryland
October 29, 2015

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

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

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

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

1) Government-wide Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 16-18 of this report.

2) Fund Financial Statements

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

- **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 19-21 of this report.

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

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

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

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

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

3) **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-86 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 89-93 of this report.

Financial Analysis on Government-Wide Financial Statements

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$539.9 million as of the close of the most recent fiscal year.

Washington County, Maryland Net Position (Government-Wide)

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Total Percent Change</i>
	2015	2014	2015	2014	2015	2014	
<i>Current and other assets</i>	\$126,911,860	\$ 130,030,261	\$46,434,529	\$ 49,933,704	\$173,346,389	\$179,963,965	-4%
<i>Capital assets</i>	431,053,835	420,873,321	248,459,872	252,070,781	679,513,707	672,944,102	1%
<i>Total Assets</i>	557,965,695	550,903,582	294,894,401	302,004,485	852,860,092	852,908,067	0%
<i>Deferred Outflow of Resources</i>	5,596,709	2,178,222	738,144	636,584	6,334,853	2,814,806	125%
<i>Current and other liabilities</i>	29,696,546	29,588,429	14,617,381	16,619,095	44,313,927	46,207,524	-4%
<i>Long-term liabilities</i>	191,169,520	138,545,317	57,515,145	55,999,109	248,684,665	194,544,426	28%
<i>Total Liabilities</i>	220,866,066	168,133,746	72,132,526	72,618,204	292,998,592	240,751,950	22%
<i>Deferred Inflow of Resources</i>	-	-	26,246,880	27,064,705	26,246,880	27,064,705	-3%
<i>Net Investment in Capital Assets</i>	372,167,279	364,504,705	211,859,499	216,395,352	584,026,778	580,900,057	1%
<i>Restricted Net Position</i>	17,206,344	20,803,525	8,477,778	8,134,606	25,684,122	28,938,131	-11%
<i>Unrestricted Net Position</i>	(46,677,285)	(360,172)	(23,084,138)	(21,571,798)	(69,761,423)	(21,931,970)	-218%
<i>Total Net Position</i>	\$342,696,338	\$ 384,948,058	\$197,253,139	\$ 202,958,160	\$539,949,477	\$ 587,906,218	-8%

The largest portion of the County's net position reflects its investments in capital assets (e.g., land, roads, and bridges); less related outstanding debt used to acquire those assets in the amount of \$584 million. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the County's net position, \$25.7 million, represents resources that are subject to external restrictions on how they may be used. The remaining portion is unrestricted net assets of (\$69.8) million.

Unrestricted net assets in governmental activities have been reduced by \$54.9 million in long-term debt, resulting in unrestricted net assets of (\$46.7) 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 \$52 million and Hagerstown Community College of \$2.9 million. The capital assets acquired with these bonds are not reflected in the County's primary government financial statements.

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2015	2014	2015	2014	2015	2014
Program revenues:						
<i>Charges for Services</i>	\$5,854,869	\$ 5,352,465	\$19,166,051	\$ 18,532,250	\$25,020,920	\$23,884,715
<i>Operating Grants and Contributions</i>	6,543,220	6,323,715	1,382,948	1,366,588	7,926,168	7,690,303
<i>Capital Grants and Contributions</i>	14,054,268	3,386,431	2,746,149	2,169,921	16,800,417	5,556,352
General Revenues:						
<i>Property Taxes</i>	118,534,624	120,607,747	-	-	118,534,624	120,607,747
<i>Local Taxes</i>	90,220,815	79,723,459	-	-	90,220,815	79,723,459
<i>Other</i>	3,416,030	3,192,299	725,043	736,073	4,141,073	3,928,372
Total Revenues	238,623,826	218,586,116	24,020,191	22,804,832	262,644,017	241,390,948
Program Expenses:						
<i>General Government</i>	32,163,683	15,536,633	-	-	32,163,683	15,536,633
<i>Public Safety</i>	46,584,797	42,806,759	-	-	46,584,797	42,806,759
<i>Health</i>	2,339,270	2,339,270	-	-	2,339,270	2,339,270
<i>Social Services</i>	571,517	934,217	-	-	571,517	934,217
<i>Education</i>	113,491,068	114,765,247	-	-	113,491,068	114,765,247
<i>Parks and Recreation</i>	6,791,711	5,881,642	-	-	6,791,711	5,881,642
<i>Natural Resources</i>	1,690,246	2,599,487	-	-	1,690,246	2,599,487
<i>Community Promotion</i>	5,959,702	4,597,185	-	-	5,959,702	4,597,185
<i>Highways and Streets</i>	16,037,762	17,004,824	-	-	16,037,762	17,004,824
<i>Interest on long-term debt</i>	4,167,500	4,200,780	-	-	4,167,500	4,200,780
Business-type Activities:						
<i>Water Quality</i>	-	-	12,707,818	12,429,642	12,707,818	12,429,642
<i>Solid Waste</i>	-	-	7,720,049	7,909,660	7,720,049	7,909,660
<i>Public Transit</i>	-	-	3,010,778	2,877,101	3,010,778	2,877,101
<i>Airport</i>	-	-	7,993,635	7,933,117	7,993,635	7,933,117
<i>Golf Course</i>	-	-	1,239,140	1,160,303	1,239,140	1,160,303
Total Expenses	229,797,256	210,666,044	32,671,420	32,309,823	262,468,676	242,975,867
Change in Net Position before transfers	8,826,570	7,920,072	(8,651,229)	(9,504,991)	175,341	(1,584,919)
Transfers	(2,946,208)	(1,574,282)	2,946,208	1,574,282	-	-
Change in Net Position	5,880,362	6,345,790	(5,705,021)	(7,930,709)	175,341	(1,584,919)
Net Position – Beginning of year	384,948,058	379,170,054	202,958,160	211,036,931	587,906,218	590,206,985
Change in Accounting Principle	(48,132,082)	(567,786)	-	(148,062)	(48,132,082)	(715,848)
Net Position – beginning of year, as restated	336,815,976	378,602,268	202,958,160	210,888,869	539,774,136	589,491,137
Net Position – end of year	\$342,696,338	\$384,948,058	\$197,253,139	\$ 202,958,160	\$539,949,477	\$587,906,218

The County's total net position increased by \$175,341 during fiscal year 2015; total net position as of June 30, 2015 was \$539.9 million representing a 8.1% decrease due to a change in accounting principal for pension accounting.

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

Net position in governmental activities increase by \$5.8 million. Key factors in this increase are as follows:

- Property tax revenue came within \$.5 million or .5% of 2015 projections. Personal property tax reflected an increase over projections by \$.6 million or 5.3% due to increased inventory and new business.
- Income Tax revenue exceeded budget by \$1.4 million or 1.9% as a result of continued decreases in the unemployment rate of 10.7% and a 10.2% increase over prior year actual. The average unemployment rate was 9.76% in 2010; 9.28% in 2011; 8.53% in 2012; 7.77% in 2013; and 5.68% in 2014. The current unemployment rate as of August 2014 is 7.7%.
- Recordation Tax revenue exceeded budget by \$.6 million or 10.5%. The County's housing inventory has decreased since 2011; average home prices are up from 2011; large transaction activity was up. Fiscal year 2015 large commercial recordings accounted for approximately 24% of the tax collected as compared to 15% in 2014.
- Other revenues such as permits, licenses, non-use of fund balance fell short of budget by \$1.7 million.
- An additional transfer of \$3.0 million was made to the Capital Projects, Golf Course, and Highway funds to offset operating shortfalls, negative fund balance and for future project costs. General fund operating subsidies were increased in FY 2016 to the golf course.
- Overall public safety expenditures reflect savings of \$1.7 million resulting mainly from personnel cost savings, lower market prices in fuel products than anticipated, and favorable insurance awards during the County's bid process.
- Unallocated cost exceeded projections by \$.7 million related to prior year pension contribution; workers comp and health insurance net savings; and retirement incentives.
- Remaining cost centers accounted for \$1.3 million in savings, mainly a result of personnel cost savings due to retirement incentives, lower market prices in fuel products than anticipated, and debt service savings.
- Various government-wide entries including 1) capital outlay purchases exceeded depreciation expense by \$.8 million; 2) recording of debt proceeds greater than debt principal payments decreasing net assets by \$1.9 million; 3) compensated absences and post-retirement benefits exceeded the amount earned by \$1.8 million; and 4) difference in revenues and expenditures recognized between governmental funds and the statement of activities increasing net assets by \$14.2 million. These activities are reported differently on the government-wide statements vs. the fund statements.
- Capital Improvement Projects decreased by \$8.6 million. Capital Improvement transactions are earmarked for specific capital related projects and its cash flow will vary depending on the construction schedule and grant reimbursements. Other governmental funds accounted for \$.4 decrease in fund balance activity.

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

Business-type activities decreased the County's net position by \$5.7 million. Key elements of this decrease are as follows:

- ❑ Water Quality's net position decreased by \$.1 million, for a total of \$119 million in net assets. The \$.1 million net loss includes \$2.9 million in depreciation expense and anticipated the use of dedicated reserves in the Water Quality's long range financial plan for self-sufficiency.
- ❑ Solid Waste's total net position decreased by \$2.0 million for a total of \$6.5 million, mainly related to depreciation expense of \$3.2 million. The 40 West landfill site was re-designed which changed the total life from 62 years to 120 years generating an additional 4 million cubic yards of available air space. This change in accounting estimate had no effect on the total estimated closure and post closure cost which are in compliance with State financial assurance requirements as of June 30, 2014. In addition the County is involved in a public/private partnership to convert landfill operations to a Waste-to-Energy facility. Permitting has already begun for this new process which is expected to convert at least 95% of the waste to energy sources.
- ❑ Airport's total net position is \$65.5 million, representing a \$4.4 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 of \$6.5 million.
- ❑ The County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and restrictions, and fiscal accountability.

Financial Analysis on Government Fund Financial Statements

Governmental Funds:

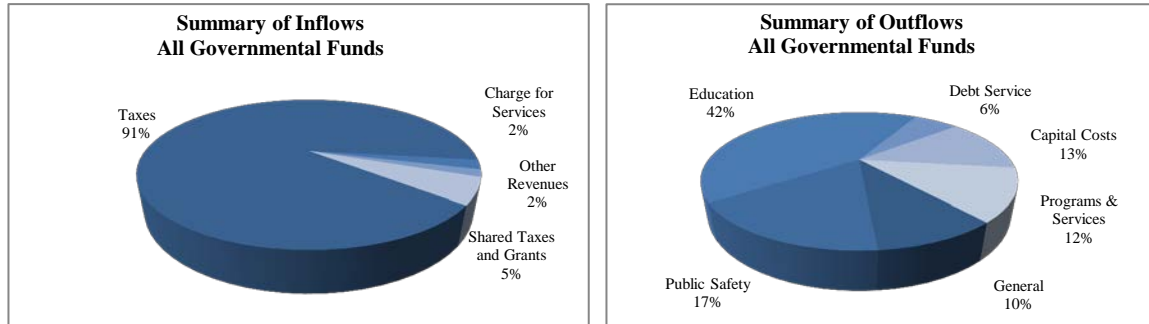
The focus of the County's governmental funds is to provide information on near term inflows, outflow, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources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

As of the end of the current fiscal year, the County's governmental funds reported combined fund balances of \$101.4 million, a decrease of \$8.9 million. Approximately \$37.5 million of this amount is designated for the general fund cash reserve and \$64.0 million is restricted or committed for construction projects and designated programs. In the combined governmental activities the County maintains eleven separate funds. Shown below are fund balances and net changes in fund balance for each.

Governmental Activities	Fund Balance			Net Change in Fund Balance		
	2015	2014	% Change	2015	2014	% Change
<i>General Fund</i>	\$ 38,327,353	\$ 38,190,469	.4%	\$ 136,884	\$ (649,751)	-121.1%
<i>Capital Improvement Fund</i>	62,522,002	71,142,687	-12.1%	(8,620,685)	(3,930,911)	119.3%
<i>Community Grants Mgt</i>	17,825	(1,992)	-994.8%	19,817	(3,418)	-679.8%
<i>Inmate Welfare Fund</i>	97,863	92,322	6.0%	5,541	7,536	-26.5%
<i>Contraband Fund</i>	57,710	59,776	-3.5%	(2,066)	(12,630)	-83.6%
<i>Agricultural Education Fund</i>	41,019	11,832	246.7%	29,187	5,637	417.8%
<i>Hotel Rental Tax Fund</i>	323,605	658,118	-50.8%	(334,513)	(391,079)	-14.5%
<i>Gaming Fund</i>	32,193	26,239	22.7%	5,954	18,870	-68.4%
<i>Land Preservation Fund</i>	(29,955)	126,432	-123.7%	(156,387)	30,814	-607.5%
<i>HEPMPO</i>	(31,774)	(44,464)	-28.5%	12,690	(17,027)	-174.5%
Total	\$ 101,357,841	\$ 110,261,419	-8.1%	\$ (8,903,578)	\$ (4,941,959)	80.2%

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

The following reflects all inflows and outflows of the governmental funds in total for the fiscal year ending June 30, 2015.



- The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year total fund balance reached \$38.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both committed fund balance and total fund balance to total fund expenditures. Committed fund balance represents \$37.5 million that is for cash reserve while \$.8 million is reserved for specific program funds.

The General Fund, fund balance increased by approximately \$.1 million during the current fiscal year. Key factors related to this change are:

Major Revenue Factors:

- Property tax revenue came within \$.5 million or .5% of 2015 projections. Personal property tax reflected an increase over projections by \$.6 million or 5.3% due to increased inventory and new business.
- Income Tax revenue exceeded budget by \$1.4 million or 1.9% as a result of continued decreases in the unemployment rate of 10.7% and a 10.2% increase over prior year actual. The average unemployment rate was 9.76% in 2010; 9.28% in 2011; 8.53% in 2012; 7.77% in 2013; and 5.68% in 2014. The current unemployment rate as of August 2014 is 7.7%.
- Recordation Tax revenue exceeded budget by \$.6 million or 10.5%. The County's housing inventory has decreased since 2011; average home prices are up from 2011; large transaction activity was up. Fiscal year 2015 large commercial recordings accounted for approximately 24% of the tax collected as compared to 15% in 2014.
- Other revenues such as permits, licenses, non-use of fund balance fell short of budget by \$1.7 million.

Major Expenditure Factors:

- An additional transfer of \$3.0 million was made to the Capital Projects, Golf Course, and Highway funds to offset operating shortfalls, negative fund balance and for future project costs. General fund operating subsidies were increased in FY 2016 to the golf course.
- Overall public safety expenditures reflect savings of \$1.7 million resulting mainly from personnel cost savings, lower market prices in fuel products than anticipated, and favorable insurance awards during the County's bid process.
- Unallocated cost exceeded projections by \$.7 million related to prior year pension contribution; workers comp and health insurance net savings; and retirement incentives.

- Remaining cost centers accounted for \$1.3 million in savings, mainly a result of personnel cost savings due to retirement incentives, lower market prices in fuel products than anticipated, and debt service savings.
- The **Capital Projects Fund** is used to account for major capital acquisition and construction of County operations. At the end of the current fiscal year the Capital Project Fund has a total fund balance of \$62.5 million all of which is designated for capital related projects. Major funding sources for projects are pay-go-funding, debt proceeds, fees and taxes, and grants. Fund balance decreased by \$8.6 million for the current fiscal year. The change in fund balance is the result of timing differences in projects with funding proceeds and project expenditures and use of prior project savings.
- The County's **Community Grant Management, Inmate Welfare, Contraband, Agricultural Education, Foreign Trade Zone, Hotel Rental Tax, Gaming, HEPMPO, and Land Preservation Funds** combined have a fund balance of \$.5 million. The net decrease in fund balance during the current year was \$.4 million. These funds represent monies designated for specific programs and services.

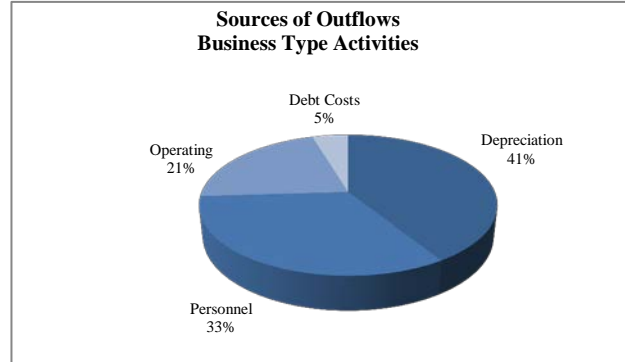
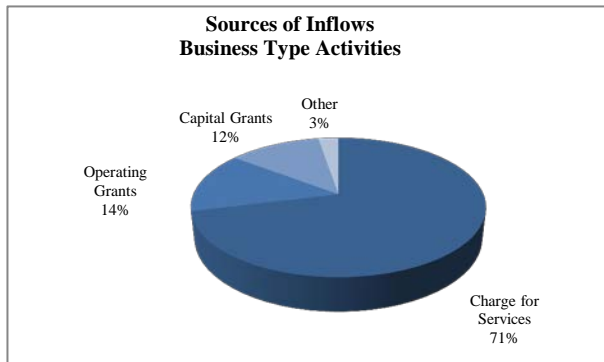
Proprietary Funds:

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

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

Business-type Activities	Total Net Position			Change in Net Position		
	2015	2014	% Change	2015	2014	%Change
Water Quality	\$ 118,932,196	\$ 119,067,040	-.1%	\$ (134,844)	\$ (1,117,503)	-87.9%
Solid Waste	6,471,820	8,471,982	-23.6%	(2,000,162)	(2,545,019)	-21.4%
Airport	65,479,865	69,926,649	-6.4%	(4,446,784)	(3,843,202)	15.7%
Public Transit	4,056,389	4,244,939	-4.4%	(188,550)	(458,708)	-58.9%
Black Rock	2,312,869	1,247,550	85.4%	1,065,319	(114,339)	-1031.7%
Total	\$ 197,253,139	\$ 202,958,160	-2.8%	\$ (5,705,021)	\$ (8,078,771)	-29.38%

The following reflects the inflows and outflows of the business-type activity funds for the fiscal year ending June 30, 2015.



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

General Fund Budgetary Analysis – Government Fund Financial Statement Basis

Washington County, Maryland
General Fund Budgetary Analysis
As of June 30, 2015
(Government Fund Basis)

Category	Budgetary Amounts			Difference	
	Original	Final	Actual	Org. Budget vs. Final Budget	Final Budget vs. Actual
Revenues:					
Property Tax	\$ 117,918,200	\$ 117,918,200	\$ 118,513,533	\$ -	\$ 595,333
Local Tax	78,510,000	78,510,000	80,477,072	-	1,967,072
Other Revenue	9,635,970	11,324,519	9,637,646	1,688,549	(1,686,873)
Total Revenues	206,064,170	207,752,719	208,628,251	1,688,549	875,532
Expenses:					
General Government	24,553,260	24,795,673	23,779,920	242,413	1,015,753
Public Safety	39,718,390	40,818,148	39,155,311	1,099,758	1,662,837
Health and Social Services	2,671,260	2,909,848	2,910,787	238,588	(939)
Education	103,810,560	103,810,560	103,810,462	-	98
Parks, Recreation, Natural Resources	6,277,010	6,284,050	6,218,278	7,040	65,772
Highways and Streets	9,313,250	9,370,860	10,103,368	57,610	(732,508)
General Operations	510,010	510,010	558,112	-	(48,102)
Unallocated Costs	694,270	694,270	1,445,214	-	(750,944)
Intergovernmental	3,605,880	3,649,020	5,862,623	43,140	(2,213,603)
Debt Service	14,910,280	14,910,280	14,652,478	-	257,802
Total Expenses	206,064,170	207,752,719	208,496,553	1,688,549	(743,834)
Other Financing Sources (Uses)	-	-	5,186	-	5,186
Net Increase in Assets - 06/30/15	\$ -	\$ -	\$ 136,884	\$ -	\$ 136,884

Original Budget vs. Final Budget:

The net budgetary change of \$1.7 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 \$1.7 million.

Final Budget vs. Actual Results:

Revenue was over by \$.8 million and expenditures were over budget by \$.7 million yielding a \$.1 million net increase. Property Tax experienced an increase of \$.6 million over budget or .5%. Income Tax revenue exceeded budget by 1.9% or \$1.4 million. Recordation Tax exceeded final budget by \$.6 million or 10.5%. Other revenues fell short by \$1.8 million, including the non-use of \$.4 in an excess fund balance budget. Offsetting the revenue change were net savings of \$2.3 million from retirement incentives and fuel price variances and additional transfers to the Golf Course, Highway, and Capital Improvement funds of \$3.0 million were made to cover overruns due to snow storms, additional operating subsidy and for future project funding.

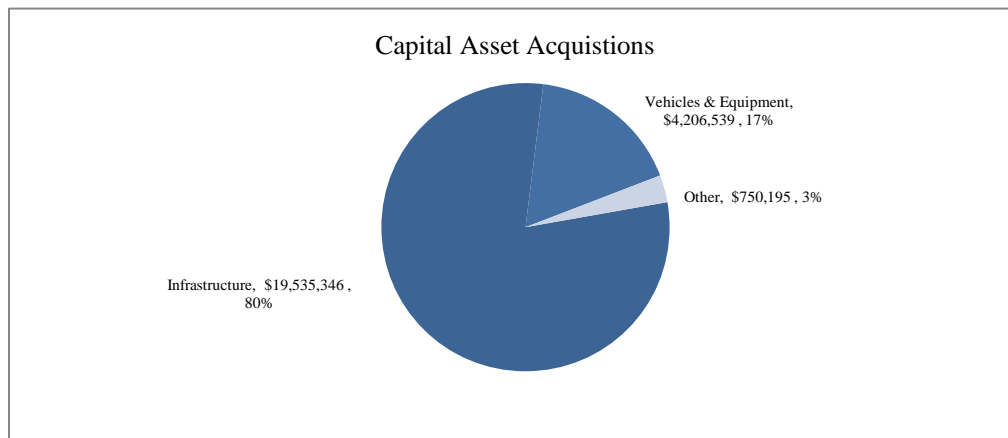
Capital Asset Administration – Government Wide Statements

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$645 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
	2015	2014	2015	2014	2015	2014	
<i>Land and Land Improvement</i>	\$90,761,013	\$86,407,735	\$70,823,766	\$77,942,901	\$161,584,779	\$164,350,636	-2%
<i>Building and Improvements</i>	61,595,344	62,409,852	45,815,344	47,357,918	107,410,688	109,767,770	-2%
<i>Facilities, Lines, and Mains</i>	-	-	86,042,590	84,559,965	86,042,590	84,559,965	-2%
<i>Vehicles</i>	3,186,856	3,311,597	2,110,825	2,165,288	5,297,681	5,476,885	-3%
<i>Infrastructure</i>	232,846,628	236,566,488	-	-	232,846,628	236,566,488	-2%
<i>Machinery and Equipment</i>	2,848,053	2,564,018	3,137,909	3,604,560	5,985,962	6,168,578	-3%
<i>Office/Computer Equipment</i>	13,166,918	14,974,838	393,266	661,880	13,560,184	15,636,718	-13%
<i>Treatment Plant</i>	-	-	32,139,702	29,901,781	32,139,702	29,901,781	7%
Total	\$404,404,812	\$406,234,528	\$240,463,402	\$246,194,293	\$644,868,214	\$652,428,821	-1%

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



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

Debt Administration

At the end of the current fiscal year, the County had total outstanding debt, excluding capital leases, of \$189 million. This amount was comprised of debt backed by the full faith and credit of the County and user fees. The debt decreased by approximately \$11 million from net principal payments and increased by \$16 million in new borrowings. Funds borrowed were used for infrastructure projects of \$10 million and educational projects of \$6 million.

Washington County, Maryland
Outstanding Debt
(Government – Wide)

Instrument Type	Governmental Activity		Business-type Activity		Total Outstanding Debt		% Change
	2015	2014	2015	2014	2015	2014	
<i>General Obligation Bonds</i>	\$139,136,640	\$134,884,153	\$32,786,306	\$31,408,121	\$171,922,946	\$166,292,274	3%
<i>Maryland Water Quality Bonds</i>	4,888,398	5,176,743	12,241,277	12,802,416	17,129,675	17,979,159	2%
Total	\$144,025,038	\$140,060,896	\$45,027,583	\$44,210,537	\$189,052,621	\$184,271,433	3%

The County's credit ratings for fiscal year 2015 are as follows: 1) Standard and Poor's rated AA+ with stable outlook, 2) Fitch rated AA+ with a stable outlook, and 3) Moody's Investors Service rated Aa1 with a 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 \$1.2 billion, which is significantly in excess of the County's current water quality general obligation debt.

Additional Information on the County's long-term debt can be found in note 8 on pages 53-57 of this report.

Economic Factors and Fiscal Year 2015

- ❑ Washington County's unemployment rate for June 2015 was 6.1% compared to 6.7% in June of 2014. Unemployment trends are showing a slow steady improvement. It is anticipated that the unemployment rate will take several years to recover due to permanent loss of certain industry jobs, re-entry/retraining of the current workforce, and new workforce entry.
- ❑ Water and sewer rates were increased for the 2016 budget year. The water and sewer revenue requirements were increased 3.0% and 3.5%, respectively. This revenue increase is based on financial information formulated annually from the County's cost of service model.
- ❑ With the decreasing trend in the Solid Waste stream, Washington County has entered into a public/private partnership that will promote the use and development of domestic energy. Phase I will include a refuse-derived facility while Phase II is to generate low-cost clean-burning diesel, gasoline, jet fuel, home heating fuel and nitrogen fertilizers. This innovative approach to municipal solid waste will allow Washington County to be ahead of the curve to comply with upcoming federal and state regulations and serve as an international benchmark in environmentally responsible waste management.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Budget and Finance, 100 West Washington Street, Room 304, Hagerstown, Maryland 21740. Questions concerning the Washington County Board of Education should be directed to their offices at 10435 Downsville Pike Hagerstown, Maryland 21740.

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COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Net Position As of June 30, 2015

	Primary Government			Component Unit	
	Governmental activities	Business-type activities	Total	Board of Education	Total
ASSETS					
Cash and short-term investments	\$ 2,712,805	\$ 29,132,974	\$ 31,845,779	\$ 26,087,356	\$ 57,933,135
Investments	110,770,494	-	110,770,494	21,928,360	132,698,854
Property taxes receivable, net of allowance	535,177	-	535,177	-	535,177
Accounts receivable, net of allowance	1,329,433	1,430,769	2,760,202	342,112	3,102,314
Interest receivable	195,991	-	195,991	-	195,991
Unbilled receivables	169,759	1,723,413	1,893,172	-	1,893,172
Due from other governmental agencies	19,564,314	1,952,341	21,516,655	7,259,099	28,775,754
Due from primary government	-	-	-	651	651
Internal balances	(11,930,985)	11,930,985	-	-	-
Inventories	763,940	264,047	1,027,987	477,566	1,505,553
Other assets	431,291	-	431,291	974,411	1,405,702
Net other post employment benefits assets	1,767,775	-	1,767,775	411,890	2,179,665
Recoverable disbursements	251,866	-	251,866	-	251,866
Notes receivable	350,000	-	350,000	-	350,000
Projects under construction	26,649,023	7,996,470	34,645,493	8,277,129	42,922,622
Property, plant, and equipment, net	404,404,812	240,463,402	644,868,214	224,353,641	869,221,855
TOTAL ASSETS	557,965,695	294,894,401	852,860,096	290,112,215	1,142,972,311
DEFERRED OUTFLOWS OF RESOURCES					
Loss on refunding	3,653,107	738,144	4,391,251	-	4,391,251
Net pension activity	1,943,602	-	1,943,602	2,073,037	4,016,639
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,596,709	738,144	6,334,853	2,073,037	8,407,890
LIABILITIES					
Current Liabilities:					
Current maturities of long-term obligations	9,721,410	3,527,519	13,248,929	-	13,248,929
Current maturities of capital lease obligations	167,077	11,738	178,815	557,057	735,872
Current maturities of installment purchase contracts	351,794	-	351,794	-	351,794
Accounts payable	9,871,971	1,435,657	11,307,628	5,628,796	16,936,424
Accrued expenses	1,099,867	472,838	1,572,705	19,721,016	21,293,721
Accrued interest	1,864,356	7,013,740	8,878,096	-	8,878,096
Unearned revenue	621,710	1,450,060	2,071,770	1,325,448	3,397,218
Compensated absences	1,986,029	395,333	2,381,362	445,525	2,826,887
Landfill closure and post-closure costs	-	235,200	235,200	-	235,200
Other liabilities	2,178,861	75,296	2,254,157	-	2,254,157
Liabilities for unpaid claims	1,833,471	-	1,833,471	-	1,833,471
Total current liabilities	29,696,546	14,617,381	44,313,927	27,677,842	71,991,769
Non Current Liabilities:					
Unearned revenue	-	639,857	639,857	-	639,857
Compensated absences	1,483,903	169,663	1,653,566	6,935,904	8,589,470
Long-term obligations	134,303,628	41,500,064	175,803,692	-	175,803,692
Capital lease obligations	32,463	38,830	71,293	6,446,458	6,517,751
Installment purchase contracts	146,006	-	146,006	-	146,006
Landfill closure and post-closure costs	-	15,166,731	15,166,731	-	15,166,731
Net pension liability	55,203,520	-	55,203,520	14,395,785	69,599,305
Total noncurrent liabilities	191,169,520	57,515,145	248,684,665	27,778,147	276,462,812
TOTAL LIABILITIES	220,866,066	72,132,526	292,998,592	55,455,989	348,454,581
DEFERRED INFLOWS OF RESOURCES					
Service concession arrangements	-	26,246,880	26,246,880	-	26,246,880
Net pension activity	-	-	-	1,575,713	1,575,713
TOTAL DEFERRED INFLOWS OF RESOURCES	-	26,246,880	26,246,880	1,575,713	27,822,593
NET POSITION					
Net investment in capital assets	372,167,279	211,859,499	584,026,778	225,627,255	809,654,033
Restricted for:					
John Howard Trust	240,755	-	240,755	-	240,755
Capital projects	16,965,589	8,477,778	25,443,367	-	25,443,367
Unrestricted	(46,677,285)	(23,084,138)	(69,761,423)	9,526,295	(60,235,128)
TOTAL NET POSITION	\$ 342,696,338	\$ 197,253,139	\$ 539,949,477	\$ 235,153,550	\$ 775,103,027

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, 2015

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 32,163,683	\$ 4,305,737	\$ 418,550	\$ 250,770
Public safety	46,584,797	1,432,386	1,933,494	246,180
Health	2,339,270	-	-	-
Social services	571,517	-	-	-
Education	113,491,068	-	-	97,620
Parks, recreation and culture	6,791,711	116,746	18,853	318,134
Natural resources	1,690,246	-	371,363	-
Community promotion	5,959,702	-	2,941,905	-
Highways and streets	16,037,762	-	859,055	13,141,564
Interest on long-term debt	4,167,500	-	-	-
Total governmental activities	<u>229,797,256</u>	<u>5,854,869</u>	<u>6,543,220</u>	<u>14,054,268</u>
Business-type activities				
Water quality	12,707,818	10,386,767	-	1,574,287
Solid waste	7,720,049	5,104,343	-	-
Airport	7,993,635	2,398,450	44,994	576,562
Public transit	3,010,778	445,378	1,337,954	580,300
Black rock golf course	1,239,140	831,113	-	15,000
Total business-type activities	<u>32,671,420</u>	<u>19,166,051</u>	<u>1,382,948</u>	<u>2,746,149</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 262,468,676</u>	<u>\$ 25,020,920</u>	<u>\$ 7,926,168</u>	<u>\$ 16,800,417</u>
Component unit:				
Board of Education	<u>\$ 329,638,213</u>	<u>\$ 13,091,617</u>	<u>\$ 59,830,922</u>	<u>\$ 41,700</u>

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

CHANGE IN NET POSITION

NET POSITION - BEGINNING OF YEAR

PRIOR PERIOD ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE

NET POSITION - END OF YEAR

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Activities
For the Year Ended June 30, 2015**

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Board of Education	Total
\$ (27,188,626)	\$ -	\$ (27,188,626)	\$ -	\$ (27,188,626)
(42,972,737)	-	(42,972,737)	-	(42,972,737)
(2,339,270)	-	(2,339,270)	-	(2,339,270)
(571,517)	-	(571,517)	-	(571,517)
(113,393,448)	-	(113,393,448)	-	(113,393,448)
(6,337,978)	-	(6,337,978)	-	(6,337,978)
(1,318,883)	-	(1,318,883)	-	(1,318,883)
(3,017,797)	-	(3,017,797)	-	(3,017,797)
(2,037,143)	-	(2,037,143)	-	(2,037,143)
(4,167,500)	-	(4,167,500)	-	(4,167,500)
<u>(203,344,899)</u>	<u>-</u>	<u>(203,344,899)</u>	<u>-</u>	<u>(203,344,899)</u>
-	(746,764)	(746,764)	-	(746,764)
-	(2,615,706)	(2,615,706)	-	(2,615,706)
-	(4,973,629)	(4,973,629)	-	(4,973,629)
-	(647,146)	(647,146)	-	(647,146)
-	(393,027)	(393,027)	-	(393,027)
<u>-</u>	<u>(9,376,272)</u>	<u>(9,376,272)</u>	<u>-</u>	<u>(9,376,272)</u>
<u>(203,344,899)</u>	<u>(9,376,272)</u>	<u>(212,721,171)</u>	<u>-</u>	<u>(212,721,171)</u>
-	-	-	(256,673,974)	(256,673,974)
118,534,624	-	118,534,624	-	118,534,624
90,220,815	-	90,220,815	-	90,220,815
919,984	173,572	1,093,556	181,211	1,274,767
1,776,895	-	1,776,895	258,098,966	259,875,861
653,741	537,313	1,191,054	455,441	1,646,495
-	-	-	-	-
65,410	14,158	79,568	-	79,568
<u>(2,946,208)</u>	<u>2,946,208</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>209,225,261</u>	<u>3,671,251</u>	<u>212,896,512</u>	<u>258,735,618</u>	<u>471,632,130</u>
5,880,362	(5,705,021)	175,341	2,061,644	2,236,985
384,948,058	202,958,160	587,906,218	247,072,987	834,979,205
(48,132,082)	-	(48,132,082)	(13,981,081)	(62,113,163)
<u>\$ 342,696,338</u>	<u>\$ 197,253,139</u>	<u>\$ 539,949,477</u>	<u>\$ 235,153,550</u>	<u>\$ 775,103,027</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Balance Sheet – Governmental Funds
As of June 30, 2015**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 32,999	\$ -	\$ 2,679,806	\$ 2,712,805
Investments	110,533,955	236,539	-	110,770,494
Property taxes receivable, net of allowance	535,177	-	-	535,177
Accounts receivable, net of allowance	416,161	597,153	316,119	1,329,433
Interest receivable	195,742	249	-	195,991
Unbilled receivables	169,759	-	-	169,759
Due from other funds	-	65,312,740	-	65,312,740
Due from other governmental agencies	16,373,944	2,625,323	565,047	19,564,314
Recoverable disbursements	251,862	-	-	251,862
Notes receivable	431,291	-	-	431,291
Other assets	350,000	-	-	350,000
Inventories	763,940	-	-	763,940
TOTAL ASSETS	<u>\$ 130,054,830</u>	<u>\$ 68,772,004</u>	<u>\$ 3,560,972</u>	<u>\$ 202,387,806</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 1,413,769	\$ 6,249,990	\$ 2,208,212	\$ 9,871,971
Due to other funds	77,037,235	-	206,490	77,243,725
Accrued expenses	1,086,819	12	13,036	1,099,867
Other liabilities	1,868,922	-	309,939	2,178,861
Liabilities for unpaid claims	1,833,471	-	-	1,833,471
Unearned revenue	306,901	-	314,809	621,710
TOTAL LIABILITIES	<u>83,547,117</u>	<u>6,250,002</u>	<u>3,052,486</u>	<u>92,849,605</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenues	8,180,360	-	-	8,180,360
FUND BALANCES:				
Nonspendable	1,063,939	-	-	1,063,939
Restricted	418,968	17,206,344	619,912	18,245,224
Committed	37,462,860	45,315,658	-	82,778,518
Assigned	13,811	-	73,212	87,023
Unassigned	(632,225)	-	(184,638)	(816,863)
TOTAL FUND BALANCES	<u>38,327,353</u>	<u>62,522,002</u>	<u>508,486</u>	<u>101,357,841</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 130,054,830</u>	<u>\$ 68,772,004</u>	<u>\$ 3,560,972</u>	<u>\$ 202,387,806</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Position As of June 30, 2015

Fund balance of governmental funds \$ 101,357,841

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

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

Capital assets, net	404,404,812
Projects under construction	26,649,023

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

Net other post employment benefits	1,767,775
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds

Unavailable revenue	8,180,360
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Deferred outflow of resources, including loss on refunding and net deferred pension activity are not financial resources and therefore are not reported in the

5,596,709

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

Long-term obligations	(144,025,038)
Installment purchase obligations	(497,800)
Capital lease obligations	(199,540)
Accrued interest payable-net of IRS subsidy	(1,864,352)
Compensated absences and net pension liability	<u>(58,673,452)</u>

Net position of governmental activities \$ 342,696,338

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds
REVENUE				
General property taxes	\$ 118,513,533	\$ -	\$ -	\$ 118,513,533
Other local taxes	80,477,072	3,360,783	2,090,790	85,928,645
Licenses and permits	1,362,651	-	2,129,873	3,492,524
Court costs and fines	383,897	-	-	383,897
Charges for services	434,237	-	314,874	749,111
Revenue from uses of property	881,502	-	38,482	919,984
Reimbursed expenses	1,212,768	-	3,010	1,215,778
Miscellaneous revenues	452,632	671,461	201,109	1,325,202
Shared taxes and grants	3,355,253	4,007,447	3,494,147	10,856,847
Highway	1,554,706	-	-	1,554,706
Total Revenue	208,628,251	8,039,691	8,272,285	224,940,227
EXPENDITURES				
Current:				
General government	23,779,920	-	-	23,779,920
Public safety	39,155,311	-	1,396,074	40,551,385
Health	2,339,270	-	-	2,339,270
Social services	571,517	-	-	571,517
Education	103,810,462	-	-	103,810,462
Parks, recreation and culture	5,622,928	-	201,435	5,824,363
Natural resources	595,350	-	1,094,340	1,689,690
Intergovernmental	38,543	-	-	38,543
General operations	2,003,326	-	680,682	2,684,008
Community promotion	-	-	5,958,403	5,958,403
Highways and streets	9,953,368	-	-	9,953,368
Debt service	14,652,478	-	-	14,652,478
Capital outlay:				
General government	-	5,424,885	-	5,424,885
Public safety	-	1,740,699	-	1,740,699
Highways and streets	-	14,644,376	-	14,644,376
Education	-	9,680,606	-	9,680,606
Parks and recreation	-	322,718	-	322,718
Total Expenditures	202,522,473	31,813,284	9,330,934	243,666,691
Excess (Deficiency) Of Revenue Over Expenditures	6,105,778	(23,773,593)	(1,058,649)	(18,726,464)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	3,044,000	1,025,872	4,069,872
Transfers out	(5,974,080)	(655,000)	(387,000)	(7,016,080)
Principal amount of new debt for advance refunding	26,026,715	-	-	26,026,715
Deposit to escrow fund for advance refunding and and repayment of loans	(26,021,529)	-	-	(26,021,529)
Proceeds of bond sale	-	12,763,908	-	12,763,908
TOTAL OTHER FINANCING SOURCES (USES)	(5,968,894)	15,152,908	638,872	9,822,886
NET CHANGES IN FUND BALANCE	136,884	(8,620,685)	(419,777)	(8,903,578)
FUND BALANCES - BEGINNING OF YEAR	38,190,469	71,142,687	928,263	110,261,419
FUND BALANCES - END OF YEAR	\$ 38,327,353	\$ 62,522,002	\$ 508,486	\$ 101,357,841

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2015

Net changes in fund balances in governmental funds \$ (8,903,578)

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

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

Capital outlay capitalized	\$ 19,385,743	
Depreciation	<u>(18,575,567)</u>	810,176

In the statement of activities, only the gain or loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold. (5,022)

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

Debt and lease proceeds	\$ (12,769,094)	
Payments of installment purchase principal	517,737	
Payments of lease principal	160,781	
Payments of debt principal	<u>10,147,504</u>	(1,943,072)

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 exceeded the amount earned. 1,755,861

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. 14,165,997

Change in net position of governmental activities \$ 5,880,362

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Net Position - Proprietary Funds
For the Year Ended June 30, 2015

	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	\$ 15,784,465	\$ 11,993,197	\$ 690,731	\$ 664,581	\$ 29,132,974
Accounts receivable, net	1,155,577	239,902	20,260	15,030	1,430,769
Unbilled receivables	1,394,899	296,444	31,509	561	1,723,413
Due from other funds	6,800,662	5,130,323	-	-	11,930,985
Due from other governmental agencies	1,160,204	-	456,178	335,959	1,952,341
Inventories	96,498	13,851	32,247	121,451	264,047
Total current assets	<u>26,392,305</u>	<u>17,673,717</u>	<u>1,230,925</u>	<u>1,137,582</u>	<u>46,434,529</u>
Noncurrent Assets:					
Projects under construction	4,593,658	2,836,580	536,893	29,339	7,996,470
Property, plant and equipment	182,029,292	63,830,752	150,095,840	12,113,288	408,069,172
Accumulated depreciation	<u>(61,149,910)</u>	<u>(41,939,930)</u>	<u>(57,917,227)</u>	<u>(6,598,703)</u>	<u>(167,605,770)</u>
Total noncurrent assets	<u>125,473,040</u>	<u>24,727,402</u>	<u>92,715,506</u>	<u>5,543,924</u>	<u>248,459,872</u>
TOTAL ASSETS	<u>151,865,345</u>	<u>42,401,119</u>	<u>93,946,431</u>	<u>6,681,506</u>	<u>294,894,401</u>
DEFERRED OUTFLOWS OF RESOURCES					
Loss on refundings	<u>358,125</u>	<u>350,209</u>	<u>29,810</u>	<u>-</u>	<u>738,144</u>
LIABILITIES					
Current Liabilities:					
Current maturities of long-term obligations	1,892,775	1,383,414	251,330	-	3,527,519
Current maturities of capital lease obligations	11,738	-	-	-	11,738
Accounts payable	684,493	424,041	247,318	79,805	1,435,657
Accrued expenses	354,376	37,392	16,832	64,238	472,838
Accrued interest	6,743,184	252,331	18,225	-	7,013,740
Unearned revenue	86,613	532,895	800,002	30,550	1,450,060
Compensated absences	225,956	65,348	27,442	76,587	395,333
Landfill closure and post-closure costs	-	235,200	-	-	235,200
Other liabilities	7,300	-	43,760	24,236	75,296
Total current liabilities	<u>10,006,435</u>	<u>2,930,621</u>	<u>1,404,909</u>	<u>275,416</u>	<u>14,617,381</u>
Non Current Liabilities:					
Unearned revenue	639,857	-	-	-	639,857
Compensated absences	89,604	31,432	11,795	36,832	169,663
Bonds and long-term debt	22,516,548	18,150,724	832,792	-	41,500,064
Capital lease obligations	38,830	-	-	-	38,830
Landfill closure and post-closure costs	-	15,166,731	-	-	15,166,731
Total noncurrent liabilities	<u>23,284,839</u>	<u>33,348,887</u>	<u>844,587</u>	<u>36,832</u>	<u>57,515,145</u>
TOTAL LIABILITIES	<u>33,291,274</u>	<u>36,279,508</u>	<u>2,249,496</u>	<u>312,248</u>	<u>72,132,526</u>
DEFERRED INFLOWS OF RESOURCES					
Service concession arrangements	<u>-</u>	<u>-</u>	<u>26,246,880</u>	<u>-</u>	<u>26,246,880</u>
Net Position					
Net investment in capital assets	109,490,927	5,193,264	91,631,384	5,543,924	211,859,499
Restricted - capital projects	8,477,778	-	-	-	8,477,778
Unrestricted	963,491	1,278,556	(26,151,519)	825,334	(23,084,138)
TOTAL NET POSITION	<u>\$118,932,196</u>	<u>\$ 6,471,820</u>	<u>\$ 65,479,865</u>	<u>\$ 6,369,258</u>	<u>\$197,253,139</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2015

	Enterprise Funds				Totals
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	
OPERATING REVENUE					
Charges for services	\$ 10,386,767	\$ 5,104,343	\$ 2,398,450	\$ 1,276,491	\$ 19,166,051
Miscellaneous	366,824	122,107	25,269	23,113	537,313
TOTAL OPERATING REVENUE	<u>10,753,591</u>	<u>5,226,450</u>	<u>2,423,719</u>	<u>1,299,604</u>	<u>19,703,364</u>
OPERATING EXPENSES					
Salaries and wages	3,609,595	1,177,368	528,282	1,656,982	6,972,227
Fringe benefits	2,223,796	565,072	273,395	750,802	3,813,065
Utilities	815,355	50,764	161,302	81,703	1,109,124
Insurance	117,026	26,350	34,490	40,648	218,514
Repairs and maintenance	268,740	-	109,378	170,816	548,934
Supplies	256,705	91,011	8,833	51,314	407,863
Cost of goods sold	-	-	-	97,322	97,322
Contracted services	269,426	1,715,030	61,557	232,646	2,278,659
Rentals and leases	23,742	1,974	6,389	106,870	138,975
Other operating	1,188,730	367,615	202,623	359,296	2,118,264
Uncollectible accounts	(1,142)	1,776	4,638	60	5,332
Controllable assets	8,100	-	27,291	5,135	40,526
Depreciation	2,933,386	3,209,108	6,550,828	696,324	13,389,646
TOTAL OPERATING EXPENSES	<u>11,713,459</u>	<u>7,206,068</u>	<u>7,969,006</u>	<u>4,249,918</u>	<u>31,138,451</u>
OPERATING LOSS	<u>(959,868)</u>	<u>(1,979,618)</u>	<u>(5,545,287)</u>	<u>(2,950,314)</u>	<u>(11,435,087)</u>
OTHER INCOME (EXPENSE)					
Interest expense	(994,359)	(513,981)	(24,629)	-	(1,532,969)
Interest income	163,288	2,077	8,177	30	173,572
Gain (loss) on disposal of assets	-	-	29,899	(15,741)	14,158
TOTAL OTHER INCOME (EXPENSE)	<u>(831,071)</u>	<u>(511,904)</u>	<u>13,447</u>	<u>(15,711)</u>	<u>(1,345,239)</u>
LOSS BEFORE OPERATING TRANSFERS AND GRANTS	<u>(1,790,939)</u>	<u>(2,491,522)</u>	<u>(5,531,840)</u>	<u>(2,966,025)</u>	<u>(12,780,326)</u>
OPERATING TRANSFERS	81,808	491,360	64,500	1,810,540	2,448,208
GRANTS FOR OPERATING	-	-	44,994	1,337,954	1,382,948
NET LOSS BEFORE CAPITAL TRANSFERS AND GRANTS	<u>(1,709,131)</u>	<u>(2,000,162)</u>	<u>(5,422,346)</u>	<u>182,469</u>	<u>(8,949,170)</u>
CAPITAL TRANSFERS	-	-	399,000	99,000	498,000
CAPITAL GRANTS AND CONTRIBUTIONS	1,574,287	-	576,562	595,300	2,746,149
NET CHANGES IN NET POSITION	<u>(134,844)</u>	<u>(2,000,162)</u>	<u>(4,446,784)</u>	<u>876,769</u>	<u>(5,705,021)</u>
NET POSITION - BEGINNING OF YEAR	<u>119,067,040</u>	<u>8,471,982</u>	<u>69,926,649</u>	<u>5,492,489</u>	<u>202,958,160</u>
NET POSITION - END OF YEAR	<u>\$ 118,932,196</u>	<u>\$ 6,471,820</u>	<u>\$ 65,479,865</u>	<u>\$ 6,369,258</u>	<u>\$ 197,253,139</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, 2015

	Enterprise Funds				
	Water Quality Fund	Solid Waste Fund	Airport Fund	Non-major Funds	Total
Cash Flows from Operating Activities					
Receipts from customers	\$10,582,321	\$ 5,438,431	\$ 1,914,194	\$ 1,985,792	\$ 19,920,738
Payments to suppliers	(3,164,942)	(2,482,460)	(1,028,476)	(1,123,386)	(7,799,264)
Payments to employees	(5,798,342)	(1,733,433)	(799,821)	(2,405,781)	(10,737,377)
Net Cash from Operating Activities	<u>1,619,037</u>	<u>1,222,538</u>	<u>85,897</u>	<u>(1,543,375)</u>	<u>1,384,097</u>
Cash Flows from Noncapital Financing Activities					
Operating contributions	81,808	491,360	109,494	3,148,494	3,831,156
Increase (decrease) in due to/from other funds	(1,132,571)	-	-	(1,059,386)	(2,191,957)
Net Cash from Noncapital Financing Activities	<u>(1,050,763)</u>	<u>491,360</u>	<u>109,494</u>	<u>2,089,108</u>	<u>1,639,199</u>
Cash Flows from Capital and Related Financing Activities					
Interest paid on notes and bond payable	(1,397,751)	(567,193)	(27,002)	30	(1,991,916)
Acquisition and construction of capital assets	(5,518,002)	(2,983,575)	(727,601)	(560,741)	(9,789,919)
Gain (loss) on the sale of assets	-	-	29,899	(15,741)	14,158
Contribution for capital acquisitions	1,574,287	-	975,562	694,300	3,244,149
Principal payments on notes and bonds payable	2,375,970	(1,406,291)	(254,193)	-	715,486
Net Cash from Capital and Related Financing Activities	<u>(2,965,496)</u>	<u>(4,957,059)</u>	<u>(3,335)</u>	<u>117,848</u>	<u>(7,808,042)</u>
Cash Flows from Investing Activities					
Interest on investments	163,288	2,077	8,177	-	173,542
Net change in cash	(2,233,934)	(3,241,084)	200,233	663,581	(4,611,204)
Cash, Beginning of Year	18,018,399	15,234,281	490,498	1,000	33,744,178
Cash, End of Year	<u>\$15,784,465</u>	<u>\$11,993,197</u>	<u>\$ 690,731</u>	<u>\$ 664,581</u>	<u>\$ 29,132,974</u>
Non-Cash Operating Activities					
Loss on refunding	\$ 358,125	\$ 350,209	\$ 29,810	\$ -	\$ 738,144
Non-Cash Capital and Related Financing Activities					
Capital lease	\$ (11,182)	\$ -	\$ -	\$ -	\$ (11,182)
Reconciliation of Operating Loss to Net Cash from Operating Activities					
Operating loss	\$ (959,868)	\$(1,979,618)	\$ (5,545,287)	\$(2,950,314)	\$(11,435,087)
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	2,933,386	3,209,108	6,550,828	696,324	13,389,646
Changes in assets and liabilities:					
Accounts receivable	100,192	(32,628)	126,872	(4,049)	190,387
Unbilled receivables	9,504	(24,707)	(25,782)	(9)	(40,994)
Due to/from other government entities	(270,627)	212,432	313,671	659,946	915,422
Inventories	4,189	1,413	13,259	(3,748)	15,113
Accounts payable and other liabilities	(222,449)	(39,050)	(425,234)	21,675	(665,058)
Accrued expenses	21,094	4,521	2,700	14,892	43,207
Landfill closure	-	(190,303)	-	-	(190,303)
Unearned revenue	(10,339)	56,884	(924,286)	30,300	(847,441)
Compensated absences	13,955	4,486	(844)	(8,392)	9,205
Net Cash from Operating Activities	<u>\$ 1,619,037</u>	<u>\$ 1,222,538</u>	<u>\$ 85,897</u>	<u>\$(1,543,375)</u>	<u>\$ 1,384,097</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Statement of Net Position – Fiduciary Funds
As of June 30, 2015**

	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>	<u>Agency</u>
ASSETS					
Cash and short-term investments	\$ 5,456,898	\$ 288,576	\$ 850,744	\$ 65,524	\$ 3,299,586
Investments, at fair value:					
US Government obligations	11,391,323	1,136,045	1,989,936	-	-
Municipal bonds	2,286,614	-	-	-	-
Corporate bonds and obligations	4,908,084	555,174	1,013,306	-	-
Fixed income securities	5,834,715	586,605	1,454,813	-	-
Corporate stock	26,530,254	2,139,627	4,080,034	-	-
Equity funds	35,576,442	3,245,954	6,555,180	61,848	-
Accounts receivable	127,157	11,304	20,531	-	-
Due from other funds	-	-	-	-	-
TOTAL ASSETS	<u>92,111,487</u>	<u>7,963,285</u>	<u>15,964,544</u>	<u>127,372</u>	<u>3,299,586</u>
LIABILITIES					
Accounts payable	-	-	-	-	134,069
Due to other funds	-	-	-	651	-
Due to student groups	-	-	-	-	3,165,517
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>651</u>	<u>3,299,586</u>
NET POSITION					
Held in trust for pension and OPEB	92,111,487	7,963,285	15,964,544	-	-
Held in trust for scholarships	-	-	-	126,721	-
NET POSITION	<u>\$ 92,111,487</u>	<u>\$ 7,963,285</u>	<u>\$ 15,964,544</u>	<u>\$ 126,721</u>	<u>\$ -</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Statement of Changes in Net Position - Fiduciary Funds
For Year Ended June 30, 2015

	<u>Pension Trust</u>	<u>LOSAP Trust</u>	<u>OPEB Trust</u>	<u>Private Purpose Trust</u>
ADDITIONS				
Contributions:				
Employer	\$ 6,786,549	\$ 600,000	\$ 1,006,600	\$ -
Plan members	1,871,200	-	-	-
Gifts and contributions	-	-	-	35,200
Receipts of In-kind	220,613	-	59,148	-
Total Contributions	<u>8,878,362</u>	<u>600,000</u>	<u>1,065,748</u>	<u>35,200</u>
Investment Income:				
Realized and unrealized gains	2,424,151	202,417	(1,245,081)	-
Interest and dividends	1,141,352	98,909	104,375	1,281
Other income	1,181,690	80,185	1,864,280	-
Total Investment Income	<u>4,747,193</u>	<u>381,511</u>	<u>723,574</u>	<u>1,281</u>
TOTAL ADDITIONS	<u>13,625,555</u>	<u>981,511</u>	<u>1,789,322</u>	<u>36,481</u>
DEDUCTIONS				
Benefits	6,880,887	461,316	-	-
Scholarship expenses	-	-	-	37,856
Administrative expenses	604,197	23,215	110,551	-
TOTAL DEDUCTIONS	<u>7,485,084</u>	<u>484,531</u>	<u>110,551</u>	<u>37,856</u>
CHANGES IN NET POSITION	6,140,471	496,980	1,678,771	(1,375)
NET POSITION - BEGINNING OF YEAR	<u>85,971,016</u>	<u>7,466,305</u>	<u>14,285,773</u>	<u>128,096</u>
NET POSITION - END OF YEAR	<u>\$ 92,111,487</u>	<u>\$ 7,963,285</u>	<u>\$ 15,964,544</u>	<u>\$ 126,721</u>

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

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, 2015 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, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued)

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

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

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

Government-Wide and Fund Financial Statements

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

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, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fiduciary funds:

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(continued)

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

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

Use of Estimates in the Preparation of Financial Statements

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

Capital Assets

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

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

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

Long-Term Obligations

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

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

Investments

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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

Inventories

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

Employee Benefit Programs

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

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

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

Taxes and County Services

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Real Estate and Personal Property Taxes

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

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

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

Rate of County Taxes:

Income tax	2.8% of Maryland taxable income (2014 and 2015 calendar years)
Recordation tax	\$3.80 per \$500
Trailer park	15% of gross rentals
Property taxes	\$0.948 per \$100 of assessable base

Cash Flows

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

Concentrations of Credit Risk

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position and Fund Equity

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

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

Implementation of New Accounting Principles

The County has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As part of GASB 68 the County is required to record its net funded pension liability.

GASB also issued Statement No. 69, entitled *Government Combinations and Disposals of Government Operation*, and GASB Statement No. 70, entitled *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Both statements were adopted this fiscal year but had no effect on these accompanying financial statements.

The, GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*; Statement No. 73, entitled, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 74 entitled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 76; entitled, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*; and GASB Statement No. 77; entitled, *Tax Abatement Disclosures, which will require adoption in the future, if applicable*. These statements may or will have a material effect on the County’s financial statements once implemented.

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

Financial Capacity and Analysis Phase

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Budget Development Start

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

Budget Development Phase

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Review and Modification Phase

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

Adoption Phase

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

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

Start Up

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

Balanced Budget

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

Costing of Services

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

Budgetary Information (continued)

Amendment to the Budget

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

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

3. CASH AND SHORT-TERM INVESTMENTS

County

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

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

Deposits

As of June 30, 2015, the carrying amount of the County's deposits was \$31,826,979 and the bank balances were \$33,395,104. All deposits are carried at cost plus accrued interest. There were no significant violations of the collateralization requirements during the year ended June 30, 2015. 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, 2015, the County's bank balance of \$33,395,104 was exposed to custodial credit risk as \$250,000 of interest bearing accounts and \$250,000 of noninterest bearing accounts are insured by FDIC, \$15,000,000 is covered by a short term line of credit, and the remainder is collateralized through the Bank of New York Mellon.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

3. CASH AND SHORT-TERM INVESTMENTS (continued)

County (continued)

Investments

As of June 30, 2015, 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	\$ 110,312,769	\$ 100,312,769	\$ 10,000,000	\$ -	\$ -
Certificates of Deposit	457,725	-	457,725	-	-
Total investments held in County's name	110,770,494	100,312,769	10,457,725	-	-
Investments held by trustee of					
Pension plan:					
U.S. government obligations, municipal and corporate bonds	18,586,021	3,996,843	3,000,720	3,931,407	7,657,051
Fixed income securities	5,834,715	5,834,715	-	-	-
Corporate stocks	26,530,254	26,530,254	-	-	-
Equity funds	35,576,442	35,576,442	-	-	-
Money market funds	5,456,898	5,456,898	-	-	-
Interest and dividends receivable	127,157	127,157	-	-	-
Total Investments held by trustee of pension plan	92,111,487	77,522,309	3,000,720	3,931,407	7,657,051
Investments held by trustee of					
LOSAP plan:					
U.S. government obligations and corporate bonds	1,691,219	415,790	275,365	329,264	670,800
Corporate stocks	2,139,627	2,139,627	-	-	-
Fixed income funds	586,605	586,605	-	-	-
Equity funds	3,245,954	3,245,954	-	-	-
Money market funds	288,576	288,576	-	-	-
Interest and dividends receivable	11,304	11,304	-	-	-
Total Investments held by trustee of LOSAP plan	7,963,285	6,687,856	275,365	329,264	670,800
Investments held by trustee of					
OPEB plan:					
U.S. government obligations and corporate bonds	3,003,242	781,369	415,416	600,699	1,205,758
Corporate stocks	4,080,034	4,080,034	-	-	-
Fixed income funds	1,454,813	1,454,813	-	-	-
Equity funds	6,555,180	6,555,180	-	-	-
Money market funds	850,744	850,744	-	-	-
Interest and dividends receivable	20,531	20,531	-	-	-
Total Investments held by trustee of OPEB plan	15,964,544	13,742,671	415,416	600,699	1,205,758
Total investments	\$ 226,809,810	\$ 198,265,605	\$ 14,149,226	\$ 4,861,370	\$ 9,533,609

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments (continued)

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Investments (continued)

Credit Risk: It is the County's investment policy to only invest in U.S. Government Treasury obligations, agencies and sponsored instrumentalities. Also the County's investment policy allows for investments in banks located in the State of Maryland (Certificates of Deposit) with the exception of Bankers Acceptances. Commercial banks must have a short-term rating of at least investment grade from the appropriate bank rating agencies. Bankers' Acceptances from domestic banks, which also include United States affiliates of large international banks, must have a rating of A1 from Standards and Poor's Corporation and P1 from Moody's Investor Services. As of June 30, 2015, the County's investments were 100% in U.S. Treasury and Agency obligations and certificates of deposit.

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2015, none of the County's investments are exposed to custodial credit risk because they are held in the County's name.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education

Cash:

Credit Risk: Maryland State Law prescribes that local government units, such as the School System, must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels with collateral whose market value is at least equal to the deposits. Any cash deposit exceeding the FDIC insurance level will require collateralization. Beginning January 1, 2013, FDIC coverage limits are applied to total noninterest-bearing accounts separately from interest-bearing accounts. Additionally, a compensating balance agreement exists with the Board’s primary financial institution. This non-interest bearing deposit is maintained in lieu of cash payments for standard bank services. The required average balance totaled \$250,000 at June 30, 2015.

Compliance is summarized as follows:

<u>June 30, 2015</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Responsibilities</u>	<u>Total</u>
Carrying amount of cash deposits	\$ 26,028,969	\$ 58,387	\$ 3,365,110	\$ 29,452,466
Bank balance of cash deposits	27,885,813	57,417	3,538,835	31,482,065
Amount covered by FDIC	499,121	45,218	873,371	1,417,710
Amount collateralized with securities held by an agent of the pledging financial institution in the School system’s name	27,386,692	12,199	2,665,464	30,064,355

Investments:

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

3. CASH AND SHORT-TERM INVESTMENTS (continued)

Board of Education (continued)

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

As of June 30, 2015, the School System had the following investments and maturities:

<u>June 30, 2015</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Responsibilitie</u>	<u>Total</u>
Federal Home Loan Bank – 1.405% matures December 26, 2019	\$ 988,150	\$ -	\$ -	\$ 988,150
Federal Home Loan Mortgage Corp. - 1.125% matures March 27, 2018	2,495,000	-	-	2,495,000
Federal Home Loan Mortgage Corp. - 1.000% matures September 22, 2017	4,995,700	-	-	4,995,700
Federal National Mortgage Association - 1.259% matures January 30, 2019	3,997,280	-	-	3,997,280
Federal National Loan Bank - Step Up/Variable matures December 28, 2020	989,390	-	-	989,390
Federal Home Loan Bank - 1.370% matures on October 24, 2019	2,961,960	-	-	2,961,960
Federal Home Loan Bank - 1.640% matures December 10, 2018	5,500,880	-	-	5,500,880
Income Fund of America	-	-	61,848	61,848
	<u>\$ 21,928,360</u>	<u>\$ -</u>	<u>\$ 61,848</u>	<u>\$ 21,990,208</u>

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
	<u>June 30, 2015</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Agencies	\$ 21,928,360	\$ -	\$ 20,938,970	\$ 989,390	\$ -
Income Fund	61,848	61,848	-	-	-
	<u>\$ 21,990,208</u>	<u>\$ 61,848</u>	<u>\$ 20,938,970</u>	<u>\$ 989,390</u>	<u>\$ -</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

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	Capital Projects	Non-Major	Total
Receivables:				
Taxes receivable	\$ 676,704	\$ -	\$ -	\$ 676,704
Accounts receivable	439,894	597,153	316,119	1,353,166
Gross receivables	1,116,598	597,153	316,119	2,029,870
Less: allowance for uncollectibles	165,260	-	-	165,260
Net Total Receivables	\$ 951,338	\$ 597,153	\$ 316,119	\$ 1,864,610

	Business-type Activities				
	Water Quality	Solid Waste	Airport	Non-major	Total
Accounts receivable	\$ 1,168,562	\$ 307,303	\$ 81,489	\$ 15,530	\$ 1,572,884
Less: allowance for uncollectibles	12,985	67,401	61,229	500	142,115
Net Total Receivables	\$ 1,155,577	\$ 239,902	\$ 20,260	\$ 15,030	\$ 1,430,769

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also record unearned revenue in connection with resources that have been received, but not yet earned. As of the end of the current fiscal year unearned revenue for delinquent property taxes receivable reported in the General Fund was \$166,936. 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, 2015

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

Primary Government

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 79,559,181	\$ 3,521,165	\$ -	\$ 83,080,346
Capital assets, being depreciated:				
Land improvements	11,983,499	1,176,120	(14,604)	13,145,015
Building and improvements	89,295,047	1,560,145	-	90,855,192
vehicles	13,988,760	683,906	(545,593)	14,127,073
Infrastructure	1,136,310,588	8,112,427	-	1,144,423,015
Machinery and equipment	9,210,063	691,782	(536,344)	9,365,501
Office furniture and equipment	5,496,308	139,232	(29,340)	5,606,200
Computer equipment	31,679,442	907,456	(13,517)	32,573,381
Total capital assets, being depreciated	<u>1,297,963,707</u>	<u>13,271,068</u>	<u>(1,139,398)</u>	<u>1,310,095,377</u>
Total capital assets	<u>1,377,522,888</u>	<u>16,792,233</u>	<u>(1,139,398)</u>	<u>1,393,175,723</u>
Accumulated depreciation for:				
Land improvements	(5,134,945)	(344,007)	14,604	(5,464,348)
Building and improvements	(26,885,195)	(2,374,653)	-	(29,259,848)
Vehicles	(10,677,163)	(803,625)	540,571	(10,940,217)
Infrastructure	(899,744,100)	(11,832,287)	-	(911,576,387)
Machinery and equipment	(6,646,045)	(407,746)	536,343	(6,517,448)
Office furniture and equipment	(5,356,977)	(110,351)	29,340	(5,437,988)
Computer equipment	(16,843,935)	(2,744,256)	13,516	(19,574,675)
Total Accumulated Depreciation	<u>(971,288,360)</u>	<u>(18,616,925)</u>	<u>1,134,374</u>	<u>(988,770,911)</u>
Governmental activities capital assets, net	<u>\$ 406,234,528</u>	<u>\$ (1,824,692)</u>	<u>\$ (5,024)</u>	<u>\$ 404,404,812</u>
Projects Under Construction	<u>\$ 14,638,793</u>	<u>\$ 22,132,678</u>	<u>\$ (10,122,448)</u>	<u>\$ 26,649,023</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements
June 30, 2015

5. CAPITAL ASSETS (continued)

Business-type Activities

	Balance			Balance
	June 30, 2014	Additions	Retirements	June 30, 2015
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 12,052,287	\$ -	\$ -	\$ 12,052,287
Capital assets, being depreciated:				
Land improvements	136,684,203	769,767	(54,444)	137,399,526
Building and improvements	63,235,558	25,550	-	63,261,108
Facilities	114,347,347	2,963,310	-	117,310,657
Vehicles	7,972,600	637,925	(353,429)	8,257,096
Machinery and equipment	12,410,242	132,495	(279,752)	12,262,985
Office furniture and equipment	323,205	-	-	323,205
Computer equipment	2,580,117	-	(50,930)	2,529,187
Treatment plants	51,502,321	3,170,800	-	54,673,121
Total capital assets, being depreciated	<u>389,055,593</u>	<u>7,699,847</u>	<u>(738,555)</u>	<u>396,016,885</u>
Total capital assets	<u>401,107,880</u>	<u>7,699,847</u>	<u>(738,555)</u>	<u>408,069,172</u>
Accumulated depreciation for:				
Land improvements	(70,793,589)	(7,882,612)	48,154	(78,628,047)
Building and improvements	(15,877,640)	(1,568,124)	-	(17,445,764)
Facilities	(29,787,382)	(1,480,685)	-	(31,268,067)
Vehicles	(5,807,312)	(692,388)	353,429	(6,146,271)
Machinery and equipment	(8,805,682)	(582,255)	262,861	(9,125,076)
Office furniture and equipment	(322,916)	(290)	-	(323,206)
Computer equipment	(1,918,526)	(268,324)	50,930	(2,135,920)
Treatment plants	(21,600,540)	(932,879)	-	(22,533,419)
Total Accumulated Depreciation	<u>(154,913,587)</u>	<u>(13,407,557)</u>	<u>715,374</u>	<u>(167,605,770)</u>
Business-type activities capital assets, net	<u>\$ 246,194,293</u>	<u>\$ (5,707,710)</u>	<u>\$ (23,181)</u>	<u>\$ 240,463,402</u>
Projects Under Construction	<u>\$ 5,876,488</u>	<u>\$ 9,857,252</u>	<u>\$ (7,737,270)</u>	<u>\$ 7,996,470</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

5. CAPITAL ASSETS (continued)

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

Governmental Activities:

General Government	\$ 13,824,532
Public Safety	3,978,145
Recreation	297,294
Conservation of Natural Resources	944
Highway	<u>474,652</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 18,575,567</u></u>

Business-Type Activities:

Transit Fund	\$ 612,692
Airport Fund	6,550,828
Golf Course Fund	83,632
Water Quality Fund	2,933,386
Solid Waste Fund	<u>3,209,108</u>
Total Depreciation Expense – Business-Type Activities	<u><u>\$ 13,389,646</u></u>

Board of Education (Discretely presented component unit)

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Government activities				
Capital assets, not being depreciated:				
Land	\$ 8,692,987	\$ -	\$ -	\$ 8,692,987
Facilities under construction	<u>20,978,265</u>	<u>6,875,002</u>	<u>(19,576,138)</u>	<u>8,277,129</u>
	<u>29,671,252</u>	<u>6,875,002</u>	<u>(19,576,138)</u>	<u>16,970,116</u>
Capital assets, being depreciated:				
Building and improvements	297,412,132	22,323,098	(247,394)	319,487,836
Furniture and equipment	43,570,496	3,624,841	(1,415,014)	45,780,323
Equipment under capital leases	<u>9,743,869</u>	<u>1,002,859</u>	<u>(1,319,876)</u>	<u>9,426,852</u>
	<u>350,726,497</u>	<u>26,950,798</u>	<u>(2,982,284)</u>	<u>374,695,011</u>
Accumulated depreciation:				
Building and improvements	(123,096,635)	(7,333,880)	246,253	(130,184,262)
Furniture and equipment	(26,970,401)	(3,321,156)	1,288,763	(29,002,794)
Buildings and equipment under capital lease	<u>(2,108,556)</u>	<u>(517,140)</u>	<u>1,319,876</u>	<u>(1,305,820)</u>
	<u>(152,175,592)</u>	<u>(11,172,176)</u>	<u>2,854,892</u>	<u>(160,492,876)</u>
Governmental activities capital assets, net	<u><u>\$ 228,222,157</u></u>	<u><u>\$ 22,653,624</u></u>	<u><u>\$ (19,703,530)</u></u>	<u><u>\$ 231,172,251</u></u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

5. CAPITAL ASSETS (continued)

Board of Education (continued)

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Business-type activities				
Capital assets, being depreciated:				
Furniture and equipment	\$ 4,599,791	\$ 276,250	\$ (78,745)	\$ 4,797,296
Accumulated depreciation				
Furniture and equipment	(3,198,298)	(206,043)	65,564	(3,338,777)
Business-type activities capital assets, net	<u>\$ 1,401,493</u>	<u>\$ 70,207</u>	<u>\$ (13,181)</u>	<u>\$ 1,458,519</u>

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

Governmental activities:	
Other instructional costs	\$ 2,055,299
Student transportation services	1,235,876
Operation of plant	175,845
Depreciation - unallocated	7,705,156
Total governmental activities depreciation expense	<u>\$ 11,172,176</u>
Business-type activities:	
Food services	<u>\$ 206,043</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

6. INTERFUND RECEIVABLES AND PAYABLES

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Quality	General Fund	\$ 6,682,962
	HEPMPO	117,700
Solid Waste	General Fund	5,041,533
	HEPMPO	88,790
Capital Projects	General Fund	<u>65,312,740</u>
Total		<u>\$ 77,243,725</u>

Due to/from primary government and component unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Component unit - Board of Education	Primary government - capital projects	\$ 1,904,013

All interfund payables are without interest.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

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	\$ -	\$ -	\$ -	\$ 2,950,000
Solid Waste	-	491,360	-	-
Public Transit	-	472,270	-	-
Water Quality	-	81,808	-	-
Community Grants Management	-	291,420	-	-
Agricultural Education Center	-	189,190	-	-
Golf Course	-	1,351,590	-	-
HEPMPO	-	7,510	-	-
Land Preservation	-	124,432	-	-
Airport	-	14,500	-	-
Capital Projects Fund:				
General Fund	-	-	2,707,000	-
Airport Fund	-	-	-	255,000
Hotel Rental Fund	-	-	337,000	-
Land Preservation	-	-	-	400,000
Solid Waste:				
General Fund	491,360	-	-	-
Public Transit:				
General Fund	472,270	-	-	-
HEPMPO	-	13,320	-	-
Water Quality:				
General Fund	81,808	-	-	-
Airport:				
General Fund	14,500	-	144,000	-
Hotel Rental	50,000	-	-	-
Capital Project Fund	-	-	255,000	-
Golf Course:				
General Fund	1,351,590	-	99,000	-
Community Grant Management Fund:				
General Fund	291,420	-	-	-
Agricultural Education Center:				
General Fund	189,190	-	-	-
HEPMPO:				
General Fund	7,510	-	-	-
Public Transit Fund	13,320	-	-	-
Hotel Rental:				
Capital Project Fund	-	-	-	337,000
Airport	-	50,000	-	-
Land Preservation:				
General Fund	124,432	-	-	-
Capital Projects Fund	-	-	400,000	-
Total	\$ 3,087,400	\$ 3,087,400	\$ 3,942,000	\$ 3,942,000

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Bonds payable:						
General obligation bonds	2.0-5.5%	\$ 130,586,824	\$ 35,819,710	\$ 33,969,997	\$ 132,436,537	\$ 9,430,515
Unamortized bond premium		4,297,329	2,970,923	568,149	6,700,103	-
Total bonds payable		<u>134,884,153</u>	<u>38,790,633</u>	<u>34,538,146</u>	<u>139,136,640</u>	<u>9,430,515</u>
Other loans payable						
Maryland Water Quality loans	1.0%	5,176,743	-	288,345	4,888,398	290,895
Total bonds and loans payable		140,060,896	38,790,633	34,826,491	144,025,038	9,721,410
Agricultural Land Preservation	3.0%	1,015,537	-	517,737	497,800	351,794
Capital lease obligations	2.1%	360,321	-	160,781	199,540	167,077
Net pension liability		54,356,471	847,058	-	55,203,520	-
Governmental Activity Long-term Liabilities		<u>195,793,225</u>	<u>39,637,691</u>	<u>35,505,009</u>	<u>199,925,898</u>	<u>10,240,281</u>
Business-type Activities						
Bonds payable:						
General obligation bonds	2.0-5.9%	\$ 30,945,869	\$ 6,035,290	\$ 5,090,208	\$ 31,890,951	\$ 2,657,095
Unamortized bond premium		476,404	503,862	74,827	905,439	-
Unamortized bond discount		(14,152)	-	(4,068)	(10,084)	-
Total bonds payable		<u>31,408,121</u>	<u>6,539,152</u>	<u>5,160,967</u>	<u>32,786,306</u>	<u>2,657,095</u>
Other loans payable:						
Maryland Water Quality loans	0.40-1.7%	12,802,416	2,553,000	1,950,480	13,404,936	870,424
Amount to be drawn		-	(2,553,000)	(1,389,341)	(1,163,659)	-
Total other loans payable		<u>12,802,416</u>	<u>-</u>	<u>561,139</u>	<u>12,241,277</u>	<u>870,424</u>
Total bonds and loans payable		<u>44,210,537</u>	<u>6,539,152</u>	<u>5,722,106</u>	<u>45,027,583</u>	<u>3,527,519</u>
Capital lease obligations	4.90%	61,750	-	11,182	50,568	11,738
Business-type Activity Long-term Liabilities		<u>44,272,287</u>	<u>6,539,152</u>	<u>5,733,288</u>	<u>45,078,151</u>	<u>3,539,257</u>
Total Combined Activities Long-term Liabilities		<u>\$ 240,065,512</u>	<u>\$ 46,176,843</u>	<u>\$ 41,238,297</u>	<u>\$ 245,004,049</u>	<u>\$ 13,779,538</u>
Board of Education	4.5-11.64%	<u>\$ 6,695,262</u>	<u>\$ 1,002,859</u>	<u>\$ 694,606</u>	<u>\$ 7,003,515</u>	<u>\$ 557,057</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

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

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

Year ending June 30	Governmental Activities		Business-type Activities		Combined Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 9,721,410	\$ 4,062,008	\$ 3,527,519	\$ 2,488,118	\$ 13,248,929	\$ 6,550,126
2017	10,170,734	4,317,327	3,608,192	2,557,056	13,778,926	6,874,383
2018	9,621,029	4,020,627	4,096,337	2,537,117	13,717,366	6,557,744
2019	8,502,618	3,696,740	4,607,246	2,494,141	13,109,864	6,190,881
2020	9,115,277	3,373,401	4,159,246	2,445,866	13,274,523	5,819,267
2021-2025	42,074,317	12,158,432	12,669,606	2,776,366	54,743,923	14,934,798
2026-2030	31,213,782	5,593,332	8,474,455	1,288,406	39,688,237	6,881,738
2031-2035	16,051,952	1,403,022	3,769,559	240,171	19,821,511	1,643,193
2036	853,816	17,077	383,727	4,923	1,237,543	22,000
Total	<u>\$ 137,324,935</u>	<u>\$ 38,641,966</u>	<u>\$ 45,295,887</u>	<u>\$ 16,832,164</u>	<u>\$ 182,620,822</u>	<u>\$ 55,474,130</u>
Less:						
Unamortized discount	-		(10,084)		(10,084)	
Unamortized premium	6,700,103		905,439		7,605,542	
Amount to be drawn	-		(1,163,659)		(1,163,659)	
	<u>\$ 144,025,038</u>		<u>\$ 45,027,583</u>		<u>\$ 189,052,621</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, 2015, the unused authorization was \$49,837,722.

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, 2015, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$53,204,779.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

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, 2015, are as follows:

<u>As of June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2016	\$ 351,794	\$ 14,934	\$ 366,728
2017	146,006	4,380	150,386
	<u>\$ 497,800</u>	<u>\$ 19,314</u>	<u>\$ 517,114</u>

For the year ended June 30, 2015, total principal and interest incurred related to agricultural land preservation installments was \$517,737 and \$30,466, 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. On December 3, 2013, the General Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$671 through January 19, 2015, and annual lease payments of \$1,077 from February 19, 2015 through January 19, 2019. The future minimum lease payments under these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 171,192
2017	12,925
2018	12,925
2019	7,538
Total minimum payments	<u>204,580</u>
Less: amounts representing interest	<u>5,040</u>
Present value of net minimum lease payments	<u>\$ 199,540</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

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

Capital Leases (continued)

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

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 14,250
2017	14,250
2018	14,250
2019	14,250
Total minimum payments	57,000
Less: amounts representing interest	6,432
Present value of net minimum lease payments	<u>\$ 50,568</u>

The following is an analysis of the capital assets acquired under capital leases as of June 30, 2015.

	<u>Capitalized Amount</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value June 30, 2015</u>
General Fund	\$ 1,337,873	\$ 437,880	\$ 899,993
Water Quality	76,000	21,533	54,467
Total	<u>\$ 1,413,873</u>	<u>\$ 459,413</u>	<u>\$ 954,460</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>
2016	\$ 557,057	\$ 338,347	\$ 895,404
2017	591,238	304,166	895,404
2018	627,281	268,123	895,404
2019	661,558	230,064	891,622
2020	654,998	191,054	846,052
2021-2025	2,558,398	608,945	3,167,343
2026-2029	1,352,985	72,319	1,425,304
	<u>\$ 7,003,515</u>	<u>\$ 2,013,018</u>	<u>\$ 9,016,533</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

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

Capital Leases (continued)

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, 2015, \$27,730,000 of long-term obligations outstanding are considered defeased.

9. OPERATING LEASE AGREEMENTS

County

During fiscal year 2004, the County entered into a lease agreement whereby the lessee constructed a building and improvements on land owned at the Airport. The total cost of the building and improvements was capitalized as an asset in the Airport Fund with an estimated useful life of 40 years. As of June 30, 2004, the building and improvements were estimated at \$2,500,000. During the year ended June 30, 2005, a revised cost was obtained reducing the value to \$2,000,000. The \$500,000 adjustment was recorded as a reduction to fixed assets and deferred inflow of resources in the June 30, 2005, financial statements. The terms of the original agreement which began June 30, 2004, allowed the lessee to use the property for a period of 25 years, with no additional payments due. During fiscal year 2006, this lease was amended with lease terms extended to 31 years and additional building and improvements valued at \$1,800,000 were capitalized as an asset in the Airport Fund with an estimated useful life of 40 years. During fiscal year 2009, a second amendment to the lease agreement allowed for additional building and improvements valued at \$400,000 and an extension of the lease through December 31, 2042. The addition was capitalized as an asset in the Airport Fund with an estimated useful life of 40 years. Deferred inflow of resources in the amount of \$2,500,000 was recorded in the Airport Fund at the inception of this lease but was adjusted down to \$2,000,000 during year ended 2005, and was to be recognized as rental income over the original 25 year term of the lease. Since the amendments extending the lease term and the additional capitalization of building and improvements, the remaining deferred inflow of resources of \$3,587,724 as of June 30, 2010, will be amortized over 33 years. The terms of the agreement as amended in fiscal year 2009, allow the lessee to use the property for a period of 33 years. The terms of the lease agreement require that the lessee pay the County annual rent of \$5,250 beginning May 1, 2006, with an annual increase of 4% each May 1st thereafter. The lease also requires that the County credit the lessee \$127,500 for the lessee's incurred costs in excavating the site for the addition. The agreement allows an option for the lessee to continue the lease past the 33 year term at a rental payment equal to the fair market rental value of the leased property at that time.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

9. OPERATING LEASE AGREEMENTS (continued)

County (continued)

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

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

During year ending June 30, 2015, rental income for the above leases of \$880,214 was recognized in the Airport Fund.

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

The term of the lease runs for a period of ninety-nine years with fixed monthly rent payments of \$28,800. During the year ended June 30, 2015, outsourcing revenue of \$345,600 was recognized in the Water Quality Fund.

On January 19, 2012, Black Rock Golf Course entered into a new lease for golf carts. The agreement called for lease payments of \$8,077 payable from April through November of each year. The lease term is for six years commencing on March 1, 2012. Total lease payments for the year ended June 30, 2015, were \$64,616.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

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 2015, and is capped at 25 days. The accrual of sick leave is based on payment upon retirement at a rate of \$10 per day for each unused sick leave day up to a total of 130 days. Total unpaid vacation and sick leave accrued as of June 30, 2015, was \$2,566,704 and \$535,551, 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, 2015, was \$7,381,429. Total employee related costs associated and accrued with these compensated absences amounted to \$524,551 as of June 30, 2015. For governmental funds, \$439,592 as of June 30, 2015, 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, 2015

11. RETIREMENT PLANS

County Defined Benefit Pension Plan

Plan Description

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

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

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

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

The net pension liability by plan is as follows:

Retirement Plan	
Net Pension Liability	\$ 50,428,633
LOSAP Plan	
Net Pension Liability	4,774,887
	<u>\$ 55,203,520</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

Investments

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

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

Funding Policy

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

All information that follows for the Plan is measured as of July 1, 2014, which is the latest actuarial report available.

Membership of the Plan

The membership consisted of the following as of July 1, 2014, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	256
Terminated Plan members entitled to but not yet receiving benefits	46
Active Plan members	749
Total	<u><u>1,051</u></u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

Actuarial Assumptions

The long-term expected rate of return on pension plan investments was determined using a standard building block approach. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic assumed rates of return for each class included in the pension plans' general target asset allocation as of June 30, 2015 is as follows:

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

Annual Pension Cost and Net Pension Obligation

The total pension liability for the current year was determined as part of the July 1, 2014, 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 4.0% per year. The actuary was using the 83 GAM sex distinct mortality tables. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined by the market value of investments. The unfunded actuarial accrued liability is being amortized at a level dollar over 25 years. The effect of an unfunded actuarial accrued liability (funding excess) is amortized immediately.

Net Pension Liability

The net pension liability is equal to the total pension liability minus the net position of the plan. The result as of June 30, 2015 is as follows:

Total pension liability	\$ 142,540,120
Net position	<u>(92,111,487)</u>
Net pension liability	<u>\$ 50,428,633</u>

Net position as a percentage of total pension liability is 64.6%.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

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

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

	1.0% decrease (6.75%)	Current rate 7.75%	1.0% increase (8.75%)
Net pension liability	<u>\$ 65,896,249</u>	<u>\$ 50,428,633</u>	<u>\$ 37,230,172</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2015, the County recognized pension expense of \$(1,042,893) for the Plan. As of June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual investment earnings	<u>1,782,387</u>	-
Total	<u>\$ 1,782,387</u>	<u>\$ -</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

11. RETIREMENT PLANS (continued)

County Defined Benefit Pension Plan (continued)

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

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

<u>Years Ended June 30,</u>	<u>Amount</u>
2016	\$ 445,597
2017	445,597
2018	445,597
2019	445,596
Total	<u><u>\$ 1,782,387</u></u>

Board of Education

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

11. RETIREMENT PLANS (continued)

Board of Education (continued)

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

Both the "Retirement System" and the "Pension System" for teachers and educational support employees are jointly contributory. Under the "Retirement System", employees contribute 4% - 7% of their total gross salary, and under the "Pension System", employees contribute 7% their gross salary for the year. Effective, July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The pension plans funded ratio is 65.52%, which measures the actuarial value of plan assets as a percentage of actuarial accrued liability.

Washington County School System contributions totaling \$1,864,791 and \$1,890,341 for fiscal years 2015 and 2014, respectively; and contributions by the State of Maryland on behalf of the School System totaling \$17,316,621 and \$17,080,357 for fiscal years 2015 and 2014, respectively. All contributions were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed annually.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

11. RETIREMENT PLANS (continued)

Board of Education (continued)

At June 30, 2015, the School System reported a liability for its proportionate share of net pension liability that reflected a reduction for State pension support provided to the School System. The amount recognized by the School System as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the School System were as follows:

	Teacher's Retirement and Pension System	Employees' Retirement and Pension System
School System's proportionate share of net pension liability	\$ -	\$ 14,395,785
State's proportionate share of net position liability associated with the School System	<u>131,873,741</u>	<u>-</u>
Total	<u>\$ 131,873,741</u>	<u>\$ 14,395,785</u>

For the year ended June 30, 2015, the School System recognized pension expense of \$23,803,351 related to governmental activities and \$312,737 related to business-type activities. As of June 30, 2015, the School System reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 208,246	\$ -
Net difference between projected and actual investment earnings	-	1,575,713
School System contributions subsequent to the measurement date	<u>1,864,791</u>	<u>-</u>
Total	<u>\$ 2,073,037</u>	<u>\$ 1,575,713</u>

The \$1,864,791 reported as deferred outflows of resources related to pensions resulting from the School System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

11. RETIREMENT PLANS (continued)

Board of Education (continued)

<u>Years Ended June 30,</u>	<u>Amount</u>
2016	\$ (265,528)
2017	(265,528)
2018	(265,528)
2019	(265,528)
2020	(265,528)
Thereafter	(39,827)

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

The following presents the net pension liability of the plan, calculated using a discount rate of 7.65% as well as what the plan’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65%) or 1-percentage point higher (8.65%) than the current rate:

	<u>1.0% decrease (6.65%)</u>	<u>Current rate 7.65%</u>	<u>1.0% increase (8.65%)</u>
Net pension liability	<u>\$ 20,746,137</u>	<u>\$ 14,395,785</u>	<u>\$ 9,076,561</u>

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

12. RISK MANAGEMENT

County

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

12. RISK MANAGEMENT (continued)

County (continued)

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

The liability for estimated claims was determined to be \$1,056,288 which is reflected in the accompanying financial statements as of June 30, 2015. Changes in the claims liability were as follows:

	Years Ended June 30,	
	2015	2014
Liability, beginning of year	\$ 1,060,759	\$ 1,097,002
Premiums collected and changes in estimates during the year	13,919,883	12,432,050
Claims and administrative costs paid	(13,924,354)	(12,468,293)
Liability, end of year	<u>\$ 1,056,288</u>	<u>\$ 1,060,759</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, 2015

12. RISK MANAGEMENT (continued)

County (continued)

The County Commissioners have also established a self-insurance plan for Workers' Compensation claims whereby the County is liable for the first \$600,000 per occurrence. As required by the State of Maryland, \$175,000 in U.S. Treasury Notes is held by the State Workers' Compensation Commission and is included in investments on the balance sheet. The County extends coverage under this plan to the employees of other governmental and nonprofit agencies. These agencies are charged a "premium", however the County bears the risk of loss. The liability for estimated claims was determined to be \$777,183, which is reflected in the accompanying financial statements as of June 30, 2015. Changes in the claims liability were as follows:

	Years Ended June 30,	
	2015	2014
Liability, beginning of year	\$ 1,054,492	\$ 918,591
Premiums collected and changes in estimates during the year	1,255,713	1,072,408
Claims and administrative costs paid	(1,533,022)	(936,507)
Liability, end of year	<u>\$ 777,183</u>	<u>\$ 1,054,492</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, 2015

12. RISK MANAGEMENT (continued)

Board of Education (continued)

Additionally, the School System is one of sixteen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Workers' Compensation Group Self-Insurance Fund (the Fund). This Fund was established to provide worker's compensation indemnity and medical benefits coverage for participating school boards. The Fund is operated under regulations promulgated by the State's Workers' Compensation Commission (COMAR 14.09.02). Each Fund participant pays an annual premium calculated on its payroll according to the standard classifications, with an experience modification applied. Although premiums billed to the Fund members are determined on an actuarial basis, ultimate liability for claims remains with the respective members and accordingly, the insurance risks are not transferred to the Fund. Six months following the end of the Fund's fiscal year, the Fund's trustees declare unneeded funds as surplus and distribute 50% of the declared surplus as dividends to the Fund members. This dividend distribution is made no sooner than one year after the close of that fiscal year. Members dedicate the remaining 50% of the surplus each year to a surplus fund until it reaches 75% net annual premium. The Fund carries an excess insurance policy providing specific excess and employer liability protection coverage, thus reducing the potential of assessment against Fund members. The Fund provides coverage for up to a maximum of \$500,000 for each worker's compensation claim.

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

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

In accordance with the Governmental Accounting Standards Board's Statement No. 10 "*Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*," charges to other funds must be accounted for as revenue by an internal service fund and expenditures/expenses by the other funds. The amounts of these charges were \$29,960,584 and \$30,656,377 for the years ended June 30, 2015 and 2014, respectively.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

12. RISK MANAGEMENT (continued)

Board of Education (continued)

The Self-Insurance Fund's accrued liabilities include an estimate of the amount to be paid for self-insured claims incurred prior to June 30, 2015 and 2014. 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,	
	2015	2014
Liability, beginning of year	\$ 2,165,352	\$ 2,075,915
Claims and changes in estimates during the year	39,184,521	36,426,667
Claims paid and accrued	(38,724,823)	(36,337,230)
Liability, end of year	<u>\$ 2,625,050</u>	<u>\$ 2,165,352</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, 2015

14. SEGMENT INFORMATION (continued)

	<u>Sewer Department</u>	<u>Pretreatment Department</u>
CONDENSED STATEMENT OF NET POSITION		
ASSETS		
Current assets	\$ 18,655,887	\$ 2,384,777
Noncurrent assets	107,643,105	5,343,849
Total Assets	<u>126,298,992</u>	<u>7,728,626</u>
DEFERRED OUTFLOW OF RESOURCES	39,728	276,378
LIABILITIES		
Other current liabilities	6,830,789	1,780,405
Noncurrent liabilities	18,724,705	3,520,698
Total Liabilities	<u>25,555,494</u>	<u>5,301,103</u>
Net Position		
Net investment in capital assets	96,880,712	1,263,943
Unrestricted	(4,575,264)	1,439,958
Restricted - capital projects	8,477,778	-
Total Net Position	<u>\$ 100,783,226</u>	<u>\$ 2,703,901</u>
CONDENSED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION		
Operating revenue	\$ 8,883,033	\$ -
Lease income	-	347,049
Depreciation expense	(2,117,072)	(187,409)
Other operating expenses	(7,646,730)	(20,519)
Operating income	<u>(880,769)</u>	<u>139,121</u>
Non-operating revenue (expenses):		
Interest expense	(737,696)	(186,950)
Interest income	125,917	-
Utility administration charge	-	-
Operating transfers	-	-
Capital contributions	1,195,852	-
Change in Net Position	(296,696)	(47,829)
Net Position, beginning of year, as restated	101,079,922	2,751,730
Net Position, End of Year	<u>\$ 100,783,226</u>	<u>\$ 2,703,901</u>
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by		
Operating activities	\$ (81,355)	\$ 297,230
Noncapital financing activities	-	-
Capital and related financing activities	3,232,823	(714,213)
Investing activities	(3,597,416)	-
Net increase	(445,948)	(416,983)
Cash and cash equivalents, beginning of year	8,920,473	2,801,760
Cash and Cash Equivalents, End of Year	<u>\$ 8,474,525</u>	<u>\$ 2,384,777</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

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 \$167,080 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, 2015.

The Resh Landfill has reported a landfill post-closure care liability of \$5,160,436 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, 2015.

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, 2015. The Rubble Landfill was closed in December 2000. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2015.

The 40 West Landfill began operation in fiscal year 2001. The estimated life of this landfill is approximately 120 years as of June 30, 2015, it is estimated that approximately 16.4% of the capacity has been used. The estimated costs associated with closure and post-closure care of \$7,736,873 was reported as a liability in the Solid Waste Fund at June 30, 2015. 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, 2015, as specified in 40CFR258.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

County (continued)

Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,185,434
Interest on Net OPEB Obligation	(94,017)
Adjustment to Annual Required Contribution	78,498
Annual OPEB Cost (Expense)	<u>1,169,915</u>
Contributions Made or Accrued	<u>1,724,567</u>
Increase in Net Assets	(554,652)
Net OPEB Asset - Beginning of Year	<u>(1,213,123)</u>
Net OPEB Asset - End of Year	<u><u>\$ (1,767,775)</u></u>

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

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Assets</u>
2015	\$ 1,169,915	147.41%	\$ (1,767,775)
2014	1,291,864	130.97%	(1,213,123)
2013	1,320,987	99.79%	(813,022)

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, 2015

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

County (continued)

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

In the actuarial valuation for the plan year ending June 30, 2014, 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 7.8% initially, reduced by decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar charge on an open basis. The remaining amortization period as of July 1, 2013, was 24 years.

Board of Education

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

16. OTHER POSTRETIREMENT EMPLOYEE BENEFITS (continued)

Board of Education (continued)

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed for the plan as of June 30, 2014, 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 \$16,986,000, including current claims, was \$15,000 less than the ARC, due to adjustments related to amortization and interest on the net OPEB obligation. The School System made contributions to the plan during the year ended June 30, 2015 of \$12,679,041, resulting in a decrease of the net OPEB receivable of \$4,306,959. The balance of the net OPEB receivable at June 30, 2015 is \$411,890. The School System’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
2015	\$ 16,986,000	74.64%	\$ (411,890)
2014	16,324,000	75.95%	(4,718,849)
2013	11,945,276	111.91%	(8,644,472)

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

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, 2015, was as follows:

Actuarial accrued liability (AAL)	\$ 185,310,000
Actuarial value of plan assets	<u>36,803,823</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 148,506,177</u>
Funded ratio (actuarial value of plan assets/AAL)	19.86%

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, 2014, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.25% initially decreasing gradually to 3.6%. Both rates include a 2.8% 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, 2015, was twenty-two years.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

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, 2015. There are also certain unasserted claims that could possibly be asserted. The Commissioners intend to defend all litigations against them. In the Commissioners' opinion, the liability, if any, in or arising from these litigations or any other legal proceedings in which the County is involved, will not have a material adverse effect on its financial condition.

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

On June 23, 2014, the Board of County Commissioners of Washington County, Maryland entered into a \$4 million loan agreement with the Maryland Department of Business and Economic Development and Mack Trucks, Inc. The loan proceeds were made for eligible project costs and does not require repayment unless specific employment levels are not met. If such a condition occurs, repayments are guaranteed to DBED by the County. Mack Trucks, Inc. is contractually obligated to the County to reimburse any payments occurring as a result of the guarantee. As of June 30, 2015 there is no effect on amounts reported on the County's statement of net position or statement of activities as a result of this guarantee.

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, 2015, the School System had entered into various school construction commitments, which are not reflected in the financial statements since they will be funded by the State of Maryland or County sources, totaling approximately \$22,422,079.

The School System entered into various school construction commitments that will be funded by the State of Maryland or the County, totaling approximately \$9,830,241 as of June 30, 2015, and are included in encumbrances.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements June 30, 2015

17. CONTINGENCIES AND COMMITMENTS (continued)

Board of Education (continued)

The School System leases classroom space, cafeteria space, storage, and parking deck passes for the Barbara Ingram School for the Arts. These leases are renewable on an annual basis. The lease for the parking deck spaces does not have a set term. Total required minimum monthly payments for the year ended June 30, 2015 were approximately \$94,756. Rent expense for these leases amounted to \$111,961 for the year ended June 30, 2015.

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, 2015 are categorized as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
Non-Spendable				
Inventory	\$ 763,939	\$ -	\$ -	\$ 763,939
Long-term receivable	300,000	-	-	300,000
Restricted				
Programs and activities	239,861	-	619,912	859,773
Workers compensation	179,107	-	-	179,107
Capital projects	-	17,206,344	-	17,206,344
Committed				
Contingencies	37,433,542	-	-	37,433,542
Programs and activities	29,318	-	-	29,318
Capital projects	-	45,315,658	-	45,315,658
Assigned				
Programs and activities	13,811	-	73,212	87,023
Unassigned	(632,225)	-	(184,638)	(816,863)
Totals	<u>\$ 38,327,353</u>	<u>\$ 62,522,002</u>	<u>\$ 508,486</u>	<u>\$ 101,357,841</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

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

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 2014 calendar year census shows 800 volunteers receiving at least 50 points, which qualifies them for LOSAP credit. 151 retired volunteers and 8 spouses are participating in LOSAP. The County funds LOSAP in annual amounts determined by an actuary.

Investments

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

19. RETIREMENT PLAN - FIRE AND RESCUE VOLUNTEERS

The long-term expected rate of return on pension plan investments was determined using a standard building block approach. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic assumed rates of return for each class included in the pension plans' general target asset allocation as of June 30, 2015 is as follows:

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

Net pension liability

The net pension liability is equal to the total pension liability minus the net position of the plan. The result as of June 30, 2015 is as follows:

Total pension liability	\$ 12,738,172
Net position	<u>(7,963,285)</u>
Net pension liability	<u>\$ 4,774,887</u>

Net position as a percentage of total pension liability is 62.52%.

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

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

	<u>1.0% decrease (6.75%)</u>	<u>Current rate 7.75%</u>	<u>1.0% increase (8.75%)</u>
Net pension liability	<u>\$ 6,579,143</u>	<u>\$ 4,774,887</u>	<u>\$ 3,293,880</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Notes to the Financial Statements
June 30, 2015**

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

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

For the year ended June 30, 2015, the County recognized pension expense of (\$53,660). As of June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to the length of service award program from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual investment earnings	161,215	-
Total	\$ 161,215	\$ -

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

<u>Years Ended June 30,</u>	<u>Amount</u>
2016	\$ 40,304
2017	40,304
2018	40,304
2019	40,303
Total	\$ 161,215

20. CHANGE IN ACCOUNTING PRINCIPLE

COUNTY

Net position of the governmental activities has been restated by negative \$48,132,082 due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pension and related GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement in recording the beginning net pension liability and the beginning deferred outflow of resources, contribution subsequent to the measurement date, for all the defined benefit pension plans.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Notes to the Financial Statements

June 30, 2015

20. CHANGE IN ACCOUNTING PRINCIPLE (continued)

BOARD OF EDUCATION

Net position of the Board of Education has been restated by negative \$13,981,081 due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pension and related GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement in recording the beginning net pension liability and the beginning deferred outflow of resources, contribution subsequent to the measurement date, for all the defined benefit pension plans.

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REQUIRED SUPPLEMENTARY INFORMATION

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Funding Progress
June 30, 2015**

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]
7/1/2012	\$ 9,122,297	\$ 16,720,742	\$ 7,598,445	54.56%	\$ 34,478,486	22.04%
7/1/2013	11,216,550	18,745,334	7,528,784	59.84%	35,288,757	21.33%
7/1/2014	14,285,774	19,164,845	4,879,071	74.54%	33,098,009	14.74%

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Changes in Pension Fund Net Pension Liability and Related Ratios - General Employees' Pension Fund
June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Service Cost: Retirement benefits Administration	\$ 3,508,850	\$ 6,922,217
Interest	10,252,003	7,708,164
Benefit payments, including refunds of member contributions, death, & terminations	<u>(6,880,888)</u>	<u>(6,004,033)</u>
Net changes in total pension liability	6,879,965	8,626,348
Total pension liability - beginning	<u>135,660,155</u>	<u>127,033,807</u>
Total pension liability - ending (a)	<u><u>\$ 142,540,120</u></u>	<u><u>\$ 135,660,155</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 6,786,549	\$ 6,017,521
Contributions - member	1,871,200	1,876,133
Net investment income	4,747,193	12,817,264
Receipts of In-kind	220,613	-
Benefit payments, including refunds of member contributions	(6,880,887)	(6,004,103)
Administrative expense	<u>(604,197)</u>	<u>(238,016)</u>
Net changes in plan fiduciary net position	6,140,471	14,468,799
Plan fiduciary net positions - beginning	<u>85,971,016</u>	<u>71,502,217</u>
Plan fiduciary net positions - ending (b)	<u><u>\$ 92,111,487</u></u>	<u><u>\$ 85,971,016</u></u>
County's net pension - liability - ending (a) - (b)	\$ 50,428,633	\$ 49,689,139
Plan fiduciary net position as a percentage of total pension liability	64.62%	63.37%
Covered employee payroll	\$ 33,098,009	\$ 35,288,757
Net liability as a percentage of covered payroll	152.36%	140.81%
Annual money-weighted rate of return, net of investment expense	5.52%	17.59%

Notes to schedule:

This information is not available for previous years.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of General Employees' Pension Fund Employer Contributions June 30, 2015 and 2014

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

Notes to schedule

Valuation Date

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

Methods and assumptions used to determine contribution rates:

Cost method	Entry age normal
Investment return	7.75%
Mortality	83 GAM sex distinct
Turnover	T4
Salary Scale	4.0% increases per year
Retirement age of DROP Election	10% each year from two years following early retirement date to two years following normal retirement date, 50% two years following year first eligible for normal retirement date, 25% each of next 4 years, 100% 7 years after normal retirement date.

Valuation of Assets

Market value as reported by the plan administrator, adjusted by a fraction of the investment (gains)/losses for the plan years preceding the current valuation year. Actuarial value can not exceed 120% of actual market value or be less than 80%.

Notes to schedule:

This information is not available for FY13 and prior.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Changes in Pension Fund Net Pension Liability and Related Ratios - Length of Service Award Fund
June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Service Cost: Retirement benefits Administration	\$ 143,037	\$ 147,049
Interest	922,814	872,518
Benefit payments, including refunds of member contributions, death, & terminations	<u>(461,316)</u>	<u>(431,634)</u>
Net changes in total pension liability	604,535	587,933
Total pension liability - beginning	<u>12,133,637</u>	<u>11,545,704</u>
Total pension liability - ending (a)	<u><u>\$ 12,738,172</u></u>	<u><u>\$ 12,133,637</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 600,000	\$ 600,000
Net investment income	381,511	1,074,025
Receipts of In-kind	-	15,232
Benefit payments, including refunds of member contributions	(461,316)	(431,634)
Administrative expense	<u>(23,215)</u>	<u>(27,429)</u>
Net changes in plan fiduciary net position	496,980	1,230,194
Plan fiduciary net positions - beginning	<u>7,466,305</u>	<u>6,236,111</u>
Plan fiduciary net positions - ending (b)	<u><u>\$ 7,963,285</u></u>	<u><u>\$ 7,466,305</u></u>
County's net pension - liability - ending (a) - (b)	\$ 4,774,887	\$ 4,667,332
Plan fiduciary net position as a percentage of total pension liability	62.52%	61.53%
Covered employee payroll	NA	NA
Net liability as a percentage of covered payroll	NA	NA
Annual money-weighted rate of return, net of investment expense	5.11%	16.78%

Notes to schedule:

This information is not available for FY13 and prior.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Schedule of Volunteer Length of Service Award Fund Employer Contributions
June 30, 2015 and 2014**

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

Notes to schedule
Valuation Date

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

Methods and assumptions used to determine contribution rates:

Cost method	Entry age normal
Investment return	7.75%
Mortality	83 GAM sex distinct
Turnover	T5 Table
Salary Scale	4.0% increases per year
Retirement age	Normal retirement age or attained age, if later
Expenses	Included in the normal cost calculation
Valuation of Assets	Market value as reported by the plan administrator

Notes to schedule:

This information is not availed for previous years.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statements of Financial Schedules June 30, 2015

Non-Major Governmental Funds

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

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

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

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

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

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

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

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Combining Statements of Financial Schedules
June 30, 2015**

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, 2015

	Community Grant Management	Inmate Welfare	Contraband	Agricultural Education Center	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non-major Funds
ASSETS									
Cash	\$ 64,994	\$ 113,253	\$ 123,792	\$ 46,475	\$ 390,282	\$ 1,530,980	\$ 410,030	\$ -	\$ 2,679,806
Accounts receivable	-	-	-	-	217,603	98,516	-	-	316,119
Due from other governmental agencies	291,915	-	-	-	-	-	-	273,132	565,047
TOTAL ASSETS	\$ 356,909	\$ 113,253	\$ 123,792	\$ 46,475	\$ 607,885	\$ 1,629,496	\$ 410,030	\$ 273,132	\$ 3,560,972
LIABILITIES, AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ 239,064	\$ 14,962	\$ -	\$ 4,554	\$ 284,280	\$ 1,558,639	\$ 8,345	\$ 98,368	\$ 2,208,212
Due to other funds	-	-	-	-	-	-	-	206,490	206,490
Accrued expenses	5,854	428	-	902	-	2,139	3,665	48	13,036
Other liabilities	-	-	66,082	-	-	-	243,857	-	309,939
Unearned revenue	94,166	-	-	-	-	36,525	184,118	-	314,809
TOTAL LIABILITIES	339,084	15,390	66,082	5,456	284,280	1,597,303	439,985	304,906	3,052,486
FUND BALANCES									
Restricted	1,430	97,863	57,710	-	323,605	-	139,304	-	619,912
Committed	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	41,019	-	32,193	-	-	73,212
Unassigned	16,395	-	-	-	-	-	(169,259)	(31,774)	(184,638)
TOTAL FUND BALANCES	17,825	97,863	57,710	41,019	323,605	32,193	(29,955)	(31,774)	508,486
TOTAL LIABILITIES, AND FUND BALANCES	\$ 356,909	\$ 113,253	\$ 123,792	\$ 46,475	\$ 607,885	\$ 1,629,496	\$ 410,030	\$ 273,132	\$ 3,560,972

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, 2015

	Community Grant Management	Inmate Welfare	Contraband	Agricultural Education Center	Hotel Rental Tax	Gaming	Land Preservation	HEPMPO	Total Non- major Funds
REVENUE									
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,048,632	\$ -	\$ 42,158	\$ -	\$ 2,090,790
Licenses and permits	-	-	-	-	-	2,129,873	-	-	2,129,873
Charges for services	-	314,874	-	-	-	-	-	-	314,874
Revenue from uses of property	-	-	-	38,482	-	-	-	-	38,482
Reimbursed expenses	60	-	-	2,950	-	-	-	-	3,010
Miscellaneous revenues	1,495	74,841	24,969	-	-	-	-	99,804	201,109
Shared taxes and grants	2,704,234	-	-	-	-	-	371,363	418,550	3,494,147
TOTAL REVENUE	<u>2,705,789</u>	<u>389,715</u>	<u>24,969</u>	<u>41,432</u>	<u>2,048,632</u>	<u>2,129,873</u>	<u>413,521</u>	<u>518,354</u>	<u>8,272,285</u>
EXPENDITURES									
Public safety	-	384,174	27,035	-	-	984,865	-	-	1,396,074
Parks, recreation and culture	-	-	-	201,435	-	-	-	-	201,435
Land preservation	-	-	-	-	-	-	1,094,340	-	1,094,340
General operations	-	-	-	-	-	154,188	-	526,494	680,682
Community promotion	2,977,392	-	-	-	1,996,145	984,866	-	-	5,958,403
TOTAL EXPENDITURES	<u>2,977,392</u>	<u>384,174</u>	<u>27,035</u>	<u>201,435</u>	<u>1,996,145</u>	<u>2,123,919</u>	<u>1,094,340</u>	<u>526,494</u>	<u>9,330,934</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(271,603)</u>	<u>5,541</u>	<u>(2,066)</u>	<u>(160,003)</u>	<u>52,487</u>	<u>5,954</u>	<u>(680,819)</u>	<u>(8,140)</u>	<u>(1,058,649)</u>
OTHER FINANCING SOURCES									
Transfers in	291,420	-	-	189,190	-	-	524,432	20,830	1,025,872
Transfers out	-	-	-	-	(387,000)	-	-	-	(387,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>291,420</u>	<u>-</u>	<u>-</u>	<u>189,190</u>	<u>(387,000)</u>	<u>-</u>	<u>524,432</u>	<u>20,830</u>	<u>638,872</u>
NET CHANGES IN FUND BALANCES	<u>19,817</u>	<u>5,541</u>	<u>(2,066)</u>	<u>29,187</u>	<u>(334,513)</u>	<u>5,954</u>	<u>(156,387)</u>	<u>12,690</u>	<u>(419,777)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>(1,992)</u>	<u>92,322</u>	<u>59,776</u>	<u>11,832</u>	<u>658,118</u>	<u>26,239</u>	<u>126,432</u>	<u>(44,464)</u>	<u>928,263</u>
FUND BALANCES - END OF YEAR	<u>\$ 17,825</u>	<u>\$ 97,863</u>	<u>\$ 57,710</u>	<u>\$ 41,019</u>	<u>\$ 323,605</u>	<u>\$ 32,193</u>	<u>\$ (29,955)</u>	<u>\$ (31,774)</u>	<u>\$ 508,486</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Combining Statement of Net Position – Non-Major Proprietary Funds
As of June 30, 2015**

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
ASSETS			
Current Assets:			
Cash and short-term investments	\$ 513,389	\$ 151,192	\$ 664,581
Accounts receivable	7,284	7,746	15,030
Unbilled receivables	561	-	561
Due from other governmental agencies	335,959	-	335,959
Inventories	69,474	51,977	121,451
Total current assets	926,667	210,915	1,137,582
Noncurrent Assets:			
Projects under construction	-	29,339	29,339
Property plant and equipment	7,531,807	4,581,481	12,113,288
Accumulated depreciation	(4,216,189)	(2,382,514)	(6,598,703)
Total noncurrent assets	3,315,618	2,228,306	5,543,924
TOTAL ASSETS	4,242,285	2,439,221	6,681,506
LIABILITIES			
Current Liabilities:			
Accounts payable	57,331	22,474	79,805
Accrued expenses	35,729	28,509	64,238
Unearned revenue	30,000	550	30,550
Compensated absences	47,683	28,904	76,587
Other liabilities	-	24,236	24,236
Total current liabilities	170,743	104,673	275,416
Non Current Liabilities:			
Compensated absences	15,153	21,679	36,832
TOTAL LIABILITIES	185,896	126,352	312,248
NET POSITION			
Net invested in capital assets	3,315,618	2,228,306	5,543,924
Unrestricted	740,771	84,563	825,334
TOTAL NET POSITION	\$ 4,056,389	\$ 2,312,869	\$ 6,369,258

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Combining Statement of Revenue, Expenses and Changes in Fund Net Position – Non-Major
Proprietary Funds
For the Year Ended June 30, 2015**

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
OPERATING REVENUE			
Charges for services	\$ 445,378	\$ 831,113	\$ 1,276,491
Miscellaneous	17,746	5,367	23,113
TOTAL OPERATING REVENUE	<u>463,124</u>	<u>836,480</u>	<u>1,299,604</u>
OPERATING EXPENSES			
Salaries and wages	1,164,815	492,167	1,656,982
Fringe benefits	513,370	237,432	750,802
Utilities	27,616	54,087	81,703
Insurance	31,491	9,157	40,648
Repairs and maintenance	108,162	62,654	170,816
Supplies	47,070	4,244	51,314
Cost of goods sold	-	97,322	97,322
Contracted services	229,553	3,093	232,646
Rentals and leases	41,758	65,112	106,870
Other operating	234,191	125,105	359,296
Uncollectible accounts	60	-	60
Controllable assets	-	5,135	5,135
Depreciation	612,692	83,632	696,324
TOTAL OPERATING EXPENSES	<u>3,010,778</u>	<u>1,239,140</u>	<u>4,249,918</u>
OPERATING LOSS	<u>(2,547,654)</u>	<u>(402,660)</u>	<u>(2,950,314)</u>
OTHER INCOME			
Interest expense	30	-	30
Gain on disposal of assets	(18,130)	2,389	(15,741)
TOTAL OTHER INCOME	<u>(18,100)</u>	<u>2,389</u>	<u>(15,711)</u>
LOSS BEFORE OPERATING TRANSFERS AND GRANTS	(2,565,754)	(400,271)	(2,966,025)
OPERATING TRANSFERS	458,950	1,351,590	1,810,540
GRANTS FOR OPERATIONS	<u>1,337,954</u>	<u>-</u>	<u>1,337,954</u>
LOSS BEFORE CAPITAL TRANSFERS AND GRANTS	(768,850)	951,319	182,469
CAPITAL TRANSFERS	-	99,000	99,000
GRANTS FOR CAPITAL PROJECTS	<u>580,300</u>	<u>15,000</u>	<u>595,300</u>
CHANGES IN NET POSITION	(188,550)	1,065,319	876,769
NET POSITION - BEGINNING OF YEAR	<u>4,244,939</u>	<u>1,247,550</u>	<u>5,492,489</u>
NET POSITION - END OF YEAR	<u>\$ 4,056,389</u>	<u>\$ 2,312,869</u>	<u>\$ 6,369,258</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Combining Statement of Cash Flows – Non-Major Proprietary Funds
For Year Ended June 30, 2015

	Public Transit Fund	Golf Course Fund	Total Non-Major Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,145,878	\$ 839,914	\$ 1,985,792
Payments to suppliers	(691,670)	(431,716)	(1,123,386)
Payments to employees	(1,683,342)	(722,439)	(2,405,781)
Net Cash from Operating Activities	<u>(1,229,134)</u>	<u>(314,241)</u>	<u>(1,543,375)</u>
Cash Flows from Noncapital Financing Activities			
Operating contributions	1,796,904	1,351,590	3,148,494
Increase (decrease) in due to/from other funds	(195,830)	(863,556)	(1,059,386)
Net Cash from Noncapital Financing Activities	<u>1,601,074</u>	<u>488,034</u>	<u>2,089,108</u>
Cash Flows from Capital and Related Financing Activities			
Interest paid on notes and bond payable	30	-	30
Acquisition and construction of capital assets	(420,951)	(139,790)	(560,741)
Gain (loss) on the sale of assets	(18,130)	2,389	(15,741)
Contribution for capital acquisitions	580,300	114,000	694,300
Net Cash from Capital and Related Financing Activities	<u>141,249</u>	<u>(23,401)</u>	<u>117,848</u>
Net change in cash	513,189	150,392	663,581
Cash, beginning of year	200	800	1,000
Cash, End of Year	<u>\$ 513,389</u>	<u>\$ 151,192</u>	<u>\$ 664,581</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (2,547,654)	\$ (402,660)	\$ (2,950,314)
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	612,692	83,632	696,324
Changes in assets and liabilities:			
Accounts receivable	(7,183)	3,134	(4,049)
Unbilled receivables	(9)	-	(9)
Due to/from other government entities	659,946	-	659,946
Inventories	4,918	(8,666)	(3,748)
Accounts payable and other liabilities	23,313	(1,638)	21,675
Accrued expenses	5,322	9,570	14,892
Unearned revenue	30,000	300	30,300
Compensated absences	(10,479)	2,087	(8,392)
Net Cash from Operating Activities	<u>\$ (1,229,134)</u>	<u>\$ (314,241)</u>	<u>\$ (1,543,375)</u>

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BUDGET AND ACTUAL SCHEDULE

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property Taxes				
Real property tax	\$ 106,636,980	\$ 106,636,980	\$ 106,526,518	\$ (110,462)
Personal property tax	12,124,470	12,124,470	12,761,837	637,367
Property tax interest income	480,000	480,000	411,564	(68,436)
Other property tax	719,190	719,190	718,412	(778)
State administrative fees	(568,460)	(568,460)	(508,043)	60,417
Property tax discounts and credits	(1,473,980)	(1,473,980)	(1,396,755)	77,225
Total Property Taxes	117,918,200	117,918,200	118,513,533	595,333
Other Local Taxes				
Income tax	72,230,000	72,230,000	73,603,292	1,373,292
Admissions and amusement tax	310,000	310,000	281,568	(28,432)
Recordation tax	5,500,000	5,500,000	6,078,677	578,677
Trailer tax	470,000	470,000	513,535	43,535
Total Other Local Taxes	78,510,000	78,510,000	80,477,072	1,967,072
Other Revenues				
Licenses and permits	1,450,750	1,450,750	1,362,651	(88,099)
Court costs and fines	326,700	333,030	383,897	50,867
Charges for services	427,900	427,900	434,237	6,337
Revenues from use of property	1,141,440	1,141,440	881,502	(259,938)
Reimbursed expenses	1,126,430	1,126,430	1,212,768	86,338
Miscellaneous revenues	1,773,400	1,820,750	452,632	(1,368,118)
Grant and shared revenues	1,864,190	3,441,449	3,355,253	(86,196)
Highway revenues	1,525,160	1,582,770	1,554,706	(28,064)
Total Other Revenues	9,635,970	11,324,519	9,637,646	(1,686,873)
TOTAL REVENUE	206,064,170	207,752,719	208,628,251	875,532
EXPENDITURES				
General Government				
Legislative				
County Commissioners	213,890	213,890	221,532	(7,642)
County Clerk	95,290	95,290	92,323	2,967
County Administrator	406,840	406,840	405,907	933
Public Relations	373,530	373,530	384,125	(10,595)
Purchasing	491,340	491,340	483,525	7,815
Total Legislative	1,580,890	1,580,890	1,587,412	(6,522)

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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
Judicial				
Circuit Court	\$ 1,439,400	\$ 1,439,400	\$ 1,420,130	\$ 19,270
Orphan's Court	29,820	29,820	27,243	2,577
State's Attorney	2,963,590	2,963,590	2,921,034	42,556
Sheriff - Judicial	2,271,750	2,271,750	2,258,447	13,303
Sheriff - Process Servers	127,920	134,530	129,237	5,293
Grants	-	278,943	274,996	3,947
Total Judicial	6,832,480	7,118,033	7,031,087	86,946
Election Board	926,970	926,970	838,764	88,206
Financial Administration				
Budget and Finance	1,404,360	1,361,220	1,321,112	40,108
Independent Auditing	70,000	70,000	59,730	10,270
Treasurer	409,070	409,070	404,491	4,579
Information Technologies	2,035,800	2,035,800	2,034,853	947
Total Financial Administration	3,919,230	3,876,090	3,820,186	55,904
County Attorney	650,690	650,690	624,484	26,206
Human Resources	648,350	648,350	669,273	(20,923)
Planning and Zoning				
Planning and Zoning	638,500	638,500	625,503	12,997
Board of Zoning Appeals	53,440	53,440	42,810	10,630
Total Planning and Zoning	691,940	691,940	668,313	23,627
Public Works				
Department of Public Works	326,970	326,970	228,689	98,281
Public Works - Plan Review and Permitting	1,841,550	1,955,980	1,751,200	204,780
Public Works - Engineering	1,480,510	1,480,510	1,449,157	31,353
Public Works - Construction	1,814,830	1,700,400	1,626,536	73,864
Total Public Works	5,463,860	5,463,860	5,055,582	408,278
County Owned Buildings				
Martin Luther King Center	108,700	108,700	78,473	30,227
Administrative Building	219,600	219,600	166,689	52,911
Administrative Building II	91,850	91,850	88,982	2,868
Court House	562,730	562,730	540,090	22,640
County Office Building	214,610	214,610	167,842	46,768
Administration Annex	55,720	55,720	47,649	8,071
Central Services	201,770	201,770	184,400	17,370
Rental Properties	2,000	2,000	2,283	(283)
Library Maintenance	35,500	35,500	28,856	6,644
Dwyer Center	31,390	31,390	29,378	2,012
Public Facilities Annex	80,060	80,060	44,004	36,056
Total County Owned Buildings	1,603,930	1,603,930	1,378,646	225,284

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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Community Promotion				
Contributions to Non-profits	\$ 1,685,420	\$ 1,685,420	\$ 1,580,818	\$ 104,602
Economic Development Commission	549,500	549,500	525,355	24,145
Total Community Promotion	<u>2,234,920</u>	<u>2,234,920</u>	<u>2,106,173</u>	<u>128,747</u>
Total General Government	<u>24,553,260</u>	<u>24,795,673</u>	<u>23,779,920</u>	<u>1,015,753</u>
Public Safety				
Sheriff Departments				
Patrol	9,534,430	9,572,830	9,174,373	398,457
Sheriff Auxiliary	-	-	36,040	(36,040)
Narcotics Task Force	632,430	634,060	625,081	8,979
Grants	-	318,083	125,540	192,543
Total Sheriff Departments	<u>10,166,860</u>	<u>10,524,973</u>	<u>9,961,034</u>	<u>563,939</u>
Fire and Rescue Services				
Volunteer Fire and Rescue - County Grants	7,056,310	7,056,310	6,798,569	257,741
Air Unit	43,770	55,770	56,944	(1,174)
Special Operations	384,020	372,020	373,533	(1,513)
Total Fire and Rescue Services	<u>7,484,100</u>	<u>7,484,100</u>	<u>7,229,046</u>	<u>255,054</u>
Corrections				
Detention Center	13,200,620	13,200,620	12,730,678	469,942
Central Booking	832,960	832,960	820,381	12,579
Total Corrections	<u>14,033,580</u>	<u>14,033,580</u>	<u>13,551,059</u>	<u>482,521</u>
Other Public Safety				
911 - Communications	4,165,790	4,165,790	3,988,537	177,253
Wireless Communications	1,343,660	1,343,660	1,298,864	44,796
Emergency Management	124,520	124,520	136,266	(11,746)
Fire and Rescue Operations	1,181,960	1,181,960	1,164,315	17,645
Medical Examiner	15,000	15,000	17,170	(2,170)
Civil Air Patrol	3,600	3,600	3,600	-
Animal Control	1,199,320	1,199,320	1,199,320	-
Grants	-	741,645	606,100	135,545
Other Public Safety	<u>8,033,850</u>	<u>8,775,495</u>	<u>8,414,172</u>	<u>361,323</u>
Total Public Safety	<u>39,718,390</u>	<u>40,818,148</u>	<u>39,155,311</u>	<u>1,662,837</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

Schedule of Revenue, Expenditures, and Changes in Fund Balance-Budget and Actual
 General Fund
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Health	\$ 2,339,270	\$ 2,339,270	\$ 2,339,270	\$ -
Social Services				
Total Contributions to Other Agencies	331,990	331,990	331,990	-
Grants	-	238,588	239,527	(939)
Total Social Services	331,990	570,578	571,517	(939)
Education	103,810,560	103,810,560	103,810,462	98
Parks, Recreation, and Culture				
Total Contributions to Other Agencies	2,892,330	2,892,330	2,892,330	-
Parks Department	1,837,750	1,837,750	1,785,623	52,127
Martin L. Snook Park Pool	123,700	123,700	119,951	3,749
Fitness and Recreation	824,440	824,440	825,024	(584)
Total Parks, Recreation, and Culture	5,678,220	5,678,220	5,622,928	55,292
Conservation of Natural Resources				
Weed Control	192,170	199,210	189,358	9,852
Agricultural Extension Service	225,650	225,650	225,647	3
Cooperative Extension	38,730	38,730	38,730	-
Soil Conservation Service	132,240	132,240	132,240	-
Gypsy Moth Program	10,000	10,000	9,375	625
Total Conservation of Natural Resources	598,790	605,830	595,350	10,480
Highway	9,313,250	9,370,860	10,103,368	(732,508)
General Operations	510,010	510,010	558,112	(48,102)
Unallocated Employee Insurance and Benefits	694,270	694,270	1,445,214	(750,944)

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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Intergovernmental				
Golf Course operating transfer	\$ 151,590	\$ 151,590	\$ 1,351,590	\$ (1,200,000)
HEPMPO operating transfer	7,510	7,510	7,510	-
Land Preservation operating transfer	96,810	96,810	124,432	(27,622)
Water Quality operating transfer	95,820	95,820	81,808	14,012
Public Transit operating transfer	472,270	472,270	472,270	-
Airport operating transfer	14,500	14,500	14,500	-
Capital Projects operating transfer	1,800,000	1,800,000	2,800,000	(1,000,000)
Solid Waste operating transfer	491,360	491,360	491,360	-
Grants Management operating transfer	248,280	291,420	291,420	-
Agricultural Education Center operating transfer	189,190	189,190	189,190	-
Municipality in lieu of bank shares	38,550	38,550	38,543	7
Total Intergovernmental	<u>3,605,880</u>	<u>3,649,020</u>	<u>5,862,623</u>	<u>(2,213,603)</u>
Debt Service	<u>14,910,280</u>	<u>14,910,280</u>	<u>14,652,478</u>	<u>257,802</u>
TOTAL EXPENDITURES	<u>206,064,170</u>	<u>207,752,719</u>	<u>208,496,553</u>	<u>(743,834)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,698</u>	<u>\$ 131,698</u>
OTHER FINANCING SOURCES (USES)				
Principal amount of new debt for advance refunding			26,026,715	26,026,715
Deposit to escrow fund for advance refunding and repayment of loans			(26,021,529)	(26,021,529)
TOTAL OTHER FINANCING SOURCES (USES)			<u>\$ 5,186</u>	<u>\$ 5,186</u>
NET CHANGES IN FUND BALANCE			136,884	
FUND BALANCE - BEGINNING			<u>38,190,469</u>	
FUND BALANCE - ENDING			<u>\$ 38,327,353</u>	

OTHER SCHEDULES

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Local Management Board - Schedule of Revenue and Expenditures - Regulatory Basis
For the Year Ended June 30, 2015**

REVENUE

Community Partnership Agreement (CPA)	
Governor's Office for Children	\$ 693,372
Non- Community Partnership Agreement (Non-CPA)	
General Fund	291,420
Other Revenue	1,555
Md State Department of Education	466,623
Dept. of Housing and Community Development	<u>1,544,238</u>
Total Non-Community Partnership Agreement Revenue	<u>2,303,836</u>
TOTAL REVENUE	<u>2,997,208</u>

EXPENDITURES

Community Partnership Agreement (CPA)	
Administrative :	
Salaries	42,718
Benefit costs	<u>22,282</u>
Total CPA administrative expenditures	<u>65,000</u>
Programs:	
Rural Out of School Time Initiative	122,500
Juvenile Delinquency Prevention & Diversion	174,625
Tomorrow's Leaders	44,181
GOC-School Based Mental Health	69,650
Post-Secondary Education & Training Coordination	60,545
Family Centered Support Services	35,700
Regional Family Navigation Program	<u>121,171</u>
Total CPA program expenditures	<u>628,372</u>
Non-Community Partnership Agreement (CPA)	
Administrative:	
Salaries	88,372
Benefit costs	57,080
Advertising	197
Community service awards	1,666
Office supplies	912
Other Miscellaneous	12
Personal mileage	705
Printing Expense	120
Travel Expenses	964
Entertainment/business expense	262
Contracted/purchased services	100
Training	1,690
Copy machine rental	1,120
Telephone expenses	<u>659</u>
Total non-CPA administrative expenditures	<u>153,859</u>
Programs:	
Teen Pregnancy Prevention	119,300
MSDE - Healthy Families	466,623
Dept. of Housing and Community Development	<u>1,544,238</u>
Total non-CPA program expenditures	<u>2,130,161</u>
TOTAL EXPENDITURES	<u>2,977,392</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>\$ 19,816</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**Local Management Board - Schedule of Earned Reinvestment
For the Year Ended June 30, 2015**

BALANCE AS OF JULY 1, 2014	\$	1,429
REVENUE		
Interest Earned		<u>1</u>
BALANCE AS OF JUNE 30, 2015	\$	<u><u>1,430</u></u>

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SINGLE AUDIT REPORTING

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

County Commissioners of Washington County
Hagerstown, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component 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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 29, 2015. Our report includes a reference to other auditors who audited the financial statements of the Board of Education of Washington County, as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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



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

Compliance and Other Matters

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

Purpose of this Report

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

Hunt Valley, Maryland
October 29, 2016

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SB & COMPANY, LLC
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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE AND ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

County Commissioners of Washington County
Hagerstown, Maryland

Report on Compliance for Each Major Federal Program

We have audited the County Commissioners of Washington County, Maryland's (the County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2015. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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



Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

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

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

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

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

Hunt Valley, Maryland
February 9, 2016

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COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor or Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>DIRECT EXPENDITURES OF FEDERAL AWARDS:</u>			
<u>Department of Transportation</u>			
Airport Taxiway Rehabilitation Design	20.106	AIP-3-24-0019-051	\$ 132,718
Airport Taxiway Rehabilitation Design	20.106	AIP-3-24-0019-051	136,714
Airport Improvement Program- Vehicle Equipment	20.106	AIP-3-24-0019-051	<u>125,592</u>
Total Department of Transportation			<u>395,024</u>
<u>Department of Justice</u>			
State Criminal Alien Assistance Program Wc Detention Center Award "One Time Pymt"	16.606	2013-AP-BX-1405	8,074
Byrne Memorial Justice Assistance Grant Program (Closed)	16.738	2013-DJ-BX-0405	7,950
Byrne Memorial Dept Of Justice Awd	16.738	BJAG-2012-0062	5,352
Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0633	<u>10,169</u>
Total Department of Justice			<u>31,545</u>
<u>Appalachian Regional Commission</u>			
Appalachian Regional Commission-Yale Drive (Extended)	23.003	WA398ZM1	<u>921,510</u>
Total Appalachian Regional Commission			<u>921,510</u>
TOTAL DIRECT FEDERAL EXPENDITURES			<u>1,348,079</u>
<u>INDIRECT EXPENDITURES OF FEDERAL AWARDS:</u>			
<u>Department of Health and Human Services</u>			
Passed through Maryland Department of Human Resources			
Child Support Enforcement Administration	93.563	CSEA-CRA-14-041	48,205
Child Support Enforcement Administration	93.563	CSEA-CRA-15-041	<u>157,268</u>
Total Department of Health and Human Services			<u>205,473</u>
<u>Department of Housing and Urban Development</u>			
Passed through Maryland Department of Housing and Community Development			
Emergency Solutions Grants Program FY2012 ** CAC, Casa, Reach, St Johns Shelter	14.231	12ESG22-2012	2,838
Emergency Solutions Grants Program FY2014 ** Cac, Casa, Reach, St Johns Shelter, Valore Ministri	14.231	12ESG22-2014	33,850
Emergency Solutions Grants Program FY2013 ** Cac, Casa, Reach, St Johns Shelter* (CLOSED)	14.231	14ESG22-2013	23,087
DHCD-CDBG Md Comm Dev Block Grt Ada County Building	14.228	MD-14-CD-31	177,066
CDBG-Md Neighborhood Conservation Initiative Md-Nci-4 Nsp3 (Closed)	14.228	MD-NCI-4 NSP 3	5,408
CDBG-Md Community Development Block Grant (Closed)	14.228	MD-14-NCI-71	<u>1,020,000</u>
Total Department of Housing and Urban Development			<u>1,262,249</u>

The accompanying notes are an integral part of this schedule.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grantor or Pass-Through Entity Identifying Number	Federal Expenditures
<u>Department of Transportation</u>			
Passed through Maryland Department of Transportation			
Federal Transit Metropolitan Planning Grant Hepmpo Resolution 2013-12	20.505	FY2015 UPWP	\$ 365,347
Federal Transit Formula Grant "Jobs"	20.507	WA125307O2015	43,638
Federal Transit Formula Grant "Ada-Para-Transit"	20.507	WA125307O2015	100,178
Federal Transit Formula Grant "Small Urban Public Transportation"	20.507	WA125307O2015	636,182
Federal Transit Formula Grant Fy14 "Wctc Capital Maintenance"	20.507	WA125307O2014	58,809
Federal Transit Formula Grant Fy15 "Wctc Capital Maintenance"	20.507	WA125307O2015	105,748
Federal Transit Formula Grant Fy15 "Wctc Capital Equip" (Closed)	20.507	MD-04-0012	351,265
			1,661,167
Passed through Maryland Emergency Management Agency			
Lepc Interagency Hazardous Materials Public Sector Ffy14 Planning Grant (Closed)	20.703	HMEP FFY14 PLANNING	5,446
Lepc Interagency Hazardous Materials Public Sector Ffy14 Training Grant (Closed)	20.703	HMEP FFY14 PLANNING	1,694
Lepc Interagency Hazardous Materials Public Sector Ffy15 Training Grant	20.703	HMEP FFY154 TRAINING	10,145
			17,285
Passed Through the Maryland State Highway Administration			
Eastern Blvd Widening Phase II & Grade Separation	20.205	WA374ZM1	214,492
Marble Quarry Rd Bridge #2 W6083	20.205	WA213M21	621,814
Coffman Farms Rd Bridge W6371	20.205	WA417ZM1	411,221
Old Forge Rd Bridge W6371	20.205	W-2382	513,522
Economic Development Grants For Public Works - "Marble Quarry Road Bridge 2"	20.205	WA213ZM1	83,745
Economic Development Grants For Public Works - "Crystal Falls Drive Bridge"	20.205	W-3051	83,787
Economic Development Grants For Public Works - "Coffman Farms Rd Bridge"	20.205	WA417ZM1	48,782
Economic Development Grants For Public Works - "Old Forge Rd"	20.205	WA417ZM1	35,862
Economic Development Grants For Public Works - "Leiters Mill Rd Bridge"	20.205	WA385ZM1	22,437
Economic Development Grants For Public Works - "Garis Shop Rd Bridge"	20.205	WA384ZM1	30,540
Economic Development Grants For Public Works - "Poffenberger Rd Bridge"	20.205	WA396ZM1	554
Economic Development Grants For Public Works - "Leiters Mill Rd Bridge"	20.205	WA395ZM1	6,348
Economic Development Grants For Public Works - Burhans Boulevard Bridge	20.205	WA427ZM1	115
Economic Development Grants For Public Works - "Marble Quarry Road Bridge 2"	20.205	WA213ZM1	800
Economic Development Grants For Public Works - "Cyrstal Falls Over Beaver Creek"	20.205	WA394ZM1	1,961
Economic Development Grants For Public Works - Coffman Farms/Old Forge Rd	20.205	WA417ZM1	1,342
Economic Development Grants For Public Works - Old Forge Rd	20.205	WA417ZM1	371
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	WA385ZM1	2,075
Economic Development Grants For Public Works - Garis Shop Over Antietam	20.205	WA384ZM1	1,866
Economic Development Grants For Public Works - Poffenberger Rd Bridge	20.205	WA395ZM1	666
Economic Development Grants For Public Works - Poffenberger Rd Bridge	20.205	WA396ZM1	666
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	WA395ZM1	1,656
			2,084,622
Total Department of Transportation			3,763,074
<u>Department of Health and Human Services</u>			
Passed Through Maryland Institute for Emergency Medical Services System			
MEIMSS - SHSGP-002 State Homeland Security Prg Grt (Closed)	97.067	EWM-2013-SS-0002	10,390
<u>Department of Homeland Security</u>			
Passed Through Maryland Emergency Management Agency			
Law Enforcement Officer Reimbursement (Tsa-Airport)	97.090	HSTS0213HSLR805	8,930
Homeland Security Grant Program- FY2014 "Empg" (Closed)	97.042	EWM-2014-EP-00011-S01	103,772
Homeland Security Grant Program- FY2013 Planner Position "SHSGP" (Closed)	97.067	EWM-2013-SS-0002	192,164
Homeland Security Grant Program- FY2014 Planner Position "SHSGP"	97.067	EWM-2014-SS-00007-S01	25,383
Homeland Security Grant Program- FY2012 Planner Position "SHSGP" (Closed)	97.073	2012-SS-TO-00044-S01-SHS	24,272
Total Department of Homeland Security			354,521

The accompanying notes are an integral part of this schedule.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor or Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Justice</u>			
Passed Through Governor's Office of Crime Control & Prevention			
Govenor's Office of Crime Control/Prevention Grt Prg "Mobile Data Terminals" (Closed)	16.738	BJAG-2011-0051	\$ 23,808
Total Department of Justice			
TOTAL INDIRECT EXPENDITURES OF FEDERAL AWARDS			<u>5,619,515</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,967,594</u>

* These grants are provided to subrecipients

The accompanying notes are an integral part of this schedule.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

Notes to the Schedule of Expenditures of Federal Awards June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Washington County (the County) are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133 (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. The programs on the Schedule of Expenditures of Federal Awards represent all Federal award programs and other grants within fiscal year 2015 cash or non-cash expenditures activities. For our single audit testing, we tested Federal award programs below with 2015 cash and non-cash expenditures in excess of \$300,000 to ensure coverage of at least 25% of Federally granted funds. Our actual coverage was 84%.

Major Programs	Federal CFDA Number	Federal Expenditures
Federal Transit Metropolitan Planning Grant Hepmpo Resolution 2013-12	20.505	\$ 365,347
Federal Transit Formula Grant "Jobs"	20.507	43,638
Federal Transit Formula Grant "Ada-Para-Transit"	20.507	100,178
Federal Transit Formula Grant "Small Urban Public Transportation"	20.507	636,182
Federal Transit Formula Grant Fy14 "Wctc Capital Maintenance"	20.507	58,809
Federal Transit Formula Grant Fy15 "Wctc Capital Maintenance"	20.507	105,748
Federal Transit Formula Grant Fy15 "Wctc Capital Equip" (Closed)	20.507	351,265
DHCD-CDBG Md Comm Dev Block Grt Ada County Building	14.228	177,066
CDBG-Md Neighborhood Conservation Initiative Md-Nci-4 Nsp3 (Closed)	14.228	5,408
CDBG-Md Community Development Block Grant (Closed)	14.228	1,020,000
Appalachian Regional Commission-Yale Drive (Extended)	23.003	921,510
Eastern Blvd Widening Phase Ii & Grade Separation	20.205	214,492
Marble Quarry Rd Bridge #2 W6083	20.205	621,814
Coffman Farms Rd Bridge W6371	20.205	411,221
Old Forge Rd Bridge W6371	20.205	513,522
Economic Development Grants For Public Works - "Marble Quarry Road Bridge 2"	20.205	83,745
Economic Development Grants For Public Works - "Crystal Falls Drive Bridge"	20.205	83,787
Economic Development Grants For Public Works - "Coffman Farms Rd Bridge"	20.205	48,782
Economic Development Grants For Public Works - "Old Forge Rd"	20.205	35,862
Economic Development Grants For Public Works - "Leiters Mill Rd Bridge"	20.205	22,437
Economic Development Grants For Public Works - "Garis Shop Rd Bridge"	20.205	30,540
Economic Development Grants For Public Works - "Poffenberger Rd Bridge"	20.205	554
Economic Development Grants For Public Works - "Leiters Mill Rd Bridge"	20.205	6,348
Economic Development Grants For Public Works - Burhans Boulevard Bridge	20.205	115
Economic Development Grants For Public Works - "Marble Quarry Road Bridge 2"	20.205	800
Economic Development Grants For Public Works - "Cyrstal Falls Over Beaver Creek"	20.205	1,961
Economic Development Grants For Public Works - Coffman Farms/Old Forge Rd	20.205	1,342
Economic Development Grants For Public Works - Old Forge Rd	20.205	371
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	2,075
Economic Development Grants For Public Works - Garis Shop Over Antietam	20.205	1,866
Economic Development Grants For Public Works - Poffenberger Rd Bridge	20.205	666
Economic Development Grants For Public Works - Poffenberger Rd Bridge	20.205	666
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	1,656
		\$ 5,869,773

2. BASIS OF PRESENTATION

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Findings and Questioned Costs
June 30, 2015**

Section I - Summary of Independent Public Accountants' Results

Financial Statements

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

Federal Awards

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

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

Schedule of Findings and Questioned Costs June 30, 2015

Section I - Summary of Independent Public Accountants' Results (continued)

Identification of Major Programs:

Major Programs	Federal CFDA Number	Federal Expenditures
Federal Transit Metropolitan Planning Grant Hepmpo Resolution 2013-12	20.505	\$ 365,347
Federal Transit Formula Grant "Jobs"	20.507	43,638
Federal Transit Formula Grant "Ada-Para-Transit"	20.507	100,178
Federal Transit Formula Grant "Small Urban Public Transportation"	20.507	636,182
Federal Transit Formula Grant Fy14 "Wctc Capital Maintence"	20.507	58,809
Federal Transit Formula Grant Fy15 "Wctc Capital Maintence"	20.507	105,748
Federal Transit Formula Grant Fy15 "Wctc Capital Equip" (Closed)	20.507	351,265
DHCD-CDBG Md Comm Dev Block Grt Ada County Buuilding	14.228	177,066
CDBG-Md Neighborhood Conservation Initiative Md-Nci-4 Nsp3 (Closed)	14.228	5,408
CDBG-Md Community Development Block Grant (Closed)	14.228	1,020,000
Appalachian Regional Commission-Yale Drive (Extended)	23.003	921,510
Eastern Blvd Widening Phase Ii & Grade Separation	20.205	214,492
Marble Quarry Rd Bridge #2 W6083	20.205	621,814
Coffman Farms Rd Bridge W6371	20.205	411,221
Old Forge Rd Bridge W6371	20.205	513,522
Economic Development Grants For Public Works - "Marble Quarry Road Bridge 2"	20.205	83,745
Economic Development Grants For Public Works - "Crystal Falls Drive Bridge"	20.205	83,787
Economic Development Grants For Public Works - "Coffman Farms Rd Bridge"	20.205	48,782
Economic Development Grants For Public Works - "Old Forge Rd"	20.205	35,862
Economic Development Grants For Public Works - "Leiters Mill Rd Bridge"	20.205	22,437
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Economic Development Grants For Public Works - Old Forge Rd	20.205	371
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	2,075
Economic Development Grants For Public Works - Garis Shop Over Antietam	20.205	1,866
Economic Development Grants For Public Works - Poffenberger Rd Bridge	20.205	666
Economic Development Grants For Public Works - Poffenberger Rd Bridge	20.205	666
Economic Development Grants For Public Works - Leiters Mill Rd Over Antietam	20.205	1,656
		\$ 5,869,773
Threshold for distinguishing between Type A and B programs		\$ 300,000

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Findings and Questioned Costs
June 30, 2015**

Section II - Financial Statement Findings

None Noted.

Section III - Federal Award Findings

None Noted.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY, MARYLAND

**Schedule of Prior Year Findings
June 30, 2015**

There are no prior year findings to disclose.



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