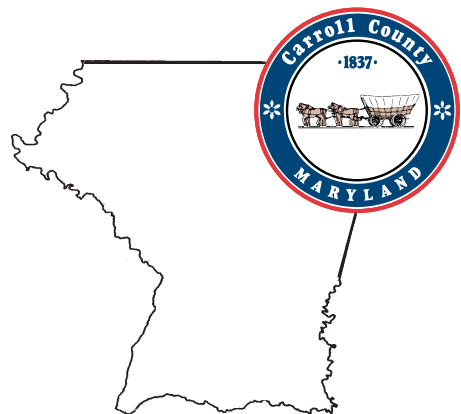


# Financial Section





## Independent Auditor's Report

The County Commissioners of Carroll County  
Westminster, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The County Commissioners of Carroll County (the County), as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The County Commissioners of Carroll County as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2008 on our consideration of The County Commissioners of Carroll County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, supplementary information as listed in the table of contents, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplementary information such as the introduction and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Clifton Henderson LLP*

Baltimore, Maryland  
November 21, 2008

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

As management of Carroll County, MD we offer readers of Carroll County Government's financial statements this narrative overview and analysis of the financial activities of Carroll County Government for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 3-10 of this report.

**Financial Highlights**

**Government-wide:**

- The assets of Carroll County exceeded its liabilities at the close of the fiscal year ended June 30, 2008 by \$449,796,585 (*net assets*), compared to \$453,909,807, at June 30, 2007. Approximately 20 percent of the net assets total is attributable to the Enterprise Funds. Of total net assets at June 30, 2008, \$80,661,780 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, which compares to \$77,250,388, at June 30, 2007. Another \$30,677,355 is restricted for specific purposes (*restricted net assets*) in comparison to \$28,398,941 at June 30, 2007. The total invested in capital assets, net of related debt was \$338,457,450 at June 30, 2008, compared to \$348,260,478 at June 30, 2007.
- The total net assets decreased by \$4,113,222.

**Fund level:**

- At the close of the current fiscal year, unreserved, undesignated fund balance for the general fund (primary operating fund) was \$14,858,762.
- As of June 30, 2008, the County's governmental funds reported combined fund balances of \$168,278,281, a decrease of \$21,946,047 from the prior year. Approximately 10 percent of the combined fund balances is available to meet the County's current and future needs (*unreserved and undesignated fund balance*), 44 percent is reserved, indicating that it is not available for new spending because it has already been committed for items such as existing purchase orders and construction contracts, 46 percent is unreserved and designated for future use, stabilization fund and other purposes.
- In fiscal year 2008 the Other Post Employment Benefits (OPEB) Trust Fund was established in accordance with GASB Statements No. 43 and 45. As of June 30, 2008 the County had a net OPEB obligation of \$7,659,078.

**Long-term Debt:**

- Carroll County Government's total bonded debt increased by \$8,786,160 during the current fiscal year. The main factor in this increase was the County's issuance of \$30,435,000 in bonded debt and a refunding issue totaling \$6,670,000 which generated a debt service savings of \$553,712. The County also issued \$2,495,343 of agricultural land easements, due within five years or less.

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Carroll County Government's basic financial statements. Carroll County Government's basic financial statements comprise three components:

- ✓ Government-wide financial statements.
- ✓ Fund financial statements.
- ✓ Notes to the financial statements.

This report also contains other required and non-required supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The *government-wide financial statements* are designed to provide readers with a broad overview of Carroll County Government's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Carroll County Government's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position and condition of Carroll County Government is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Carroll County Government that are principally supported by taxes and intergovernmental revenue (*governmental 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 Carroll County Government include general government, public safety, public works, health, social service, education, recreation and parks, libraries, conservation of natural resources, and economic development. The business-type activities of Carroll County Government include water and sewer service, waste disposal service, septage treatment, firearms facility, and an airport facility.

The government-wide financial statements include not only Carroll County Government itself (known as the *primary government*), but also legally separate component units. Carroll County Government has the following component units: Carroll County Board of Education, Carroll Community College, Carroll County Public Library, and Industrial Development Authority of Carroll County. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 28 to 29 of this report.

**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. Carroll County Government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Carroll County Government can be divided into three categories, governmental funds, proprietary funds, and fiduciary funds.

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

**Governmental funds:** *Governmental funds* are used to account for essentially 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*.

Carroll County Government maintains six 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 fund and the capital projects fund, both of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements which can be found on pages 109 to 115 of this report.

Carroll County Government adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and can be found on page 33 of this report.

The basic governmental fund financial statements can be found on pages 30 and 31 of this report.

**Proprietary funds:** Carroll County Government maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Carroll County Government uses an enterprise fund to account for its Bureau of Utilities, Solid Waste, Airport, Septage, and Firearms Facility. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among Carroll County Government's various functions. Carroll County Government uses an internal service fund to account for risk management. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 34 to 36 of this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Bureau of Utilities, Solid Waste, and Airport, which are considered to be major funds of Carroll County Government. Individual fund data for each of the two non-major proprietary funds is provided in the form of combining statements which can be found on pages 120 to 122 of this report.

The basic proprietary fund financial statements and the individual fund data for the internal service fund can be found on pages 34 to 36 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 statements because the

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

resources of those funds are not available to support Carroll County Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The County has three trust funds which are the Carroll County Employee Pension Trust Fund; the Retiree Benefit Trust, Board of County Commissioner of Carroll County, Maryland (OPEB); and the Volunteer Firemen Pension Plan (LOSAP). In addition to the three trust funds the County has one agency fund which is the Carroll County Development Corporation (CCDC). The basic fiduciary funds financial statements can be found on pages 37 to 38 of this report.

**Financial analysis of the County as a whole**

As noted earlier, net assets may serve over time as a useful indicator of a government's overall financial condition and position. In the case of Carroll County Government, assets exceeded liabilities by \$449,796,585 at the close of the most recent fiscal year. Carroll County Government's net assets are divided into three categories, invested in capital assets (net of related debt), restricted net assets and unrestricted net assets. The largest portion of the County's net assets (75.30 percent) reflects its investment in capital assets net of depreciation (e.g., buildings, building improvements, water and sewer systems, vehicles, machinery, equipment, roads and bridges), less any related debt used to acquire those assets, that are still outstanding. 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.

Restricted net assets of \$30,677,355 represent 6.82 percent of total net assets. Restricted net assets are resources that are subject to external restrictions on how they may be used. Unrestricted net assets of the government have a balance of \$80,661,780 (17.93 percent of total net assets), of which \$6,594,607 is attributable to business-type activities. The unrestricted net assets for government activities of \$74,067,173 may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, Carroll County Government as a whole is able to report positive balances in all three categories of net assets.

The County's net assets decreased by \$4,113,222 during the fiscal year. Increase budgeted expenses for education, conservation of natural resources, public safety as well as increased operating costs for the Bureau of Utilities fund are the primary reasons for the decrease. Increased expenses, however, were somewhat offset by the overall increase in tax revenue and an increase in the charges for services in the business-type activities.

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

**Carroll County Government's Net Assets**

	Governmental Activities		Business-type Activities		Total Government	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Current assets	\$ 263,146,313	\$ 270,532,011	\$ 36,297,244	\$ 34,958,789	\$ 299,443,557	\$ 305,490,800
Capital assets	387,124,133	369,963,060	101,319,190	87,779,284	488,443,323	457,742,344
Total assets	650,270,446	640,495,071	137,616,434	122,738,073	787,886,880	763,233,144
Current liabilities	84,534,709	65,876,517	8,392,743	4,735,137	92,927,452	70,611,654
Non-current liabilities	211,897,025	212,771,465	33,265,818	25,940,218	245,162,843	238,711,683
Total liabilities	296,431,734	278,647,982	41,658,561	30,675,355	338,090,295	309,323,337
Net assets:						
Invested in capital assets, net						
of related debt	255,882,342	270,193,492	82,575,108	78,066,986	338,457,450	348,260,478
Restricted	23,889,197	21,321,426	6,788,158	7,077,515	30,677,355	28,398,941
Unrestricted	74,067,173	70,332,171	6,594,607	6,918,217	80,661,780	77,250,388
Total Net Assets	\$ 353,838,712	\$ 361,847,089	\$ 95,957,873	\$ 92,062,718	\$ 449,796,585	\$ 453,909,807

The following table indicates the changes in net assets for governmental and business-type activities:

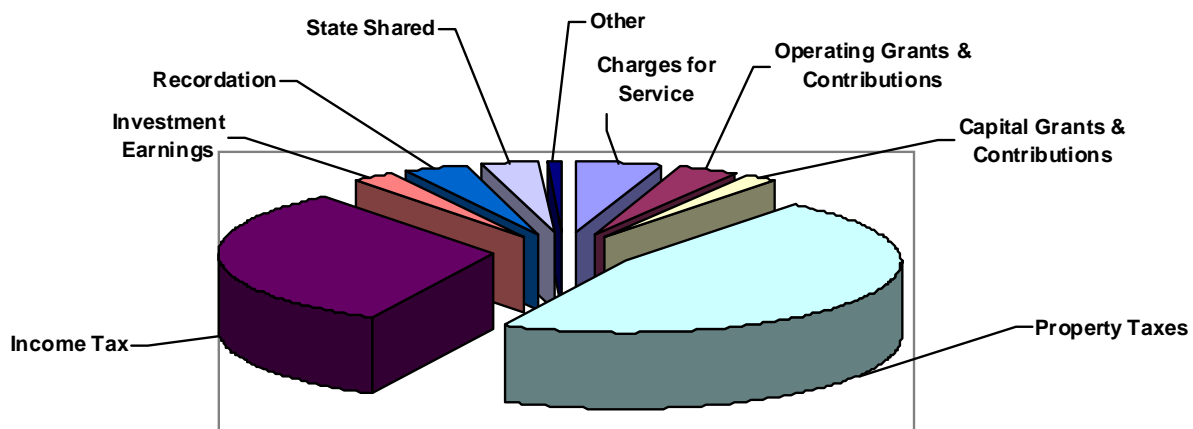
**Carroll County Government's Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total Government	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 15,107,513	\$ 14,309,515	\$ 16,959,665	\$ 16,390,843	\$ 32,067,178	\$ 30,700,358
Operating grants & contributions	13,824,732	12,841,014	-	1,064,797	13,824,732	13,905,811
Capital grants & contributions	6,797,218	7,453,139	2,520,888	2,079,422	9,318,106	9,532,561
<b>General revenues:</b>						
Property taxes	174,354,873	158,112,936	-	-	174,354,873	158,112,936
Income tax	120,230,118	106,921,331	-	-	120,230,118	106,921,331
911 service fee	1,240,906	1,600,475	-	-	1,240,906	1,600,475
Recordation	14,948,705	18,902,094	-	-	14,948,705	18,902,094
Admission	386,186	405,295	-	-	386,186	405,295
Agricultural transfer tax	439,268	390,420	-	-	439,268	390,420
Hotel Tax	311,049	321,676	-	-	311,049	321,676
Cable franchise fee	981,457	701,491	-	-	981,457	701,491
State shared, unrestricted	11,744,961	12,729,241	-	-	11,744,961	12,729,241
Investment earnings	8,753,090	8,622,196	2,279,730	2,174,966	11,032,820	10,797,162
Impairment gain on fire damage						
Net of insurance recovery			93,425	-	93,425	-
<b>Total Revenues</b>	\$ 369,120,076	\$ 343,310,823	\$ 21,853,708	\$ 21,710,028	\$ 390,973,784	\$ 365,020,851
<b>Program Expenses:</b>						
General government	70,411,246	63,412,621	-	-	70,411,246	63,412,621
Public safety	35,583,985	28,609,006	-	-	35,583,985	28,609,006
Public works	30,496,143	20,775,987	-	-	30,496,143	20,775,987
Health	4,454,550	4,397,039	-	-	4,454,550	4,397,039
Social services	1,228,095	1,131,873	-	-	1,228,095	1,131,873
Education	188,609,030	168,198,541	-	-	188,609,030	168,198,541
Recreation and parks	2,596,212	2,772,654	-	-	2,596,212	2,772,654
Libraries	9,269,078	7,511,036	-	-	9,269,078	7,511,036
Conservation of natural resources	17,487,058	16,711,700	-	-	17,487,058	16,711,700
Economic development	4,715,075	3,076,751	-	-	4,715,075	3,076,751
Interest on long-term debt	8,963,131	8,984,385	-	-	8,963,131	8,984,385
Bureau of Utilities	-	-	10,056,546	7,849,747	10,056,546	7,849,747
Solid Waste	-	-	7,648,918	7,935,237	7,648,918	7,935,237
Septage	-	-	395,824	402,898	395,824	402,898
Firearms	-	-	74,497	58,238	74,497	58,238
Airport	-	-	3,097,618	2,086,621	3,097,618	2,086,621
<b>Total Expenses</b>	373,813,603	325,581,593	21,273,403	18,332,741	395,087,006	343,914,334
Excess (deficiency) before transfers	(4,693,527)	17,729,230	580,305	3,377,287	(4,113,222)	21,106,517
Transfers	(3,314,850)	(8,497,061)	3,314,850	8,497,061	-	-
Increase in Net Assets	(8,008,377)	9,232,169	3,895,155	11,874,348	(4,113,222)	21,106,517
Net Assets-Beginning, as restated	361,847,089	352,614,920	92,062,718	80,188,370	453,909,807	432,803,290
Net Assets - Ending	\$ 353,838,712	\$ 361,847,089	\$ 95,957,873	\$ 92,062,718	\$ 449,796,585	\$ 453,909,807

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

- **Governmental activities:** Overall revenue has increased by \$25,809,253, which is an 7.5 percent increase from fiscal year 2007. Property taxes increased by \$16,241,937, due to a steady increase in property values. Income tax increased \$13,308,787 due to an unanticipated growth in reconciling distributions from previous tax years that more than offset lower than expected growth from quarterly distributions based on current withholding and estimated payments. Recordation decreased by \$3,953,389 due to the decline in real estate activity. Charges for services increased by \$797,998 due to an increase of rent charged for the Board of Education Headquarters and Kessler Warehouse.

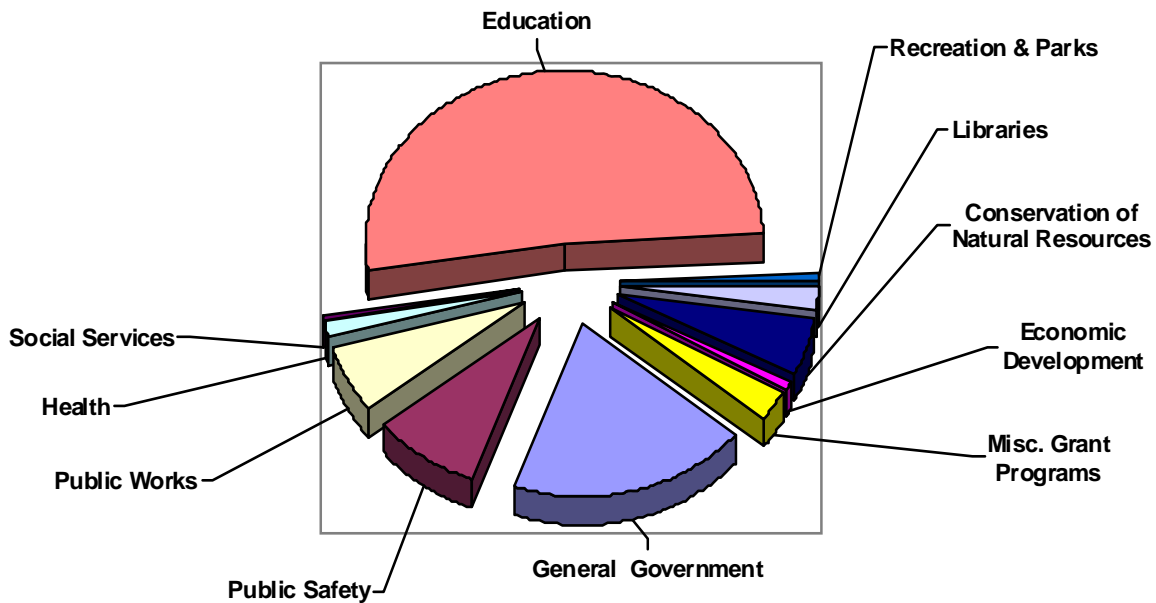
**Revenues by Source-Primary Government**



**THE COUNTY COMMISSIONERS OF CARROLL COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

The expenses of the governmental activities have increased by \$48,232,010 or 15 percent from fiscal year 2007. Most functional categories have increased due to additional spending for capital projects and annual increases to the operational costs. Education expenses increased \$20,410,489, or 13 percent from fiscal year 2007. This was primarily caused by payments to the Board of Education for operations, which increased by \$3,872,237 and an increase in capital outlay of \$17,033,329 for school construction and renovation. During fiscal year 2008 payroll taxes, pension costs and other postemployment benefits (OPEB) were allocated to each function in accordance to GASB 34. Allocating these costs increased the expenses by function over last fiscal year. In addition to these costs Public Safety had a \$1,000,000 expense for the contribution to the Volunteer Firemen Pension Plan (LOSAP).

**Expenses-Primary Government**



**Business-type activities:** There was an overall increase in Charges for Services of \$568,822 or 3 percent over fiscal year 2007. Rate adjustments in Water and Sewer User Fees and a rate increase in Tipping Fees at the Landfills caused the revenue increases. For fiscal year 2008 the Firearms Facility received \$145,853 for insurance recovery for the firearms facility that was damaged in a fire in February 2007. In addition to the insurance recovery the Firearms Facility had a gain on the impaired asset of \$93,425. Please see Note 7 for additional information.

The County's transfers between governmental activities and business-type activities decreased by \$5,182,211 during fiscal year 2008. During the fiscal year 2008 \$3,314,850 was transferred between activities for continuation of operations.

**Financial Analysis of the Government's Funds**

As noted earlier, Carroll County Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds:** The focus of Carroll County Government's *governmental funds* is to provide information on near-term outflows, and balances of *spendable* resources. Such information is useful in

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

assessing Carroll County Government's financing requirements. In particular, *unreserved 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, Carroll County Government's governmental funds reported combined ending fund balances of \$168,278,281, a decrease of \$21,946,047. Approximately 10.2 percent of this total (\$17,198,813) constitutes *unreserved undesignated fund balance*, which is available for future appropriation. The *reserved fund balance*, at 44.0 percent of total fund balance is not available for new spending because it has already been committed: 1) to cover loans receivable balances (\$30,890,851), 2) to liquidate contracts and purchase orders of the prior period (\$40,938,899), and 3) dedicated for inventory and advances to Industrial Development Authority (\$2,348,179). The remaining 45.8 percent of fund balance (\$76,901,539) constitutes *unreserved designated fund balance*.

The general fund is the chief operating fund of Carroll County Government. At the end of the current fiscal year, unreserved fund balance of the general fund was \$45,855,900, while total fund balance reached \$80,121,638. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 14.8 percent of total general fund expenditures, while total fund balance represents 25.9 percent of that same amount.

A decrease in fund balance was budgeted with an appropriation of \$13,542,642 of fund balance. The anticipated decrease in fund balance was partially mitigated by conservative spending which resulted in \$8,011,774 less in expenditures than budgeted. Total liabilities are fairly consistent with the previous year.

The revenues in the General Fund have increased by \$25,809,253 compared to the prior fiscal year. One of the reasons for this increase in revenues is that Property Taxes increased by \$23,030,059 over fiscal year 2007. Income tax revenue increased as well, due to an unanticipated growth in reconciling distributions from previous tax years. Expenditures increased by \$20,410,489 compared to the prior fiscal year.

The Capital Project Fund's balance sheet shows \$13,518,886 less in assets in fiscal year 2008. The decrease in cash is mainly due to construction started in fiscal year 2008 for the new high school and the new building at the community college which general obligation bonds will be issued for in November 2008. In fiscal year 2007 the County appropriated \$25,400,000 for one time expenditures in the Capital Fund. In fiscal year 2008 the General Fund provided \$6.4 million less in pay-go funding to the Capital Projects Fund compared to fiscal year 2007.

The Capital Projects Fund has a total fund balance of \$85,816,592, of which \$39,912,191 is reserved to liquidate purchase orders of the prior period and \$45,904,401 is unreserved but designated for future capital project expenditures. Unspent bond proceeds of \$7,070,444 make up 15.4 percent of the government activities restricted for capital projects.

The Non-Major Special Revenue Funds have a total fund balance of \$2,340,051, all of which is unreserved.

**Proprietary funds:** Carroll County Government's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The total unrestricted net assets of the proprietary funds at the end of the year amounted to \$6,594,607 and unrestricted net assets

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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in the Internal Service Fund totaled \$6,680,406. The total growth in net assets for the proprietary funds was \$3,895,155, while the net assets for the Internal Service Fund increased by \$1,297,607. Other factors concerning these funds' finances have been addressed in the discussion of Carroll County Government's business-type activities.

**General Fund Budgetary Highlights**

In the original budget the Board of Commissioners approved a reserve for contingencies between 1.0 to 1.25 percent of total budget to provide funds for emergency and unforeseeable expenditures that may arise during the current fiscal year. Funds can only be moved from the reserve during the year with approval from the Board of Commissioners. Any balance left in the reserve at year end falls to unreserved undesignated fund balance.

A transfer from the reserve for contingencies was made which accounts for the difference between the original and final budgets. Debt Service final budget was increased by \$2.8 million over the original budget to cover the addition of more Agricultural Preservation five year notes payable than originally budgeted.

The budgetary statements of the General Fund show actual revenues of \$308,690,104, compared to budgeted amount of \$304,693,161, an overall increase of \$3,996,943. The major differences between the final budgeted amounts and the actual revenues are as follows:

- Actual Property Taxes collected were more than budget by \$4.2 million because actual taxes were more than what the State provided estimates for which the budgets were based.
- Local other taxes came in \$2.4 million less than the final budget, due to recordation tax coming in \$5.5 million less than budget as a result of the drop off in real estate, mortgage activity, and sale prices lower than anticipated. Income tax helped to offset some of the decrease in recordation tax. Income tax came in \$3.3 million higher than budget due to an unanticipated growth in reconciling distributions from previous tax years.
- State shared taxes collected were \$1.2 million less than final budget because of the higher fuel costs; demand for fuel decreased which decreased the amount of tax the State collected on fuel sales.
- Licenses and permit revenue came in \$0.1 million higher than the final budget due to building permit revenue coming in higher than anticipated.
- Charges for Service came in \$0.8 million higher than the budget due to a combination of Sheriff Services (Detention Center, INS Prisoner and INS Transport) and fuel recovery being higher than expected.
- Interest came in \$0.9 million higher than budget due to the portfolio size being larger than expected. The portfolio was expected to have been more depleted due to the anticipated spending down of Real Property Tax directly appropriated to the Capital Budget in previous years. The portfolio size more than offset the unexpected drop in interest rates caused by the Federal Reserve. The expected interest rate for fiscal year 2008 was 5.25%; however, the average rate for the fiscal year ended up slightly below 4.00%.
- Miscellaneous revenues increased \$1.6 million due to rents and Royalties coming in \$1.2 million more than the final budget, due to the increase of rent charged for the Board of Education Headquarters and Kessler Warehouse.

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The budgetary statements of the General Fund show actual expenditures of \$305,384,475, compared to budgeted amount of \$313,396,249, resulting in \$6,011,774 or 2.2 percent less than planned. The major differences between the final budgeted amounts and the actual expenditures are as follows:

- Actual expenditures for pension, OPEB, and payroll taxes were transferred to the correct functions. These expenditures were budgeted in the General Government so the transfer didn't effect the budget overall it effected the individual functions with the offset in General Government.
- Public Safety expenditures came in \$1,872,320 more than final budget. This was due pension, OPEB, and payroll taxes being recorded in the correct function. The County also contributed \$1,000,000 to the Volunteer Firemen Pension Plan (LOSAP) which was budgeted in Transfers Out but actual expenditures were transferred into Public Safety. Some of the expenditures in Public Safety were offset by salary savings in Sheriff Services and equipment savings in Public Safety.
- Public Works expenditures were \$951,208 more than budget due the transfer of pension costs, OPEB costs, and payroll taxes. Offsets to the expenditures in Public Works were savings in salaries and materials primarily in the roads budget.
- Education expenditures came in \$1,027,913 less than final budget primarily due to surplus from the Board of Education of \$3,000,000 which was returned to the County. The surplus was offset by the \$2,000,000 of various in-kind expenditures the County provided to the school system with aid, primarily for office and warehouse space. The County does not budget for in-kind aid.
- Actual expenditures for the Library came in \$581,198 more than the final budget because of the transfer of pension costs, OPEB costs, and payroll taxes.
- Recreation and parks expenditures came in \$140,068 more than final budget which was due to the transfer of pension costs, OPEB costs, and payroll taxes. Some of the expenditures were offset with savings in salaries.
- Economic development came in \$282,924 less than the final budget. This savings was from the Infrastructure and Training Grant Program which was partially offset by the transfer of pension costs, OPEB costs, and payroll taxes. The Grant Program is budgeted at \$3,000,000 to ensure adequate resources for Economic Development to offer financial assistance to new and existing businesses and business related entities. As economic development opportunities will vary from year to year, a sizeable variance in this budget, while not planned, is not unexpected.
- The Reserve for Contingency is set up in case funds are needed to be moved into functions to address specific problems or opportunities. For fiscal year 2008, \$6,338,528 was left in the Reserve for Contingency showing the function under budget.
- Debt Service principal and interest came in less than final budget by \$373,824 and \$717,714 respectively. This savings was due to a combination of the total amount of the bond sale and the interest rate for the bond sale both being below budgeted expectations.

### **Capital Asset and Debt Administration**

**Capital assets:** Carroll County Government's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$488,443,323 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, infrastructure, and construction in progress. The total increase in Carroll County Government's investment in capital assets for the current fiscal year was 6.7 percent (a 4.6 percent increase for governmental activities and a 1.5 percent increase for business-type activities). Additional information on the County's capital assets can be found on pages 62 to 64 of this report.

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**Carroll County Government's Capital Assets  
(Net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 32,483,709	\$ 26,809,632	\$ 8,625,748	\$ 8,625,747	\$ 41,109,457	\$ 35,435,379
Construction in progress	35,740,947	32,457,013	27,685,366	13,056,406	63,426,313	45,513,419
Building and contents Improvements	92,437,382	90,472,235	18,577,175	18,952,101	111,014,557	109,424,336
other than buildings	14,766,923	8,710,792	871,812	964,671	15,638,735	9,675,463
Auto, machinery & equipment	14,559,704	12,295,150	2,095,964	1,844,298	16,655,668	14,139,448
Infrastructure	197,135,468	199,218,238	43,463,125	44,336,061	240,598,593	243,554,299
Total	<u>\$ 387,124,133</u>	<u>\$ 369,963,060</u>	<u>\$ 101,319,190</u>	<u>\$ 87,779,284</u>	<u>\$ 488,443,323</u>	<u>\$ 457,742,344</u>

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

- The ongoing construction costs of renovating the 300 South Center Street Building totaled \$3.97 million which was funded by general obligation bond proceeds and resulted in an increase of CIP.
- The ongoing costs associated with the creation of the Carroll County Public Network totaled \$2.58 million which was funded by real property tax revenue and resulted in an increase of CIP.
- The ongoing construction costs of renovating the old New Windsor Middle School into the Carroll County Public Library Headquarters totaled \$6.81 million which was funded by general obligation bond proceeds and resulted in an increase of CIP.
- The construction costs of various ongoing Public Works projects totaled \$1.76 million which some of the various funding sources included general obligation bond proceeds, real property tax revenue, and general fund revenue, and resulted in an increase of CIP.
- The ongoing construction costs of building Carroll Community College-Classroom Building #4 totaled \$2.24 million which was funded by general obligation bond proceeds and resulted in an increase of CIP.
- The ongoing design, engineering, and construction costs of building a new Library in Finksburg totaled \$3.00 million which was funded by general obligation bond proceeds, real property tax revenue, and general fund revenue, and resulted in an increase of CIP.
- The final costs associated with the ongoing construction and completion of various Public Works projects totaled \$7.03 million which some of the various funding sources included general obligation bond proceeds, real property tax revenue, and general fund revenue, and resulted in a decrease of CIP.
- The completion of various Public Safety projects totaled \$2.54 million which some of the various funding sources included general obligation bond proceeds, state of Maryland revenue, and general fund revenue, and resulted in a decrease of CIP.
- The completion of the ongoing Energy Management project totaled \$2.58 million which was funded by Non-Cash Note proceeds, and resulted in a decrease of CIP.
- The completion of the North Carroll Senior Center totaled \$3.29 million which was funded by real property tax revenue and general obligation bond proceeds, and resulted in a decrease of CIP.
- The completion of the Eldersburg Library Expansion totaled \$1.10 million which was funded by general obligation bond proceeds and general fund revenue, and resulted in a decrease in CIP.

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- The ongoing construction costs for the expansion of the Freedom District Water Treatment Plant totaled \$10.29 million which was funded by Proprietary fund revenue and resulted in an increase of CIP.

***Long-term debt:***

At the end of the current fiscal year, Carroll County Government had total general obligation debt outstanding of \$249,121,457, which is debt backed by the full faith and credit of the County.

**Carroll County Government's Outstanding General Obligation Debt**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds, net	\$ 219,638,767	\$ 218,904,371	\$ 22,345,826	\$ 13,781,251	\$ 241,984,593	\$ 232,685,622
General Obligation Debt	7,136,864	7,136,864	-	-	7,136,864	7,136,864
Total	<u>\$ 226,775,631</u>	<u>\$ 226,041,235</u>	<u>\$ 22,345,826</u>	<u>\$ 13,781,251</u>	<u>\$ 249,121,457</u>	<u>\$ 239,822,486</u>

During the current fiscal year Carroll County Government's total debt increased by \$9,298,971. The County did sell general obligation bonds totaling \$30,435,000. Of these bonds, \$18,985,000 was sold to cover capital projects in the governmental activities and \$10,005,000 was sold to cover capital projects in the business-type activities; \$1,445,000 was sold to cover fire company loans for building construction and equipment purchases. The County also issued a bond refunding totaling \$6,670,000 for the 1997 Hospital refunding bonds which generated a debt service savings of \$553,712. The new bonded debt will be repaid over fifteen years. The County also issued \$2,495,343 in agricultural land preservation easements which will be paid within five years or less. Additional information on Carroll County Government's long-term debt can be found in Note 8 of this report.

Carroll County Government maintained an "AA" rating from Standard and Poor's, an "AA+" rating from Fitch Ratings, and an "Aa2" rating from Moody's Investors Service.

Under charter counties state statutes limit the amount of general obligation debt a government entity may issue up to 15.0 percent of its net assessed valuation of personal and corporate property plus 6.0 percent of the total assessed valuation of real property. While Carroll County isn't a charter county, and does not have a legal debt limit, it uses the state statute as a recommended guideline on debt limit. The current debt limitation for Carroll County Government is \$909,988,114, which is significantly in excess of the Carroll County Government's outstanding general obligation debt. Additional information on the computation of the legal debt margin can be found in Table 13 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The fiscal year 2009 budget appropriation for the general fund is \$353,000,000 representing a 7.5 percent increase over fiscal year 2008.
- The Homestead tax credit is expected to decrease property tax revenue by an additional \$11 million in fiscal year 2009 to a total of \$34.25 million.

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- Recordation is expected to be even less in fiscal year 2009 than fiscal year 2008 due to the decline in the housing markets.
- Interest revenue is expected to be lower because of the anticipation of lower rate of return in fiscal year 2009.
- A 26.4% increase in appropriations is in Economic Development primarily due to infrastructure costs of two new business parks.
- The Board of Election's appropriation is up 25.8% due to a new voting system mandated by the State of Maryland.
- In fiscal year 2008 the Employee Pension Trust Fund's fair value decreased. This was primarily due to the risk associated with certain investment securities. It is reasonably possible changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.
- The average unemployment rate for the County is currently 3.2 percent, while the State of Maryland average is 3.7 percent.
- For fiscal year 2009 the property tax rate remains the same as fiscal year 2008.

All of these factors were considered in preparing the Carroll County Government's budget for the 2009 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$45.8 million in comparison to \$39.1 million at June 30, 2007. The County has appropriated \$11.3 million of this amount for spending in the 2009 fiscal year budget.

**Requests for Information**

This financial report is designed to provide a general overview of Carroll County Government'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 Department of the Comptroller, Carroll County Government, 225 North Center Street, Westminster, Maryland 21157. This report can also be found on the County's website at <http://ccgovernment.carr.org/ccg/comp/default.asp>.

