

TALBOT COUNTY, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016

Report Prepared By:

Talbot County, Maryland Finance Office



TALBOT COUNTY, MARYLAND
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 for the FISCAL YEAR ENDED JUNE 30, 2016
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INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

GFOA CERTIFICATE OF ACHIEVEMENT

ORGANIZATIONAL CHART

LIST OF ELECTED AND APPOINTED OFFICIALS



TALBOT COUNTY, MARYLAND

COURT HOUSE

11 N. WASHINGTON STREET, SUITE 9
EASTON, MARYLAND 21601

FINANCE OFFICE
PHONE: 410-770-8020

FAX: 410-770-8006
TTY: 410-822-8735

December 28, 2016

To the County Council and Citizens of Talbot County, Maryland:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for Talbot County, Maryland for the fiscal year ended June 30, 2016 as required by both local and state statutes. These statutes require that Talbot County, Maryland annually issue financial statements presented in conformity with generally accepted accounting principles in the United States of America (GAAP) and audited in accordance with generally accepted auditing standards in the United States of America by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for these representations, the management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by TGM Group, LLC, Independent Certified Public Accountants. TGM Group, LLC issued an unmodified opinion on the County's financial statements for the year ended June 30, 2016. The goal of the independent audit is to provide reasonable assurance that the financial statements of Talbot County, Maryland for the fiscal year ended June 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of this report.

The County is required to undergo a federally mandated annual audit called the "Single Audit" which is designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the County's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in Talbot County's separately issued Single Audit report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis to accompany the basic financial statements. MD&A is designed to complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

Talbot County, located on the Eastern Shore of Maryland, was visited by Captain John Smith in 1608 and settled by the English 50 years later. The County was incorporated in 1661. The County has a land area of 269 square miles and more than 600 miles of waterfront. Talbot County is a predominantly rural county with a land area of 171,000 acres, of which approximately 109,000 acres are farmland.

There are five incorporated towns within Talbot County. The Town of Easton is the County seat and is centrally located. Easton is the major residential, commercial, and employment center of the County. St. Michaels is located on the shores of the Miles River. Oxford is located along the Tred Avon River. The Town of Trappe is located in the south-central portion of the County along U.S. Route 50. The Town of Queen Anne straddles the Talbot County and Queen Anne's County border along Route 404.

Form of Government

Both the executive and legislative functions of the County are vested in the elected, five-member County Council. Council members are elected on a countywide basis and serve four-year terms. The terms of the current members of the Council run to December 2018. The Council elects one Council member to serve as its President and one to serve as its Vice President.

As the result of a referendum held in November 1973, the County has adopted the Charter Home Rule form of government provided in Article XI-A of the Maryland Constitution and Sections 10-101 et. seq. of the Local Government Article of the Annotated Code of Maryland. Under this form of government, the Council has the authority to enact, amend, and repeal legislation relating to the incorporation, organization, and government of the County.

The County Manager, who is appointed by the Council, is the chief administrative officer of the County and is charged with the administration of all agencies of the County government.

The County provides a full range of municipal services including education, libraries, public safety (police, detention center, emergency medical services and volunteer fire services), recreation activities, health and social services, sanitary districts, highways and streets, airport, planning and zoning, and general administrative services.

Component Units

The Talbot County Board of Education and the Talbot County Free Library Association, Inc. are reported as discretely presented component units because they are deemed to be fiscally dependent on the County. These component units are reported separately within the County's financial statements to emphasize that they are legally separate from the County. Additional information on these component units can be found in Note 2 of the Notes to the Financial Statements.

Budget Process

The annual budget serves as the foundation for Talbot County's financial planning and control. The formulation of the County's budget is the responsibility of the County Manager, who is subject to the supervision of the County Council.

All County departments and agencies seeking funding, submit requests for appropriations to the County Manager in February of each year. These requests are reviewed and amended by the County Manager (except for the budget requests of the Legislative Branch and the Board of Appeals), and a preliminary budget is drafted and introduced by the County Council in April. At least two public hearings are held on the proposed budget. The County Council may increase, decrease, or delete any items in the budget except those required by the laws of the State, and any provisions for debt service on outstanding obligations or for any estimated budget deficits from prior years. The Annual Budget and Appropriation Ordinance must be passed by the County Council on or before June 1 of each year, to be effective on the first day of the subsequent fiscal year. The appropriated budget is prepared by fund, department/agency, and general classification of expenditure (personnel, operating, capital outlay, debt service, etc.). Budgetary control for all operating budgets is maintained at the general classification level and at the project level for capital projects. Transfers of appropriations between general classifications of expenditures within the same department may be authorized by the County Manager. Transfers between departments of the county government and within the same fund may be made only during the last quarter of the fiscal year and only on the recommendation of the County Manager and with the approval of the Council. Budget-to-actual comparisons are provided in this report for the individual governmental funds for which an appropriated annual budget has been adopted. The general fund and grants fund comparison is presented in the Required Supplementary Information, as listed in the table of contents, as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund and grants fund, with appropriated annual budgets, this comparison is presented in the Other Supplementary Information subsection of this report, as listed in the table of contents.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local Economy. Like state and local governments across the country, Talbot County is concerned about the National economy and the far reaching effects it has had on Maryland's and Talbot County's overall economy. Of greatest concern are the impacts of continued reductions in state funding and additional costs that may be passed on to local governments, and the potential reduction of income tax revenues, primarily those derived from non-wage income. After 4 years of increasing revenues, Income tax revenues decreased in FY 2016. FY 2016 Income tax revenues were 7.0% less than FY 2015 revenues and \$1.4 million or 5.1% less than the amount budgeted for FY 2016. The County is currently projecting that the FY 2017 actual Income Tax revenues received will be slightly less than the amount received in FY 2016. The County's housing market continues to be strong as noted by increased Recordation and Transfer tax revenues. For FY 2017 the County is optimistic that the housing market will remain strong. The County continues to have a healthy mix of service related businesses, agriculture, and light manufacturing. Employment is expected to remain stable and the unemployment rate should continue to be slightly less than both the State (4.5%) and National (4.9%) rates as evidenced by the June 2016 County rate of 4.2 percent. In addition, the County has maintained favorable tax rates, including the lowest property tax rate and the second lowest income tax rate in the State.

The County's 600 miles of shoreline and many historic sites make it a significant tourist destination, drawing visitors from all over the region. Additionally, its abundant waterfront provides many desirable home sites. Development is purposely controlled to protect the County's beauty and the fragile environment of its shoreline and waters. More intense development is limited to the incorporated municipalities where water and wastewater treatment services are available.

Long Term Financial Planning. In FY 2017 the expansion of the County's 911 Dispatching Center will be completed. This expansion is part of the multi-year project to replace the

County's emergency radio system and enhance the emergency system for County residents and visitors. In FY 2017, with the support of the Town of Easton, the Town of Easton's police dispatching center and the County 911 dispatching centers will merge. All 911 dispatching for all police and other emergency services in Talbot County will be handled by the County 911 Center in the new 911 Dispatching Center. The total cost of this expansion and the replacement of the emergency radio system is projected to be approximately \$12.6 million. In FY 2017 and beyond the focus will be on providing for various County and school building maintenance projects, the infrastructure requirements associated with the construction of a new hospital facility, projects that will improve the water quality of the County's waterways, and park and public landing improvement projects.

Talbot County has a policy to allot a portion of the General Fund unassigned fund balance equal to 15% of actual General Fund expenditures, before other financing uses, to be used in case of fiscal emergencies. As of June 30, 2016 Talbot County's unassigned fund balance was 29.7% of actual expenditures, before other financing uses.

The economic outlook for the County is favorable. The County has a history of conservative budgeting. This has resulted in the continued growth of the County's fund balance. In addition, Talbot County has the lowest county real property tax rate and the second lowest county income tax rate in the State. These favorable tax rates along with miles of waterfront continue to attract residents to the County.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Talbot County, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2015. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Talbot County, Maryland has received a Certificate of Achievement for the last fifteen consecutive years. We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Talbot County Finance Office. The Finance Office has maintained the accounting records of the County on a current and timely basis. I would like to express my appreciation to all members of the department for their conscientiousness and professionalism throughout the fiscal year.

Respectfully Submitted,



Angela Lane
Finance Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Talbot County
Maryland

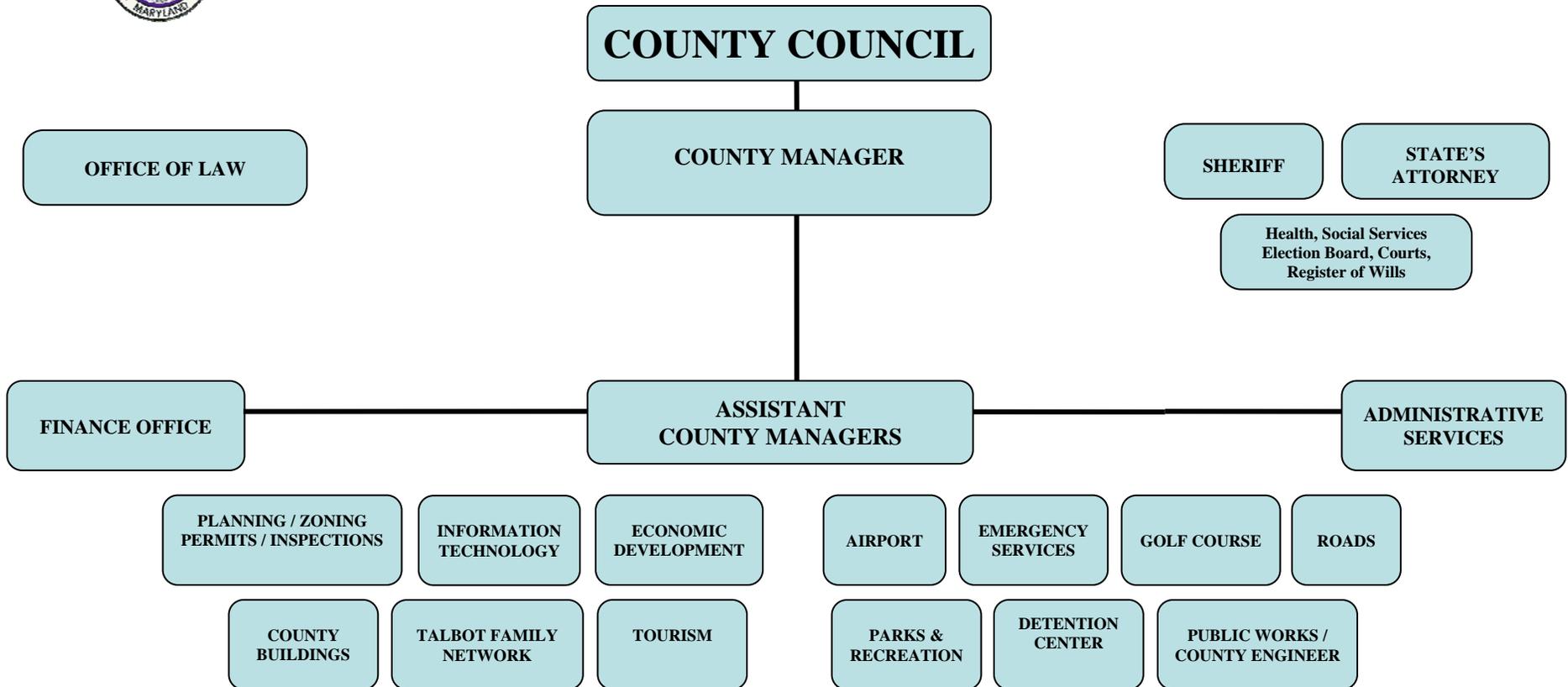
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



TALBOT COUNTY GOVERNMENT ORGANIZATIONAL CHART



Talbot County, Maryland

List of Elected and Appointed Officials

June 30, 2016

Elected Officials

County Council

Corey W. Pack, President
Dirck K. Bartlett
Chuck F. Callahan
Laura E. Price
Jennifer L. Williams

Sheriff
State's Attorney

Joseph J. Gamble
Scott G. Patterson

Appointed Officials

County Manager
Attorney
Assistant County Manager for Administration
Administrative Services Director
Airport Manager
Department of Corrections Director
Economic Development Director
Emergency Services Director/Assistant County
Manager
Facilities Manager
Finance Director
Golf Course General Manager
Information Technology Director
Parks and Recreation Director
Planning Officer
Public Works/County Engineer
Roads Superintendent
Tourism Director

R. Andrew Hollis
Michael L. Pullen
Jessica K. Morris
Cheril S. Thomas
Michael L. Henry
Douglas C. Devenyns
Paige R. Bethke

Clay B. Stamp
Brian Moore
Angela Lane
Owen Sutherland
Parker J. Durham
Preston P. Peper
Mary Kay Verdery
Raymond P. Clarke
Warren W. Edwards, Jr.
Cassandra M. Vanhooser

FINANCIAL SECTION

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



INDEPENDENT AUDITORS' REPORT

County Council of
Talbot County, Maryland
Easton, 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 units, each major fund, and the aggregate remaining fund information of Talbot County, Maryland (the "County") as of and for the year ended June 30, 2016, 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

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of Talbot County, Maryland. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Board of Education of Talbot County, Maryland is based solely on the reports 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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 other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress – other post-employment benefits, Maryland State Retirement and Pension Systems – schedule of the proportionate share of the net pension liability, and Maryland State Retirement and Pension Systems – schedule of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 introductory section, other supplementary information, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the other

supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016, 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 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.

A handwritten signature in black ink that reads "JHM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
December 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the Comprehensive Annual Financial Report of Talbot County, Maryland presents a narrative overview and analysis of the financial activities of Talbot County Government for the fiscal year ended June 30, 2016. We encourage readers to use the information presented here in conjunction with the accompanying letter of transmittal, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- As of June 30, 2016, the assets of Talbot County exceeded liabilities by \$135.1 million (net position), an increase of \$395 thousand, or 0.3 percent, from the prior year. Approximately 63.9 percent of net position is attributable to the County's governmental activities. Total net position is comprised of \$128.1 million net investment in capital assets, \$96 thousand in restricted net position and \$6.9 million in unrestricted net position. The County's unrestricted net position is a relatively small amount because the County issues debt to fund the construction projects for the Board of Education of Talbot County, a component unit, and Chesapeake College, a five county regional community college. The school buildings that are constructed through the County's financial support are assets of the Board of Education of Talbot County and Chesapeake College, and therefore are not shown as assets of Talbot County. At June 30, 2016 the County included \$24.6 million of bonds payable in liabilities for school construction projects and no corresponding capital assets.
- Income Tax revenues decreased by \$2.0 million or 7.0 percent from FY 2015's actual collections. This is the first time in five years that actual income tax revenues have been less than the prior year.
- As of June 30, 2016, the County's governmental funds reported combined fund balances of \$37.3 million, an increase of \$1.7 million, or 4.7 percent, from the prior year. Approximately 62.5 percent of the combined fund balances is available to help meet the County's future funding needs (unassigned fund balance).
- The unassigned fund balance for the General Fund (primary operating fund) was \$23.3 million at June 30, 2016. The unassigned fund balance for the General Fund of \$23.3 million is 29.4 percent of general fund revenues, before Other Financing Sources, which is more than the Government Finance Officers Association's Best Practices recommendation that, at minimum, regardless of size, all governments maintain reserves equal to about 16 percent of revenues. The County has a policy of allotting a portion of the unassigned fund balance as a "rainy day fund". The amount allotted at June 30, 2016 for the "rainy day fund" is \$11.8 million (15 percent of the actual general fund expenditures before Other Financing Uses).
- An "other post-employment" benefits (OPEB) Trust was established in FY 2011. In FY 2016 the County transferred \$1.0 million to the Trust. To date the County has transferred \$10.0 million to the Trust to fund future OPEB obligations.
- Talbot County Government's total debt, excluding compensated absences, decreased by \$3.5 million during the year ended June 30, 2016. The County refinanced \$16.9 million of debt in FY 2016. See Note 6 of this report for details of the debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Government-wide financial statements (reporting on the County as a whole)
- Fund financial statements (reporting the County's most significant funds)
- Notes to the financial statements

This report 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 Talbot County Government's finances, in a manner similar to that of a private sector business. The Statement of Net Position and the Statement of Activities are prepared using the accrual basis of accounting.

The Statement of Net Position presents information on all of the County's assets, deferred outflows, liabilities, and deferred inflows with the difference being 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 County'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 for some items reported in this statement will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Of particular interest is the format of this statement. The reader will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is Net (Expense) Revenue. The purpose of this type of format is to highlight the relative financial burden of each of the functions on the County's taxpayers. It also identifies how much each function draws from the general fund revenues, or if the functions are self-supporting through fees and grants. It is important to note that all taxes are classified as general fund revenue even if restricted for a specific purpose.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (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 the County include general government, public safety, public works, health, social services, education, recreation, and conservation of natural resources. The business-type activities of the County include recreation facilities, wastewater treatment services, and an airport facility.

The government-wide financial statements include not only the operations of Talbot County Government itself (known as the primary government), but also the legally separate organizations of the Board of Education of Talbot County, Maryland and the Talbot County Free Library Association, Inc. The financial information for these component units is reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 26-29 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. 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 Talbot County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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, the governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as 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 the 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 Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Talbot County, Maryland maintains three types of governmental funds: general, capital projects and special revenue. 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 all three types of governmental funds.

The basic governmental fund financial statements can be found on pages 32-35 of this report.

Proprietary Funds. Proprietary funds are reported in the fund financial statements and generally report services for which the County charges customers a fee. Proprietary funds include internal service funds and enterprise funds. An internal service fund is an accounting device used to accumulate and allocate costs internally among the County's various functions. Talbot County does not maintain any internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its wastewater treatment services, recreation facilities, and airport.

Proprietary fund schedules 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 36-41 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 resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for the proprietary funds. The County has one trust fund which is the Talbot County OPEB Trust.

The basic fiduciary fund financial statements can be found on pages 42-43 of this report.

Notes to Financial Statements

The notes to the financial statements are part of the basic financial statements and provide additional information that is essential to creating 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 46-82 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information and disclosures that are not considered part of the basic financial statements. Required supplementary information includes a budgetary comparison for the General Fund and Grants Fund to demonstrate compliance with the annually adopted budget. Other supplementary information includes budgetary comparisons for the Capital Projects, Other Governmental, and Enterprise Funds, and combining statements for Other Governmental Funds. These reports are located immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's overall financial condition and position. In Talbot County, assets exceeded liabilities by \$135.1 million at the close of the most recent fiscal year, as shown in the schedule of net position below. Talbot County's net position is divided into three categories, *Net investment in capital assets*, and (net of related debt), *restricted* and *unrestricted*. The largest portion of the County's net position reflects its investment in capital assets net of depreciation (e.g., land, buildings, infrastructure, machinery and equipment) less any related outstanding debt used to acquire those assets. The County uses capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

It is important to note that although counties in the State of Maryland issue debt for the construction of schools, school buildings are owned by each County's Public School System. Ownership reverts to the County if the local board determines that a building is no longer needed. Therefore, while the County's financial statements include this outstanding debt; they do not include the capital assets funded by the debt. The small amount of unrestricted net position in governmental activities of \$6.9 million reflects the imbalance of liabilities without corresponding assets.

Restricted net position of \$96 thousand represents 0.07 percent of total net position. Restricted net position resources are subject to external restrictions on how they may be used. Unrestricted net position of the total government is \$6.9 million. See Note 14 for additional information on the County's unrestricted net position.

Below is a condensed statement of net position with comparative amounts from the previous fiscal year.

Talbot County Government's Net Position						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 52,343,118	\$ 49,329,977	\$ 476,851	\$ 394,088	\$ 52,819,969	\$ 49,724,065
Capital Assets	85,488,934	87,524,692	58,155,667	61,885,388	143,644,601	149,410,080
Total Assets	<u>137,832,052</u>	<u>136,854,669</u>	<u>58,632,518</u>	<u>62,279,476</u>	<u>196,464,570</u>	<u>199,134,145</u>
Deferred Outflow of Resources	<u>3,633,586</u>	<u>1,213,555</u>	<u>33,238</u>	<u>-</u>	<u>3,666,824</u>	<u>1,213,555</u>
Non Current Liabilities	40,509,628	40,586,999	8,088,425	9,001,631	48,598,053	49,588,630
Other Liabilities	13,735,232	13,386,437	1,780,871	1,748,633	15,516,103	15,135,070
Total Liabilities	<u>54,244,860</u>	<u>53,973,436</u>	<u>9,869,296</u>	<u>10,750,264</u>	<u>64,114,156</u>	<u>64,723,700</u>
Deferred Inflow of Resources	<u>891,533</u>	<u>893,794</u>	<u>-</u>	<u>-</u>	<u>891,533</u>	<u>893,794</u>
Net Position:						
Net Investment in Capital Assets	78,908,012	80,132,665	49,231,203	52,050,922	128,139,215	132,183,587
Restricted	95,943	94,369	-	-	95,943	94,369
Unrestricted	7,325,290	2,973,933	(434,743)	(521,710)	6,890,547	2,452,223
Total Net Position	<u>\$ 86,329,245</u>	<u>\$ 83,200,994</u>	<u>\$ 48,796,460</u>	<u>\$ 51,529,212</u>	<u>\$135,125,705</u>	<u>\$ 134,730,206</u>

At the end of the current fiscal year, the governmental activities shows a positive balance in all categories of net position and business-type activities show a positive balance in one category of net position.

Talbot County's net position increased by \$395 thousand during the current fiscal year as the result of a \$3.1 million increase in governmental activities and a \$2.7 million decrease in business-type activities. The business-type activities decrease is the result of expenditures (primarily depreciation) being more than revenues received through charges for services.

Talbot County Government's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 3,161,088	\$ 3,324,942	\$ 6,577,372	\$ 6,986,424	\$ 9,738,460	\$ 10,311,366
Operating Grants and Contributions	5,346,114	5,444,857	635,254	739,049	5,981,368	6,183,906
Capital Grants and Contributions	46,848	368,625	588,378	2,359,600	635,226	2,728,225
General Revenues:						
Property Taxes	35,280,376	34,726,851	-	-	35,280,376	34,726,851
Local Income Tax	26,568,636	28,562,934	-	-	26,568,636	28,562,934
Other Local Taxes	11,340,994	10,706,846	-	-	11,340,994	10,706,846
Investment Income	132,640	91,344	9,946	6,195	142,586	97,539
Miscellaneous	1,317,542	514,997	-	4,500	1,317,542	519,497
Total Revenues	83,194,238	83,741,396	7,810,950	10,095,768	91,005,188	93,837,164
Expenses:						
General Government	11,224,921	10,360,176	-	-	11,224,921	10,360,176
Public Safety	15,364,473	14,798,173	-	-	15,364,473	14,798,173
Public Works	6,550,228	5,919,975	-	-	6,550,228	5,919,975
Health	2,550,428	4,394,559	-	-	2,550,428	4,394,559
Social Services	1,821,647	936,371	-	-	1,821,647	936,371
Education	41,025,371	39,518,549	-	-	41,025,371	39,518,549
Recreation	734,248	541,540	-	-	734,248	541,540
Conservation of Natural Resources	252,228	242,700	-	-	252,228	242,700
Interest Charges	212,886	173,141	-	-	212,886	173,141
Recreation Facilities	-	-	2,676,732	2,647,744	2,676,732	2,647,744
Sanitary District	-	-	3,883,742	3,710,861	3,883,742	3,710,861
Airport	-	-	4,312,785	4,464,150	4,312,785	4,464,150
Pools	-	-	-	249,430	-	249,430
Total Expenses	79,736,430	76,885,184	10,873,259	11,072,185	90,609,689	87,957,369
Increase (Decrease) in Net Position before transfers	3,457,808	6,856,212	(3,062,309)	(976,417)	395,499	5,879,795
Transfers In (Out)	(329,557)	(622,350)	329,557	622,350	-	-
Increase (Decrease) in Net Position	3,128,251	6,233,862	(2,732,752)	(354,067)	395,499	5,879,795
Net Position – Beginning	83,200,994	76,967,132	51,529,212	51,883,279	134,730,206	128,850,411
Net Position - Ending	\$ 86,329,245	\$ 83,200,994	\$ 48,796,460	\$ 51,529,212	\$135,125,705	\$ 134,730,206

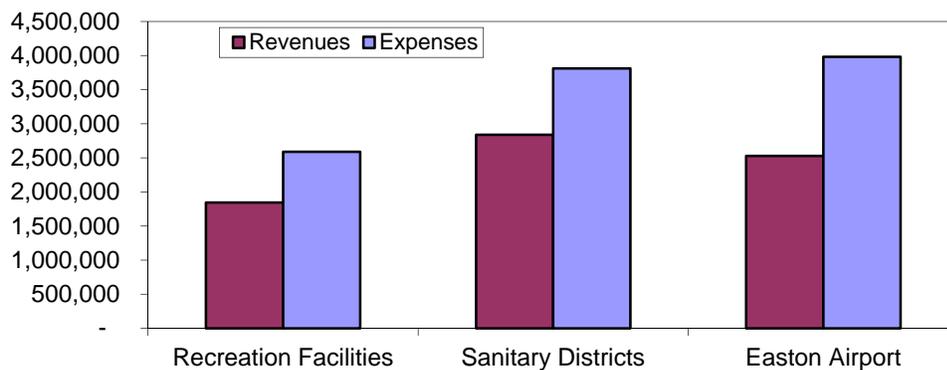
Governmental Activities. Governmental activities increased the County’s net position after transfers by \$3.1 million. Key elements of the increase in the net position of governmental activities are as follows:

- Capital projects fund revenues exceed expenditures by \$1.3 million primarily due to the sale of property.
- Income Tax revenues decreased by \$2 million, a 7.0 percent decrease from the prior year actual and were \$1.4 million less than originally budgeted for FY 2016.
- Property tax revenues increased by \$0.5 million, a 1.6 percent increase from the prior fiscal year and were \$356 thousand more than originally budgeted.
- Transfer and recordation taxes increased by \$565 thousand, a 6.0 percent increase from the prior fiscal year actual collections and were \$1.6 million more than originally budgeted for FY 2016. These revenues indicate a stabilization of the local housing market, but the housing market is not expanding yet.
- Miscellaneous revenues increased by \$842 thousand from the prior year actual.

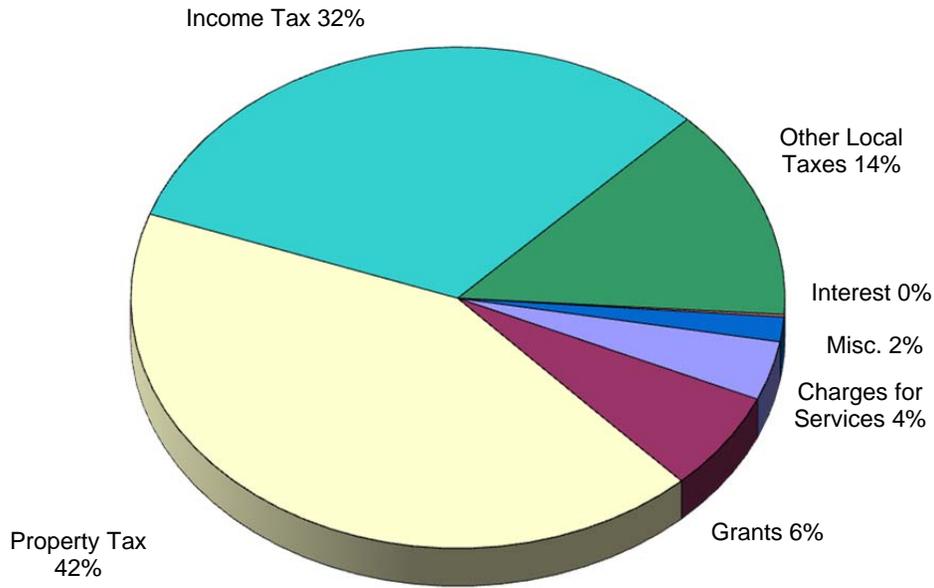
Business-type Activities. Business-type activities decreased Talbot County’s net position after transfers by \$2.7 million. The decrease is primarily attributable to expenditures (primarily depreciation) being more than revenues received through charges for services. In addition, the pool fund was closed and consolidated with the general fund in fiscal year 2016.

Fiscal year 2016 revenues and expenses for both the business-type and governmental activities are summarized in the charts on the following pages.

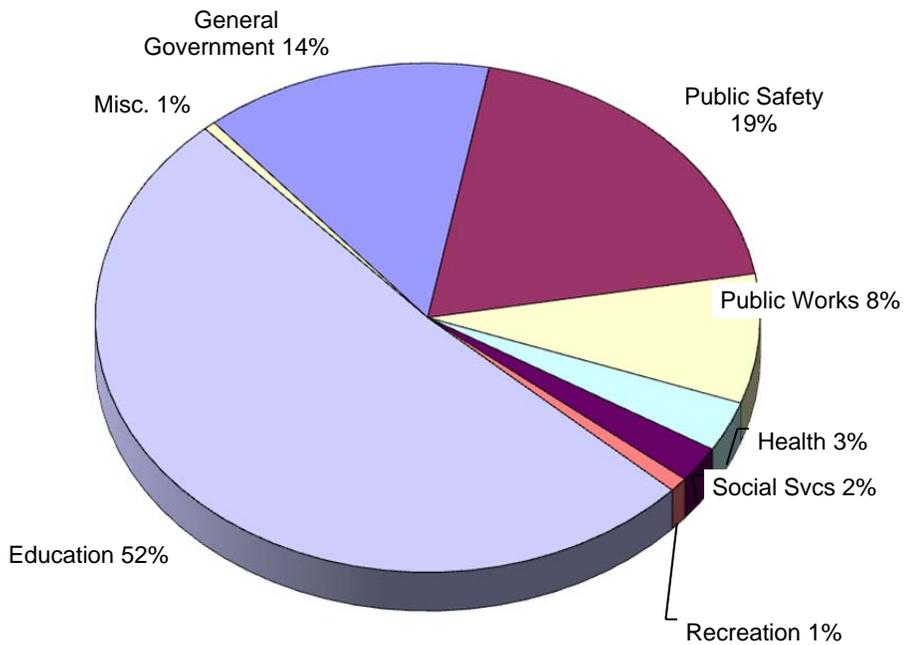
***Expenses and Program Revenues - Business-Type Activities
For the Year Ended June 30, 2016***



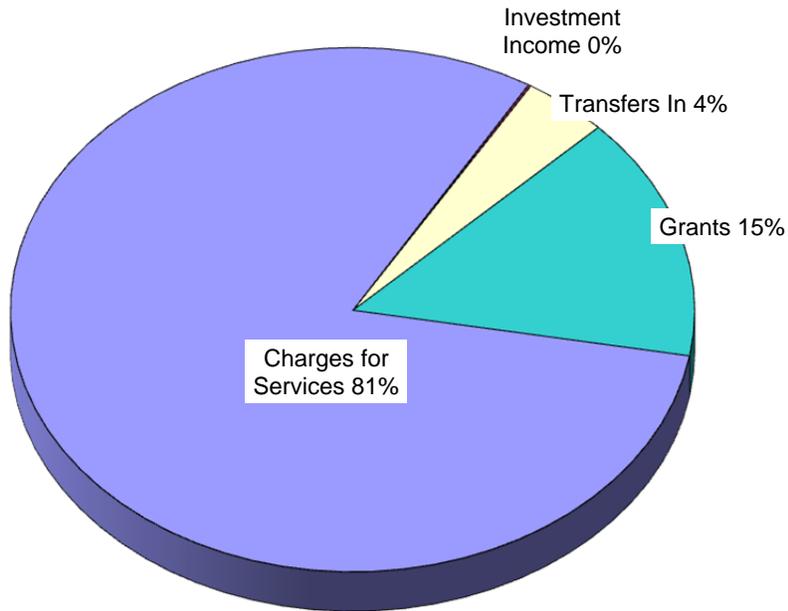
**Revenues by Source - Governmental Activities
For the Year Ended June 30, 2016**



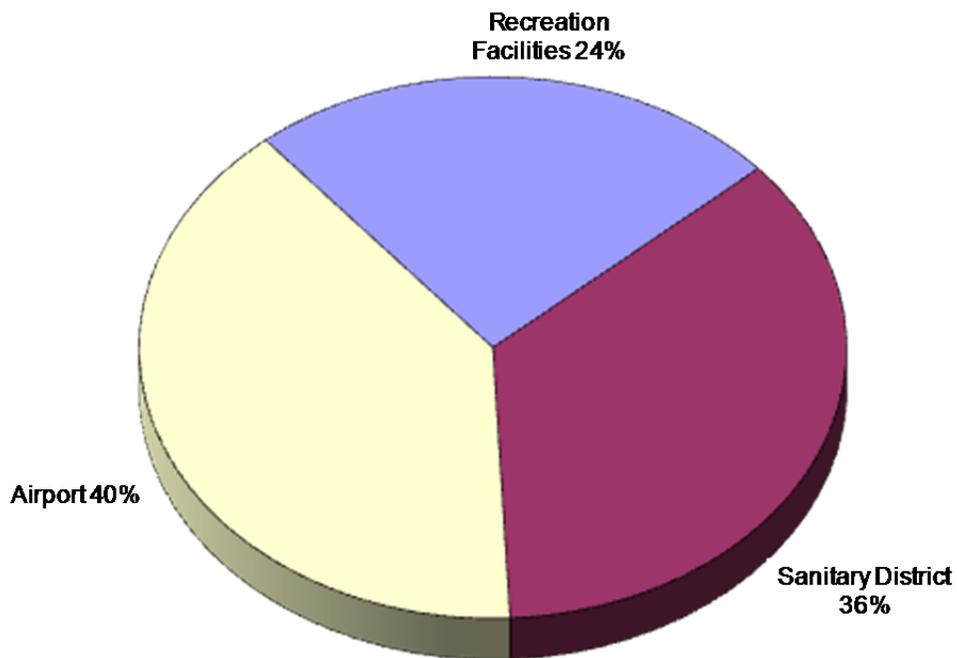
**Expenses - Governmental Activities
For the Year Ended June 30, 2016**



**Revenues by Source - Business-Type Activities
For the Year Ended June 30, 2016**



**Expenses - Business-Type Activities
For the Year Ended June 30, 2016**



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$37.3 million. Approximately 62.5 percent of this total (\$23.3 million) constitutes unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is either nonspendable, restricted, committed or assigned to indicate that it is not available for new spending because it has already been classified to fund other purposes. Capital projects account for the vast majority of committed funds.

The General Fund is the primary operating fund of the Talbot County Government. At the end of the current fiscal year, the total fund balance was \$25.6 million, and the unassigned fund balance was \$23.3 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 29.7 percent of total general fund expenditures before Other Financing Uses, while total fund balance represents 32.6 percent of total general fund expenditures before Other Financing Uses.

The fund balance of Talbot County's General Fund increased by \$323 thousand during FY 2016. This increase is due primarily to increases in local (property, recordation and transfer) tax revenues.

The fund balance of the County's Capital Projects Fund increased by \$1.3 million in FY 2016. This increase was due to sale of real property.

Proprietary Funds. Talbot County's proprietary fund statements provide the same type of information found in the government-wide financial statements, only in more detail. The total net position of the proprietary funds at the end of the year totaled \$48.8 million. There is a deficit balance of \$435 thousand in unrestricted net position.

Fiduciary Funds. Talbot County's fiduciary fund statements provide information regarding the County's Other Post- Employment Benefits (OPEB) Trust. Total assets held in trust for the OPEB plan totaled \$10.0 million at June 30, 2016.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the final budget and the final actual results for the County totaled \$323 thousand. Revenues received were \$16.2 million more than final budgeted estimates and expenditures were \$15.9 million more than final budgeted estimates. The major variances can be summarized as follows:

- **Revenues.** Revenues were \$16.2 million more than originally budgeted for the year. As discussed earlier, the major differences between the budgeted amounts and the actual revenues are as follows:
 - Proceeds from refunding bonds totaled \$16.5 million
 - Local Tax revenues received were \$0.6 million more than budgeted. This total includes \$1.4 million less in income tax revenues, \$1.6 million in recordation and transfer taxes, \$0.4 million in property tax revenues.
- **Expenditures.** Expenditures were \$15.9 million more than budgeted for the year. The major differences between the budgeted amounts and the actual expenditures are as follows:
 - Payments to refunding agents for refunded bonds totaled \$16.4 million

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Talbot County’s investment in capital assets for its governmental and business-type activities as of June 30, 2016 totals \$143.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure. The total decrease in the County’s investment in capital assets for the current fiscal year is \$5.8 million or 3.9 percent.

Capital assets are summarized as follows:

Talbot County Government’s Capital Assets (net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 9,735,907	\$ 12,436,837	\$ 2,956,047	\$ 3,499,479	\$ 12,691,954	\$ 15,936,316
Construction in progress	11,174,068	9,667,756	1,282,484	3,519,365	12,456,552	13,187,121
Buildings and improvements	24,402,209	25,660,475	50,010,586	50,808,134	74,412,795	76,468,609
Non-deprec. infrastructure	25,449,891	25,449,891	-	-	25,449,891	25,449,891
Infrastructure	8,416,535	8,763,424	-	-	8,416,535	8,763,424
Furniture and equipment	6,310,324	5,546,309	3,906,550	4,058,410	10,216,874	9,604,719
Total	\$ 85,488,934	\$ 87,524,692	\$ 58,155,667	\$ 61,885,388	\$143,644,601	\$ 149,410,080

See Note 5 of this report for additional information on Talbot County’s capital assets.

Long-term Debt. At the end of the current fiscal year, Talbot County had total long term debt outstanding of \$41.7 million, a decrease of approximately \$3.5 million. The full faith and credit and unlimited taxing power of the County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the bonds. Of this amount, \$9.0 million is considered self-supporting bonds, funded through various charges and assessments related to the enterprise operations of the County.

Talbot County Government's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Bonds, Notes and Premiums	\$ 32,753,625	\$ 35,367,806	\$ 8,957,702	\$ 9,834,466	\$ 41,711,327	\$ 45,202,272

The County's most recent bond ratings from Moody's Investors Service and Fitch Ratings are Aa2 (June 2015) and AAA (July 2015), respectively.

See Note 6 of this report for additional information on Talbot County's long-term debt.

The County's Charter limits the amount of general obligation debt the County may issue to no more than 15 percent of the County's assessable property tax base. See Schedule 16 in the Statistical Section of this report for additional information on the computation of the legal debt margin.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The FY 2017 approved budget for the General Fund is \$79,350,000 representing an increase of \$710 thousand or 0.9 percent from the FY 2016 original approved budget.
- Real Property tax revenue is expected to generate \$869 thousand more than the FY 2016 actual collections.
- Income tax revenue in FY 2017 is budgeted to be slightly less than the FY 2016 actual collections.
- Fund balance of \$2.2 million is used to balance the FY 2017 General Fund budget.

All of these factors were considered in preparing the County's budget for FY 2017. The County is cognizant of the economic struggles of the past several years and will continue to carefully monitor expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Talbot County Government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Talbot County Courthouse, 11 North Washington Street, Suite 9, Easton, Maryland 21601. This report can also be found on the County's website: www.talbotcountymd.gov.

The County's component units issue their own separately audited financial statements. These statements may be obtained from the component unit. Contact information can be found in Note 2 of this report.

Government-Wide Financial Statements

TALBOT COUNTY, MARYLAND
STATEMENT OF NET POSITION
PRIMARY GOVERNMENT AS OF JUNE 30, 2016
COMPONENT UNITS AS OF JUNE 30, 2016

	Primary Government		
	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and short-term investments	\$ 34,658,273	\$ 7,692,451	\$ 42,350,724
Investments	-	-	-
Receivables:			
Accounts receivable	419,685	245,747	665,432
Other	-	-	-
Intergovernmental:			
State	3,103,034	429,998	3,533,032
Federal	753,303	4,889	758,192
Local	-	-	-
Prepaid items	83,672	7,370	91,042
Prepaid OPEB	5,234,932	-	5,234,932
Internal balances	7,723,130	(7,723,130)	-
Inventories	-	186,615	186,615
Advances to (from) other funds	367,089	(367,089)	-
Other assets	-	-	-
Nondepreciable capital assets	46,359,866	4,238,531	50,598,397
Depreciable capital assets, net	39,129,068	53,917,136	93,046,204
TOTAL ASSETS	137,832,052	58,632,518	196,464,570
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (See Note 7)	2,602,260	-	2,602,260
Deferred charge on refunding (Note 6)	1,031,326	33,238	1,064,564
TOTAL DEFERRED OUTFLOWS	3,633,586	33,238	3,666,824
LIABILITIES			
Accounts payable and accrued liabilities	3,231,939	696,498	3,928,437
Other payables	2,413,445	-	2,413,445
Unearned revenue	4,146,209	101,444	4,247,653
Long-term liabilities, due within one year			
Compensated absences	405,046	50,324	455,370
Bonds and notes payable	3,538,593	932,605	4,471,198
Obligations under state retirement system	-	-	-
Long-term liabilities, due in more than one year			
Compensated absences	493,919	63,328	557,247
Bonds and notes payable	29,215,032	8,025,097	37,240,129
Obligations under state retirement system	-	-	-
Pension liability	10,800,677	-	10,800,677
Other post-employment benefit obligation	-	-	-
TOTAL LIABILITIES	54,244,860	9,869,296	64,114,156
DEFERRED INFLOWS OF RESOURCES			
Pensions (See Note 7)	891,533	-	891,533
NET POSITION			
Net investment in capital assets	78,908,012	49,231,203	128,139,215
Restricted for:			
Social services (Talbot Family Network)	95,943	-	95,943
Food services	-	-	-
Programs	-	-	-
Unrestricted (deficit)	7,325,290	(434,743)	6,890,547
TOTAL NET POSITION	\$ 86,329,245	\$ 48,796,460	\$ 135,125,705

The Notes to Financial Statements are an integral part of this statement.

Component Units	
<u>Board of Education</u>	<u>Library</u>
\$ 5,876,196	\$ 133,972
-	1,846,252
-	8,896
12,659	-
29,396	-
595,351	-
-	-
-	176
-	-
-	-
-	-
-	106,558
377,446	51,801
57,490,374	678,294
<u>64,381,422</u>	<u>2,825,949</u>
1,171,311	-
-	-
<u>1,171,311</u>	<u>-</u>
4,032,868	41,850
11,658	106,558
706,172	2,806
126,579	-
224,332	-
37,434	-
214,234	-
310,576	-
538,309	-
5,054,438	-
30,860,139	805,606
<u>42,116,739</u>	<u>956,820</u>
<u>430,078</u>	<u>-</u>
57,332,912	730,095
-	-
361,936	-
-	1,730,879
(34,688,932)	(591,845)
<u>\$ 23,005,916</u>	<u>\$ 1,869,129</u>

TALBOT COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
GOVERNMENTAL ACTIVITIES				
Current:				
General government	\$ 11,224,921	\$ 2,459,286	\$ 501,063	\$ -
Public safety	15,364,473	40,161	1,119,066	33,955
Public works	6,550,228	262,496	2,336,555	2,720
Health and hospitals	2,550,428	110,303	-	-
Social services	1,821,647	-	1,354,418	-
Education	41,025,371	105,745	-	-
Recreation	734,248	183,097	35,012	10,173
Conservation of natural resources	252,228	-	-	-
Interest on long-term debt	212,886	-	-	-
Total Governmental Activities	79,736,430	3,161,088	5,346,114	46,848
BUSINESS-TYPE ACTIVITIES				
Recreation facilities	2,676,732	1,845,663	-	142,536
Sanitary district	3,883,742	2,203,946	635,254	101,121
Easton airport	4,312,785	2,527,763	-	344,721
Total Business-Type Activities	10,873,259	6,577,372	635,254	588,378
Total Primary Government	\$ 90,609,689	\$ 9,738,460	\$ 5,981,368	\$ 635,226
COMPONENT UNITS				
Board of Education	\$ 70,228,924	\$ 618,115	\$ 61,863,858	\$ 1,089,480
Talbot County Free Library	1,799,039	-	1,691,330	-
Total Component Units	\$ 72,027,963	\$ 618,115	\$ 63,555,188	\$ 1,089,480

General Revenues

Taxes:

Property

Local income

Other

Admissions and amusements

Recordation

Transfer

Public accommodations

Mobile manufactured homes

Interest

Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year

Net position, end of year

The Notes to Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Board of Education	Library
\$ (8,264,572)	\$ -	\$ (8,264,572)	\$ -	\$ -
(14,171,291)	-	(14,171,291)	-	-
(3,948,457)	-	(3,948,457)	-	-
(2,440,125)	-	(2,440,125)	-	-
(467,229)	-	(467,229)	-	-
(40,919,626)	-	(40,919,626)	-	-
(505,966)	-	(505,966)	-	-
(252,228)	-	(252,228)	-	-
(212,886)	-	(212,886)	-	-
<u>(71,182,380)</u>	<u>-</u>	<u>(71,182,380)</u>	<u>-</u>	<u>-</u>
-	(688,533)	(688,533)	-	-
-	(943,421)	(943,421)	-	-
-	(1,440,301)	(1,440,301)	-	-
<u>-</u>	<u>(3,072,255)</u>	<u>(3,072,255)</u>	<u>-</u>	<u>-</u>
<u>\$ (71,182,380)</u>	<u>\$ (3,072,255)</u>	<u>\$ (74,254,635)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (6,657,471)	\$ -
-	-	-	-	(107,709)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,657,471)</u>	<u>\$ (107,709)</u>
\$ 35,280,376	\$ -	\$ 35,280,376	\$ -	\$ -
26,568,636	-	26,568,636	-	-
23,406	-	23,406	-	-
6,216,903	-	6,216,903	-	-
3,741,415	-	3,741,415	-	-
1,295,768	-	1,295,768	-	-
63,502	-	63,502	-	-
132,640	9,946	142,586	11,885	-
1,317,542	-	1,317,542	58,902	-
<u>74,640,188</u>	<u>9,946</u>	<u>74,650,134</u>	<u>70,787</u>	<u>-</u>
(329,557)	329,557	-	-	-
<u>74,310,631</u>	<u>339,503</u>	<u>74,650,134</u>	<u>70,787</u>	<u>-</u>
3,128,251	(2,732,752)	395,499	(6,586,684)	(107,709)
<u>83,200,994</u>	<u>51,529,212</u>	<u>134,730,206</u>	<u>29,592,600</u>	<u>1,976,838</u>
<u>\$ 86,329,245</u>	<u>\$ 48,796,460</u>	<u>\$ 135,125,705</u>	<u>\$ 23,005,916</u>	<u>\$ 1,869,129</u>

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Fund Financial Statements

TALBOT COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u>	<u>Grants</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u>
ASSETS					
Cash and short-term investments	\$ 22,595,521	\$ 10,731,836	75,367	\$ 1,255,549	\$ 34,658,273
Receivables:					
Accounts receivable	286,391	106,705	24,327	2,262	419,685
Intergovernmental:					
State	2,783,087	-	319,947	-	3,103,034
Federal	116,692	-	636,611	-	753,303
Prepaid items	83,672	-	-	-	83,672
Due from other funds	7,723,130	-	-	-	7,723,130
Advances to other funds	367,089	-	-	-	367,089
	<hr/>				
Total Assets	\$ 33,955,582	\$ 10,838,541	\$ 1,056,252	\$ 1,257,811	\$ 47,108,186
	<hr/>				
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued liabilities	\$ 2,130,271	\$ 310,150	\$ 765,260	\$ 26,258	\$ 3,231,939
Other payables	2,413,445	-	-	-	2,413,445
Unearned revenue	3,849,196	-	290,992	6,021	4,146,209
	<hr/>				
Total Liabilities	8,392,912	310,150	1,056,252	32,279	9,791,593
	<hr/>				
FUND BALANCES					
Nonspendable	83,672	-	-	-	83,672
Restricted for:					
Social Services	-	-	-	95,943	95,943
Committed for:					
Capital projects	-	10,528,391	-	883,589	11,411,980
Assigned for:					
Future budget	2,156,000	-	-	246,000	2,402,000
Unassigned	23,322,998	-	-	-	23,322,998
	<hr/>				
Total Fund Balances	25,562,670	10,528,391	-	1,225,532	37,316,593
	<hr/>				
Total Liabilities and Fund Balances	\$ 33,955,582	\$ 10,838,541	\$ 1,056,252	\$ 1,257,811	\$ 47,108,186
	<hr/>				

The Notes to Financial Statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016

Total Governmental Funds Balances		\$ 37,316,593
Amounts reported for governmental activities in the statement of net position are different because:		
Prepayment of post retirement benefits		5,234,932
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		85,488,934
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the governmental funds		
Bonds, notes payable and bond premiums	(32,753,625)	
Net pension liability	(10,800,677)	
Compensated absences	(898,965)	
		(44,453,267)
Deferred outflows - Maryland State Pension (see Note 7)		2,602,260
Deferred inflows - Maryland State Pension (see Note 7)		(891,533)
Deferred charge on refunding (Note 6)		1,031,326
		86,329,245
Net Position of Governmental Activities		\$ 86,329,245

TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND TYPES
For the Year Ended June 30, 2016

	General <u>Fund</u>	Capital <u>Projects</u>	Grants <u>Fund</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
REVENUES					
Real property taxes	\$ 35,280,376	\$ -	\$ -	\$ -	\$ 35,280,376
Local income taxes	26,568,636	-	-	-	26,568,636
Other local taxes	11,340,994	-	-	-	11,340,994
Licenses and permits	681,638	-	-	449,689	1,131,327
Intergovernmental:					
Federal	382,411	-	1,424,566	-	1,806,977
State	1,632,013	12,893	1,583,699	357,380	3,585,985
Service charges	2,026,744	-	-	-	2,026,744
Fines and forfeitures	3,017	-	-	-	3,017
Miscellaneous	1,160,250	-	157,292	-	1,317,542
Interest	122,485	6,828	-	3,327	132,640
Total Revenues	79,198,564	19,721	3,165,557	810,396	83,194,238
EXPENDITURES					
Current					
General government	7,366,357	66,798	209,008	-	7,642,163
Public safety	16,268,566	1,024,271	71,156	-	17,363,993
Public works	4,452,624	608,741	1,944,698	-	7,006,063
Health and hospitals	2,529,554	3,500	11,114	-	2,544,168
Social services	538,022	-	927,648	355,977	1,821,647
Education	42,566,720	680,286	-	-	43,247,006
Recreation	565,060	34,230	1,933	-	601,223
Conservation of natural resources	252,228	-	-	-	252,228
Employee benefits	1,695,449	-	-	-	1,695,449
Miscellaneous	74,127	-	-	-	74,127
Intergovernmental	948,472	-	-	-	948,472
Debt service interest	212,886	-	-	-	212,886
Debt issuance costs	124,648	-	-	-	124,648
Debt service principal	799,855	-	-	-	799,855
Contingencies	81,219	-	-	-	81,219
Total Expenditures	78,475,787	2,417,826	3,165,557	355,977	84,415,147
Excess of Revenues Over (Under) Expenditures	722,777	(2,398,105)	-	454,419	(1,220,909)
OTHER FINANCING SOURCES (USES)					
Transfers in (out) to other funds:					
Pool - operating appropriation	(191,030)	-	-	-	(191,030)
Recreation - operating appropriation	(544,090)	-	-	(53,700)	(597,790)
Developmental impact fund	212,250	-	-	(212,250)	-
Capital projects	-	172,000	-	(172,000)	-
Proceeds from sale of land	-	3,510,650	-	-	3,510,650
Note issued - DNR	-	37,360	-	-	37,360
Issuance of refunding bonds	15,206,400	-	-	-	15,206,400
Bond premiums	1,327,418	-	-	-	1,327,418
Payments to bond refunding agent	(16,410,830)	-	-	-	(16,410,830)
Total Other Financing Sources (Uses)	(399,882)	3,720,010	-	(437,950)	2,882,178
Net Change in Fund Balances	322,895	1,321,905	-	16,469	1,661,269
Fund Balances at Beginning of Year	25,239,775	9,206,486	-	1,209,063	35,655,324
Fund Balances at End of Year	\$ 25,562,670	\$ 10,528,391	\$ -	\$ 1,225,532	\$ 37,316,593

The Notes to Financial Statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Net change in fund balances - total Governmental Funds		\$ 1,661,269
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital outlays	4,676,266	
Current year depreciation	<u>(3,748,993)</u>	
Total		927,273
Proceeds of sale recorded on fund statements		(3,510,650)
Gain on disposal recorded on statement of activities		88,358
Net value of transferred pool assets		459,261
<p>Loan proceeds provide current financial resources to the governmental funds; however, issuing debt increases long-term liabilities in the statement of net position.</p>		
Long-term debt issuance		(16,571,178)
<p>Repayment of debt obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal payments and retirements of long-term debt		18,817,965
Deferred refunding costs		1,125,875
<p>Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Change in unamortized bond premium		367,394
Change in deferred debt refunding costs		(94,549)
Change in other post-employment benefits, asset		1,162,766
Change in pension expense		(1,243,969)
Change in compensated absences		(61,564)
Change in net position of Governmental Activities		<u><u>\$ 3,128,251</u></u>

TALBOT COUNTY, MARYLAND
STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
June 30, 2016

	Major Funds			Nonmajor Fund	
	Recreation Facilities	Sanitary District	Easton Airport	Pool	Totals
ASSETS					
CURRENT ASSETS					
Cash and short-term investments	\$ 6,605	\$ 1,006,015	\$ 971,217	\$ -	\$ 1,983,837
Cash and short-term investments - capital projects	5,708,614	-	-	-	5,708,614
Accounts receivable:					
Accounts receivable, customers	33,929	136,924	74,894	-	245,747
Intergovernmental:					
State	120,276	282,352	27,370	-	429,998
Federal	-	-	4,889	-	4,889
Prepaid items	2,962	2,197	2,211	-	7,370
Inventories	55,125	-	131,490	-	186,615
Total Current Assets	5,927,511	1,427,488	1,212,071	-	8,567,070
NONCURRENT ASSETS					
Land	450,000	2,463,801	42,246	-	2,956,047
Construction in progress	434,610	436,361	411,513	-	1,282,484
Buildings and improvements	15,925,004	42,114,983	42,114,399	-	100,154,386
Furniture and equipment	2,143,508	4,157,536	1,588,596	-	7,889,640
Less: accumulated depreciation	(11,019,947)	(19,296,160)	(23,810,783)	-	(54,126,890)
Total Noncurrent Assets	7,933,175	29,876,521	20,345,971	-	58,155,667
Total Assets	13,860,686	31,304,009	21,558,042	-	66,722,737
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	29,337	1,513	2,388	-	33,238
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	156,801	379,720	159,977	-	696,498
Compensated absences	10,589	22,836	16,899	-	50,324
Due to other funds	4,254,228	3,468,902	-	-	7,723,130
Unearned revenues	27,086	25,500	48,858	-	101,444
Advances from other funds	-	-	367,089	-	367,089
Current maturities of long-term debt	221,240	571,306	140,059	-	932,605
Total Current Liabilities	4,669,944	4,468,264	732,882	-	9,871,090
NONCURRENT LIABILITIES					
Compensated absences	24,905	27,340	11,083	-	63,328
Long-term debt, less current maturities	1,888,363	5,348,568	788,166	-	8,025,097
Total Noncurrent Liabilities	1,913,268	5,375,908	799,249	-	8,088,425
Total Liabilities	6,583,212	9,844,172	1,532,131	-	17,959,515
NET POSITION					
Net investment in capital assets	5,852,909	23,958,160	19,420,134	-	49,231,203
Unrestricted (deficit)	1,453,902	(2,496,810)	608,165	-	(434,743)
Total Net Position	\$ 7,306,811	\$ 21,461,350	\$ 20,028,299	\$ -	\$ 48,796,460

The Notes to Financial Statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
For the Year Ended June 30, 2016

	Major Funds			Nonmajor Fund	
	Recreation Facilities	Sanitary District	Easton Airport	Pool	Totals
OPERATING REVENUES					
Airport - operations	\$ -	\$ -	\$ 327,479	\$ -	\$ 327,479
Airport - fuel facility	-	-	1,563,120	-	1,563,120
Airport - hangars	-	-	582,725	-	582,725
Sewer service charges	-	2,067,519	-	-	2,067,519
Sewer connection charges	-	49,930	-	-	49,930
Residential benefit charges	-	23,878	-	-	23,878
Wind/solar renewable energy	-	57,578	-	-	57,578
Admissions	200,799	-	-	-	200,799
Room rents	80,261	-	-	-	80,261
Ice revenue	236,396	-	-	-	236,396
Pro shop and concessions	326,026	-	-	-	326,026
Cart rentals	22,997	-	-	-	22,997
Greens fees	942,589	-	-	-	942,589
Other operating	36,595	5,041	54,439	-	96,075
Total Operating Revenues	1,845,663	2,203,946	2,527,763	-	6,577,372
OPERATING EXPENSES					
Salaries and related expenses	953,241	866,814	351,538	-	2,171,593
Cost of sales - fuel	-	-	1,393,452	-	1,393,452
Professional fees	30,466	4,761	1,400	-	36,627
Office	57,007	17,559	20,710	-	95,276
Insurance	15,877	18,149	22,433	-	56,459
Contracted services	-	1,144,899	-	-	1,144,899
Repairs and maintenance	226,516	405,562	120,640	-	752,718
Utilities	196,515	-	48,449	-	244,964
Supplies and equipment	77,082	-	103	-	77,185
Lessons and programs	112,091	-	-	-	112,091
Concessions	169,652	-	-	-	169,652
Depreciation	689,965	1,274,214	1,994,159	-	3,958,338
Other operating	60,309	80,618	28,951	-	169,878
Total Operating Expenses	2,588,721	3,812,576	3,981,835	-	10,383,132
Operating Income (Loss)	(743,058)	(1,608,630)	(1,454,072)	-	(3,805,760)
NON-OPERATING REVENUES (EXPENSES)					
Intergovernmental revenues	-	635,254	-	-	635,254
Gain (loss) on disposal of capital assets	5,500	-	(295,931)	-	(290,431)
Debt issuance costs	(15,939)	-	-	-	(15,939)
Interest income	-	8,395	1,551	-	9,946
Interest expense	(72,072)	(71,166)	(40,519)	-	(183,757)
Total Non-Operating Revenues (Expenses)	(82,511)	572,483	(334,899)	-	155,073
CAPITAL CONTRIBUTIONS					
Intergovernmental revenues	-	101,121	344,721	-	445,842
Program open space grant	142,536	-	-	-	142,536
Total Capital Contributions	142,536	101,121	344,721	-	588,378
Income (Loss) Before Transfers	(683,033)	(935,026)	(1,444,250)	-	(3,062,309)
Transfers In (Out)	597,790	-	-	(268,233)	329,557
Change in Net Position	(85,243)	(935,026)	(1,444,250)	(268,233)	(2,732,752)
Net Position, Beginning of Year	7,392,054	22,396,376	21,472,549	268,233	51,529,212
Net Position, End of Year	\$ 7,306,811	\$ 21,461,350	\$ 20,028,299	\$ -	\$ 48,796,460

The Notes to Financial Statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
For the Year Ended June 30, 2016

	Major Funds		
	Recreation Facilities	Sanitary District	Easton Airport
Cash flows from operating activities:			
Cash received from customers	\$ 1,782,417	\$ 2,217,221	\$ 2,488,073
Cash received from other revenues	36,595	5,041	54,439
Cash payments for salaries and related expenses	(961,498)	(867,020)	(349,980)
Cash payments to suppliers	(964,431)	(309,483)	(1,825,133)
Cash payments for contracted services	-	(1,144,899)	-
Other receipts	122,276	721,326	-
Other payments	-	-	-
	<hr/>	<hr/>	<hr/>
Net cash provided (used) by operating activities	15,359	622,186	367,399
Cash flows from noncapital financing activities:			
Transfers from other funds	597,790	-	-
Intergovernmental revenues	-	519,846	-
	<hr/>	<hr/>	<hr/>
Net cash provided by noncapital financing activities	597,790	519,846	-
Cash flows from capital and related financing activities:			
Intergovernmental revenues	22,260	133,039	599,850
Issuance of long-term debt	1,568,210	97,932	154,824
Principal paid on long-term notes and bonds	(1,751,999)	(665,530)	(280,201)
Debt issuance costs	(15,939)	-	-
Deferred refunding costs on sale of bonds	(29,337)	(1,513)	(2,388)
Interest paid on long-term notes and bonds	(72,072)	(71,166)	(40,519)
Proceeds from sale of capital assets	5,500	-	247,500
Acquisition and construction of capital assets	(341,042)	(459,307)	(430,963)
	<hr/>	<hr/>	<hr/>
Net cash (used) provided by capital and related financing activities	(614,419)	(966,545)	248,103
Cash flows from investing activities:			
Interest income on investments	-	8,395	1,551
Repayment of advances from other funds	-	-	(72,203)
	<hr/>	<hr/>	<hr/>
Net cash provided (used) by investing activities	-	8,395	(70,652)
(Decrease) Increase in Cash and Cash Equivalents	(1,270)	183,882	544,850
Cash and Cash Equivalents at Beginning of Year	5,716,489	822,133	426,367
	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	\$ 5,715,219	\$ 1,006,015	\$ 971,217

The Notes to Financial Statements are an integral part of this statement.

<u>Nonmajor Fund</u>		
<u>Pool</u>		<u>Totals</u>
\$ 3,355	\$	6,491,066
-		96,075
-		(2,178,498)
(11,407)		(3,110,454)
-		(1,144,899)
-		843,602
(182,979)		(182,979)
<hr/>		
(191,031)		813,913
<hr/>		
191,031		788,821
-		519,846
<hr/>		
191,031		1,308,667
<hr/>		
-		755,149
-		1,820,966
-		(2,697,730)
-		(15,939)
-		(33,238)
-		(183,757)
-		253,000
-		(1,231,312)
<hr/>		
-		(1,332,861)
<hr/>		
-		9,946
-		(72,203)
<hr/>		
-		(62,257)
<hr/>		
-		727,462
-		6,964,989
<hr/>		
\$ -	\$	7,692,451
<hr/> <hr/>		

TALBOT COUNTY, MARYLAND
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
For the Year Ended June 30, 2016 (continued)

	Major Funds		
	Recreation <u>Facilities</u>	Sanitary <u>District</u>	Easton <u>Airport</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (743,058)	\$ (1,608,630)	\$ (1,454,072)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	689,965	1,274,214	1,994,159
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable, customers	(22,894)	14,316	(14,259)
Decrease in prepaid	300	-	-
(Increase) decrease in inventories	(6,703)	-	30,385
(Decrease) increase in accounts payable	(12,513)	217,166	(219,380)
(Decrease) increase in compensated absences	(8,257)	(206)	1,558
Increase (decrease) in due to other funds	122,276	721,326	-
(Decrease) increase in unearned revenue	(3,757)	4,000	29,008
Net cash provided (used) by operating activities	<u>\$ 15,359</u>	<u>\$ 622,186</u>	<u>\$ 367,399</u>

The Notes to Financial Statements are an integral part of this statement.

<u>Nonmajor Fund</u>		
<u>Pool</u>		<u>Totals</u>
\$	-	\$ (3,805,760)
	-	3,958,338
	3,403	(19,434)
	368	668
	-	23,682
	(11,775)	(26,502)
	-	(6,905)
	(182,979)	660,623
	(48)	29,203
<u>\$</u>	<u>(191,031)</u>	<u>\$ 813,913</u>

TALBOT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2016

	<u>Other Post-Employment Benefits Trust Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 822,146
Investments	<u>9,247,261</u>
Total Assets	<u>10,069,407</u>
<u>LIABILITIES</u>	
Accrued expenses	<u>24,723</u>
<u>NET POSITION</u>	
Held in trust for other post-employment benefits	<u>\$ 10,044,684</u>

The Notes to Financial Statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2016**

	Other Post-Employment Benefits Trust Fund
ADDITIONS:	
Employer contributions	\$ 1,000,000
Investment earnings	
Interest	207,931
Less investment expenses	(7,042)
Net investment income	200,889
Total additions	1,200,889
 DEDUCTIONS:	
Net depreciation in fair value of investments	17,892
Administrative expenses	79,611
Total deductions	97,503
Change in net position	1,103,386
Net position held in trust for other post-employment benefits beginning of year	8,941,298
Net position held in trust for other post-employment benefits end of year	\$ 10,044,684

The Notes to Financial Statements are an integral part of this statement.

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Notes to Financial Statements

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 1. Reporting Entity

Talbot County, Maryland (the “County”) is governed by a County Council; its offices are located in Easton, Maryland. The County directly provides all basic local governmental services.

The financial statements of the County are prepared in accordance with U.S. generally accepted accounting principles (GAAP) applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative literature. The following is a summary of the more significant policies:

Note 2. Summary of Significant Accounting Policies

A. Financial Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the County are not misleading. The primary government of the County consists of all funds, departments, boards, and agencies that are not legally separate from the County.

The component unit columns contain the financial data of the County’s two discretely presented component units – the Board of Education of Talbot County and the Talbot County Free Library. They are reported in separate columns to emphasize that they are legally separate from the County. Although these organizations are legally separate entities and have separately elected or appointed governing boards, they are included in the financial statements of the County because the County is financially accountable for each organization. Separately issued financial statements can be obtained from the following:

Board of Education of Talbot County
12 Magnolia Street
Easton, MD 21601

Talbot County Free Library Association, Inc.
100 W. Dover Street
Easton, MD 21601

The *Board of Education of Talbot County (BOE)* is a separately elected body that administers the public school system in the County. The BOE is organized as a separate legal entity, but does not have the power to levy taxes or issue bonds. The BOE’s budget is subject to approval by the County Council, and the BOE receives a significant portion of its operational and capital project funding from the County.

The *Talbot County Free Library Association, Inc. (TCFL)* is a separately appointed body that administers the public library system in the County. The TCFL is organized as a separate legal entity, but does not have the power to levy taxes or issue bonds. The County owns and/or maintains most TCFL facilities and provides a significant portion of its operational funding. The Library’s financial statements include as a component unit the financial data of the Foundation. The Foundation is a separate legal entity from the library.

GASB 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, eliminates a previous election that allowed financial statements for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations for the financial statements to the extent that the FASB Statements and Interpretations did not conflict with or contradict GASB pronouncements. The County has elected not to follow any other FASB guidance.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation

The County's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities. Fiduciary funds are not included within the government-wide financial statements.

The statement of net position presents the financial condition of the governmental and business-type activities of the County at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the County.

Fund Financial Statements

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

C. Fund Accounting

The County uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The County maintains three categories of funds: governmental, proprietary and fiduciary.

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County's major governmental funds:

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

Governmental Fund Types (continued)

General Fund: The General Fund is the general operating fund of the County. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, which are not financed by proprietary funds.

Grants Fund: The Grants Fund is a special revenue fund used to account for and report the proceeds received through grant agreements or contracts.

In addition, the County has two non-major governmental funds, the Developmental Impact Fund and the Talbot Family Network.

Proprietary Fund Types

Proprietary funds focus on the determination of changes in net position, financial position and cash flows and are classified as enterprise.

Enterprise Funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are the County's major enterprise funds:

Recreation Fund: The Recreation Fund is used to account for the operations of the County owned golf course and community center.

Sanitary District Fund: The Sanitary District Fund is used to account for the operations of the County's wastewater treatment plants, onsite sewage disposal systems, and bio-solids utilization facilities.

Easton Airport Fund: The Easton Airport Fund is used to account for the operations of the County owned airport.

In addition, the County has one non-major enterprise fund, the pool fund. The pool fund was closed and consolidated with the general fund in fiscal year 2016.

Fiduciary Fund Types

Fiduciary funds account for assets held by the County in a trustee capacity for others and therefore are not available to support County programs.

Other Post-Employment Benefits ("OPEB") Trust Fund: The OPEB Trust Fund is used to account for assets that are required to be held in trust for the members and beneficiaries of the postemployment benefit plan.

D. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the County are included on the statement of net position.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Measurement Focus (continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows reflects how the County finances and meets the cash flow needs of its enterprise activities.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-Exchange Transactions – Revenue resulting from exchange transactions in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to pay liabilities of the current fiscal year. For the County, available is defined as collected within 30 days of the fiscal year end.

Non-exchange transactions, in which the County receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the County must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the County on a reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis of accounting, the following revenue sources are considered both measurable and available at year end: local and state-shared taxes, special assessments, intergovernmental revenues, interest revenue, and charges for services. Licenses and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Unearned Revenue - Unearned revenues arise when assets are received before the revenue recognition criteria have been satisfied.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

E. Basis of Accounting (continued)

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus on governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgetary Process

The County and Board of Education follow these procedures in establishing the budgetary data:

- (1) The County Manager and the Board of Education submit a proposed operating budget for their respective general and capital projects funds annually to the County Council.
- (2) A minimum of two public hearings are conducted to obtain taxpayer comments.
- (3) On or before June 1, the County's budget is legally enacted through passage of an ordinance by the County Council. The budget is required to be balanced as to proposed revenues and expenditures.
- (4) The County's legal level of budgetary control is at the general classification of expenditure level (personnel, operating, capital outlay, debt service, etc.). The County Manager is authorized to make transfers between general classifications of expenditures within the same department and fund. Transfers between departments can be made only with the approval of the County Council. All unexpended and unencumbered appropriations in the general fund lapse at the end of the fiscal year. However, no appropriation for a capital project may lapse until the purpose for which the appropriation was made is accomplished or abandoned. A capital project is abandoned if three fiscal years elapse without any expenditure.
- (5) Formal budgets are employed as a management control device during the year for the general, capital projects, special revenue, and enterprise funds. Annual budgets are legally adopted and presented in the combined statement of revenues and expenditures - budget and actual for the general fund, capital projects fund and special revenue funds of the Primary Government.
- (6) Budgets are prepared and adopted on a basis consistent with generally accepted accounting principles.
- (7) The general fund, capital projects fund, and special revenue fund budgeted amounts reflect the originally adopted and approved budget and the revised budget by the County Council. The budgeted amounts for the Board of Education and Library are not presented in these financial statements.
- (8) There were no supplemental appropriations for the County.

G. Cash and Short-Term Investments

For the purpose of the statement of cash flows, overnight investment accounts, stated at cost, and certificates of deposit maturing in three months or less, are considered to be cash equivalents.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

H. Property Tax

Taxes are levied annually on July 1 and are due in full by September 30 for non-owner occupied and non-small business properties. Owner occupied and small business property taxes are due in two equal semi-annual installments on September 30 and December 31, respectively. Property taxes are attached as an enforceable lien and are in arrears on October 1 for non-owner occupied and non-small business properties and January 1 for owner occupied and small business properties. The County bills and collects its own taxes. County property tax revenues are recognized when collected.

I. Inventory and Prepaid Items

Board of Education inventories, consisting of expendable items held for consumption, are stated at the lower of cost or market. The cost is recorded as an expenditure item at the time the individual inventory items are used. Inventories of the enterprise funds are stated at the lower of cost or market on a first-in, first-out basis.

Certain payments to vendors reflect costs applicable to future periods and are recorded by the purchase method as prepaid items in both government-wide and fund financial statements.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The County maintains a capitalization threshold of three hundred dollars. Public domain (infrastructure) general governmental capital assets such as roads surface, bridges, streets and sidewalks are capitalized and depreciated. Road base infrastructure is not depreciated. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land, road base infrastructure, and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over estimated useful asset lives, which are as follows:

Buildings and infrastructure	7 – 40 years
Sewer plants, lines, and improvements	10 – 50 years
Equipment	3 – 15 years

K. Compensated Absences

County employees earn annual leave based on length of service. Annual leave accumulates, and any unused portion is paid upon termination. County employees may accumulate a maximum of 30 days of annual leave. Twelve-month employees of the Board of Education earn annual leave at varying rates dependent upon position and length of service. Annual leave generally must be taken by June 30 each year. For support staff, up to ten days may be transferred to the next fiscal year. For administrative staff, up to 20 days may be transferred to the next fiscal year.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

K. Compensated Absences (continued)

Sick leave for all County employees is earned at a rate of ten days per year. Board of Education employees earn sick leave at varying rates depending upon position and utilization. There is no limit on accumulated sick leave. At termination, employees are not paid for accumulated sick leave; however, at retirement, a portion may be used as additional credited service under the retirement plan.

The entire compensated absences liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

M. Net Position

Net position represents the difference between assets plus deferred inflows of resources and liabilities plus deferred outflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

The County applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

N. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that period. The County recognizes deferred outflows of resources related to its advance refunding of debt and also recognizes a deferred outflow of resources related to its pension obligation for changes in assumptions and contributions subsequent to the measurement date. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The County recognizes a deferred inflow of resources related to its pension obligation for the net difference between projected and actual investment earnings on pension plan investments. This item is deferred and recognized as an inflow from resources in the period that the amounts become available.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

N. Deferred Outflows and Inflows of Resources (continued)

The deferred outflows and inflows of resources represent reconciling items between the governmental fund financial statements and the government-wide financial statements.

O. Fund Balance Reserves

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can only be spent for specific purposes because of the County charter or code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes imposed by the County Council. The Council may establish, modify, or rescind a fund balance commitment by voting on a motion made by any Council Member and approved by the majority of the Council Members at a County Council meeting.

Assigned – Amounts designated by the County Council to be used for specific purposes, but are neither restricted nor committed. Section 202 of the Talbot County Charter outlines the specific powers delegated to the Council.

Unassigned – Amounts in the General Fund not included in other spendable classifications.

Nonspendable fund balances consist of prepaid amounts.

When fund balance resources are available for a specific purpose in more than one classification, it is the County's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the County, these revenues are charges for services for recreational activities, sewer, and airport. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

Q. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

R. Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 3. Deposits and Investments

A. Deposits

Primary Government

Deposits are maintained in a variety of financial institutions. Statutes authorized the County Council to invest unexpended revenues from taxation, bond sales, lawful distributions to it of funds from other governmental agencies, or any other funds properly received by it, until it determines the funds are needed for proper public purpose, in United States Government bonds or evidence of indebtedness, the Maryland Local Government Investment Pool, or to invest in federally insured banking institutions which pledge United States Treasury bills, notes or other obligations to secure such deposits.

At June 30, 2016, the County Primary Government had deposits of \$24,563,947 with local banks (carrying value \$24,350,724). Of those deposits, \$250,000 was insured by federal depository insurance (FDIC). As required by law, a depository is required to pledge securities, in addition to FDIC insurance, at least equal to the amount on deposit at all times. At June 30, 2016, all deposits were fully insured or collateralized with securities pledged in the County's name. Petty cash totaled \$15,740 as of June 30, 2016.

Board of Education

At June 30, 2016, the reported amount of the Board's bank deposits was \$6,912,796 and the bank balance was \$7,892,415. These balances include \$858,442 of trust and agency cash and MLGIP of \$4,509,330 reported below. The cash in the bank was covered by federal depository insurance or by collateral held by the pledging bank's trust department in the Board's name with the exception of \$100,000 in funds held by the Retiree Health Plan (OPEB) trust fund.

Library

At June 30, 2016, the Library had deposits totaling \$162,558 (carrying value \$133,972), which were fully insured by federal depository insurance issued by the Federal Depository Insurance Corporation (FDIC).

B. Investments

Primary Government

The County is a participant in the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 §22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Capital Advisors, LLC and custodied by PNC Bank, N.A., which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a semi-annual basis and provide suggestions to enhance the pool. The MLGIP portfolio is managed in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. The MLGIP is rated AAAM by Standard and Poor's. The fair value of the pool is the same as the value of the pool shares. At June 30, 2016, the County had investments in MLGIP of \$18,000,000, which are recorded at cost, which approximates fair value.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County's exposure to credit risk on deposits is minimal, as all deposits are in the form of cash fully insured by the FDIC or collateralized by securities pledged in the County's name. The County minimizes its exposure to credit risk on investments by limiting its investments to U.S. Treasury obligations and MLGIP.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 3. Deposits and Investments (continued)

B. Investments (continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the County manages its investment time horizons by averaging investment maturities and chooses to disclose its exposure to interest rate changes using the weighted average maturity method. Generally, the County limits its weighted average maturity of its investment portfolio to less than 12 months.

At June 30, 2016, the County had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (months)
MLGIP	\$ 18,000,000	<2

Board of Education

The Board is also authorized to invest in the Maryland Local Government Investment Pool (MLGIP), where deposits are recorded at cost. Due to the nature of the MLGIP investment it is considered a cash equivalent. MLGIP is not covered by FDIC, but it is collateralized by United States Treasury instruments. The Maryland State Treasurer oversees the MLGIP. At June 30, 2016, the Board had investments in MLGIP of \$4,509,330.

Library

The library follows the adopted investment policy of the County. The Foundation does not have restrictions placed on the type of investments it owns. GASB Statement No. 72, *Fair Value Measurement and Application*, is effective for fiscal years beginning after June 15, 2015. The provisions of GASB Statement No. 72 have been implemented by the Library at June 30, 2016.

With regard to the Foundation's investments, custodial credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investments are not collateralized and, therefore, are subject to credit and/or custodial risk. Concentration of credit risk is the risk of loss attributed to an investment in a single issuer. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Presented in the chart below are the investment maturities. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value. The investments below include some holdings with foreign currency risk.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 3. Deposits and Investments (continued)

B. Investments (continued)

Library (continued)

As of June 30, 2016, the Foundation's investments consisted of the following:

Investment Type	Fair Value	% of Total	Rating	Investment Maturities (in Years)			
				Less Than 1	1 - 5	6 - 10	10+
Cash and cash equivalents	\$ 90,999	4.93 %		\$ 90,999	\$ -	\$ -	\$ -
AMERICAN FD BALANCED (ABALX)	439,402	23.80 %	4 star	439,402	-	-	-
AMG Chicago EQTY PART (MBEAX)	438,555	23.75 %	5 star	438,555	-	-	-
JHANCOCK BALANCED (SVBIX)	438,319	23.74 %	5 star	438,319	-	-	-
VANGUARD BALANCED INDEX (VBIAX)	438,977	23.78 %	5 star	438,977	-	-	-
Total	<u>\$ 1,846,252</u>	<u>100.00 %</u>		<u>\$ 1,846,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Fair Value Measurement – investments are measured at and reported at fair value, and are classified according to the following hierarchy:

- Level 1 – Investments reflect prices quoted in active markets.
- Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 – Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment risk.

All investments held by the Foundation are classified as Level 1 in the fair value hierarchy as they are valued directly from a predetermined external pricing vendor.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 4. Interfund Receivables and Payables

As a result of its operations, the County affects a variety of transactions between funds to finance operations, service debt, etc. Accordingly, to the extent that certain interfund transactions have not been paid or received as of June 30, 2016, appropriate due from/to other funds have been established.

Interfund transactions are classified as follows:

1. Transfers to support the operations of other funds are recorded as “Transfers in (out) to other funds” and classified as “Other Financing Sources (Uses)” in the fund statements. Transfers between governmental and proprietary funds are netted as part of the reconciliation of the Government-wide financial statements.
2. Loans between funds are classified as Interfund loans receivable and payable or as advances to and from other funds in the fund statements. Loans and advances are netted as part of the reconciliation of the Government-wide financial statements.

Due from/to other funds balances as of June 30, 2016 were as follows:

<u>Primary Government</u>	<u>Purpose</u>	Due from Other Funds	Due to Other Funds
General Fund	Transfers	\$ 7,723,130	\$ -
Enterprise Fund - Recreation Facilities	Transfers	-	4,254,228
Enterprise Fund - Sanitary District	Transfers	-	3,468,902
		\$ 7,723,130	\$ 7,723,130

The amounts payable from all Enterprise Funds to the General Fund are to cover temporary cash shortages.

Advances to/from other funds balances as of June 30, 2016 were as follows:

<u>Primary Government</u>	<u>Purpose</u>	Advances to Other Funds	Advances from Other Funds
General Fund	Construction projects	\$ 367,089	\$ -
Enterprise Fund - Airport	Construction projects	-	367,089
		\$ 367,089	\$ 367,089

During fiscal year 2007, the County transferred approximately \$2.5 million to the Airport from the General Fund for construction of an airport control tower. The outstanding balance at June 30, 2016 was \$367,089.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

A summary of changes in capital assets for the fiscal year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Transfers and Reductions	Balance June 30, 2016
Primary Government				
Governmental Activities:				
Nondepreciable Capital Assets:				
Land	\$ 12,436,837	\$ -	\$ (2,700,930)	\$ 9,735,907
Infrastructure - road base	25,449,891	-	-	25,449,891
Construction in progress	9,667,756	1,608,321	(102,009)	11,174,068
Total Nondepreciable Capital Assets	47,554,484	1,608,321	(2,802,939)	46,359,866
Depreciable Capital Assets:				
Buildings and improvements	41,542,849	74,509	855,660	42,473,018
Infrastructure	15,886,762	529,875	(222,608)	16,194,029
Furniture and equipment	23,493,823	2,463,561	(267,693)	25,689,691
Total capital assets being depreciated	80,923,434	3,067,945	365,359	84,356,738
Less accumulated depreciation for:				
Buildings and improvements	15,882,374	1,410,619	777,816	18,070,809
Infrastructure	7,123,338	673,271	(19,115)	7,777,494
Furniture and equipment	17,947,514	1,665,103	(233,250)	19,379,367
Total accumulated depreciation	40,953,226	3,748,993	525,451	45,227,670
Total Depreciable Capital Assets, Net	39,970,208	(681,048)	(160,092)	39,129,068
Total Governmental Activities, Net	\$ 87,524,692	\$ 927,273	\$ (2,963,031)	\$ 85,488,934
	Balance June 30, 2015	Additions	Transfers and Reductions	Balance June 30, 2016
Business-Type Activities:				
Nondepreciable Capital Assets:				
Land	\$ 3,499,479	\$ -	\$ (543,432)	\$ 2,956,047
Construction in progress	3,519,365	619,769	(2,856,650)	1,282,484
Total Nondepreciable Capital Assets	7,018,844	619,769	(3,400,082)	4,238,531
Depreciable Capital Assets:				
Buildings and improvements	98,610,810	347,574	1,196,002	100,154,386
Furniture and equipment	7,766,371	263,969	(140,700)	7,889,640
Total Depreciable Capital Assets	106,377,181	611,543	1,055,302	108,044,026
Less accumulated depreciation for:				
Buildings and improvements	47,802,676	3,555,504	(1,214,380)	50,143,800
Furniture and equipment	3,707,961	402,834	(127,705)	3,983,090
Total accumulated depreciation	51,510,637	3,958,338	(1,342,085)	54,126,890
Total Depreciable Capital Assets, Net	54,866,544	(3,346,795)	2,397,387	53,917,136
Total Business-Type Activities, Net	\$ 61,885,388	\$ (2,727,026)	\$ (1,002,695)	\$ 58,155,667

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 923,145
Public Safety	1,319,894
Public Works	1,268,260
Health & Hospitals	6,260
Recreation	<u>231,434</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 3,748,993</u>

A summary of changes in capital assets for the component units at June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Transfers and Reductions	Balance June 30, 2016
Component Units				
Board of Education				
Nondepreciable Capital Assets:				
Land	\$ 377,446	\$ -	\$ -	\$ 377,446
Construction in progress	32,101	-	(32,101)	-
Total Nondepreciable Capital Assets	<u>409,547</u>	<u>-</u>	<u>(32,101)</u>	<u>377,446</u>
Depreciable Capital Assets:				
Buildings and improvements	94,415,041	188,259	-	94,603,300
Furniture and equipment	23,881,773	1,520,154	(39,264)	25,362,663
Total capital assets being depreciated	<u>118,296,814</u>	<u>1,708,413</u>	<u>(39,264)</u>	<u>119,965,963</u>
Less accumulated depreciation for:				
Buildings and improvements	39,043,755	2,140,712	-	41,184,467
Furniture and equipment	19,972,371	1,358,015	(39,264)	21,291,122
Total accumulated depreciation	<u>59,016,126</u>	<u>3,498,727</u>	<u>(39,264)</u>	<u>62,475,589</u>
Total Depreciable Capital Assets, Net	<u>\$ 59,280,688</u>	<u>\$ (1,790,314)</u>	<u>\$ -</u>	<u>\$ 57,490,374</u>
Library				
Nondepreciable Capital Assets:				
Land	\$ 49,921	\$ -	\$ -	\$ 49,921
Construction in progress	1,880	-	-	1,880
Total Nondepreciable Capital Assets	<u>51,801</u>	<u>-</u>	<u>-</u>	<u>51,801</u>
Depreciable Capital Assets:				
Buildings and improvements	559,721	-	-	559,721
Furniture and equipment	1,450,281	148,558	(181,227)	1,417,612
Total capital assets being depreciated	<u>2,010,002</u>	<u>148,558</u>	<u>(181,227)</u>	<u>1,977,333</u>
Less accumulated depreciation	1,305,490	174,397	(180,848)	1,299,039
Total Depreciable Capital Assets, Net	<u>\$ 704,512</u>	<u>\$ (25,839)</u>	<u>\$ (379)</u>	<u>\$ 678,294</u>

**TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

Note 6. Long-Term Debt

The following is a summary of long-term debt at June 30, 2016:

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016	Amount Due in One Year
Primary Government					
Governmental Activities:					
Public Improvement Bonds of 2008; original issue \$25,020,000, payable annually in principal payments ranging from \$810,000 to \$1,820,000 through December 15, 2027; interest payable semi-annually at rates from 3.5% to 4.0%.	\$ 17,445,000	\$ -	\$ 15,115,000	\$ 2,330,000	\$ 1,140,000
Shore Erosion (Black Walnut Point); total authorized borrowing \$160,000, to be repaid in 15 annual payments of \$9,100, no interest, beginning July 1, 2011.	100,100	-	9,100	91,000	9,100
Chesapeake College Bond of 2003; original issue \$180,000, a contractual liability payable to Queen Anne's County, the registered owner, payable in annual principal installments from \$5,559 to \$13,434; interest payable annually at rates from 4.83% to 5.4%.	91,059	-	9,529	81,530	9,993
Chesapeake College Bond of 2000; original issue \$620,000, a contractual liability payable to Queen Anne's County, the registered owner, payable annually in principal payments ranging from \$20,000 to \$50,000 through January 15, 2020; interest payable semi-annually at rates from 5.10% to 5.75%.	220,000	-	48,600	171,400	38,089
Public Improvement and Refunding Bonds of 2006; original issue \$2,325,000, payable annually in principal payments ranging from \$90,000 to \$175,000 through February 1, 2024; interest payable semi-annually at rates from 4% to 4.3%. Refunded in 2016.	1,360,000	-	1,360,000	-	-
Public Improvement and Refunding Bonds of 2010; original issue \$12,157,771, payable annually in principal payments ranging from \$587,000 to \$1,318,000 through May 2022; interest payable semi-annually at rates from 2% to 5%.	6,901,657	-	1,247,803	5,653,854	1,297,465
Excavation equipment financing agreement; original amount of \$287,000, payable in monthly payments of \$4,338 which include principal and interest at a rate of 1.98% with one final payment of \$43,050 through August 15, 2018.	196,003	-	48,610	147,393	49,582

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (continued)

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016	Amount Due in One Year
Primary Government (continued)					
Governmental Activities (continued):					
Shore Erosion Control Loan (Neavitt Landing); total borrowing of \$82,032, to be repaid in 10 equal annual payments, no interest, beginning in 2015 after completion of the project.	\$ 44,672	\$ 37,360	\$ -	\$ 82,032	\$ 8,203
Chesapeake College Bonds of 2014; original issue \$1,760,000, a contractual liability payable to Queen Anne's County, the registered owner; payable in annual principal installments from \$61,313 to \$124,198 through April 1, 2034; interest payable semi-annually.	1,698,294	-	61,313	1,636,981	63,671
Emergency radio system equipment financing agreement; original amount of \$6,716,277, to be repaid in eight annual payments of \$967,815 which include principal and interest at a rate of 3.273% through October 1, 2022.	6,716,277	-	748,010	5,968,267	772,490
Public Improvement Refunding Bonds of 2015; original issue \$15,206,400, payable annually in principal payments ranging from \$150,000 to \$1,645,000 through December 15, 2027; interest payable semi-annually at rates from 2% to 5%.	-	15,206,400	170,000	15,036,400	150,000
Unamortized bond premium	34,773,062	15,243,760	18,817,965	31,198,857	3,538,593
Compensated absences	594,744	1,327,418	367,394	1,554,768	-
	837,401	775,815	714,251	898,965	405,046
TOTAL GOVERNMENTAL ACTIVITIES	\$36,205,207	\$17,346,993	\$19,899,610	\$33,652,590	\$3,943,639

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016	Amount Due in One Year
Business-type Activities:					
Recreation Facilities					
Public Improvement and Refunding Bonds of 2006; original issue \$2,545,000, payable annually in principal payments ranging from \$90,000 to \$180,000 through February 1, 2026; interest payable semi-annually at rates from 4% to 4.375%. Refunded in 2016.	\$ 1,640,000	\$ -	\$ 1,640,000	\$ -	\$ -
Public Improvement and Refunding Bonds of 2010; original issue \$630,945, payable annually in principal payments ranging from \$5,590 to \$72,300 through May 2022; interest payable semi-annually at rates from 2% to 5%.	460,028	-	58,700	401,328	62,295
Golf course equipment capital lease; original issue of \$230,800, payable in monthly payments of \$4,222 which include principal and interest at a rate of 5.104% with one final payment of \$57,710 through August 30, 2018.	193,364	-	41,762	151,602	43,945
Public Improvement Refunding Bonds of 2015; original issue \$1,441,300, payable annually in principal payments ranging from \$90,000 to \$180,000 through December 15, 2025; interest payable semi-annually at rates from 2% to 5%.	-	1,441,300	-	1,441,300	115,000
Unamortized bond premium	-	126,910	11,537	115,373	-
Total Recreation Facilities	\$ 2,293,392	\$ 1,568,210	\$ 1,751,999	\$ 2,109,603	\$ 221,240

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (continued)

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016	Amount Due in One Year
Business-type Activities (continued):					
Sanitary District					
Public Improvement and Refunding Bonds of 2006; original issue \$390,000, payable annually in principal payments ranging from \$20,000 to \$35,000 through February 1, 2019; interest payable semi-annually at rates from 4% to 4.2%. Refunded in 2016.	\$ 125,000	\$ -	\$ 125,000	\$ -	\$ -
Water Quality Bonds of 2006; Total authorized borrowing of \$10,212,981; \$9,975,333 borrowed to date, loan to be repaid in level principal and interest payments over 20 years beginning February 2008; interest at 0.4%.	5,987,718	-	507,466	5,480,252	509,496
Farmers Home Administration Bond; Royal Oak, Newcomb Wastewater System; original issue \$571,000, payable quarterly in payments of \$9,479 through March 2024, including interest at 5.25%.	251,691	-	25,190	226,501	25,652
Farmers Home Administration Bond; Unionville/Tunis Mills/Copperville Wastewater System Bond of 2001; original issue \$186,000, payable quarterly in payments of \$2,833 through May 2030, including interest at 4.5%.	123,063	-	5,891	117,172	6,158
Public Improvement Refunding Bonds of 2015; original issue \$90,000, payable annually in principal payments ranging from \$20,000 to \$35,000 through December 15, 2019; interest payable semi-annually at 5% per year.	-	90,000	-	90,000	30,000
Unamortized bond premium	-	7,932	1,983	5,949	-
Total Sanitary District	<u>\$ 6,487,472</u>	<u>\$ 97,932</u>	<u>\$ 665,530</u>	<u>\$ 5,919,874</u>	<u>\$ 571,306</u>

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (continued)

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016	Amount Due in One Year
Business-type Activities (continued):					
Easton Airport					
Public Facilities and Refunding Bonds of 2006; original issue \$100,000, payable annually in principal payments ranging from \$5,000 to \$10,000 through February 1, 2019; interest payable semi-annually at rates from 4% to 4.2%. Refunded in 2016.	\$ 40,000	\$ -	\$ 40,000	\$ -	\$ -
Public Facilities and Refunding Bonds of 2006; original issue \$440,000, payable annually in principal payments ranging from \$30,000 to \$40,000 through February 1, 2019; interest payable semi-annually at rates from 4% to 4.2%.	155,000	-	155,000	-	-
Public Facilities Bonds of 2002; original issue \$1,055,000, payable annually in principal payments ranging from \$30,000 to \$77,000 through March 15, 2022; interest payable semi-annually at rates from 3.0% to 5.37%.	265,001	-	30,000	235,001	35,000
Public Improvement and Refunding Bonds of 2010; original issue \$306,284, payable annually in principal payments ranging from \$13,000 to \$35,000 through May 2022; interest payable semi-annually at rates from 2% to 5%.	223,315	-	28,497	194,818	30,240
Department of Natural Resources Hangar; original issue \$300,000, payable monthly in principal and interest payments of \$2,030 through October 10, 2020; interest is payable at 5.3% per annum.	112,082	-	18,807	93,275	19,850
Consolidated Public Improvement Bonds, Series 2013; original issue \$265,000, payable monthly in principal and interest payments of \$1,304 through December 4, 2042; interest is payable at 4.25% per annum.	258,204	-	4,766	253,438	4,969
Public Improvement Refunding Bonds of 2015; original issue \$142,300, payable annually in principal payments ranging from \$35,000 to \$50,000 through December 15, 2019; interest payable semi-annually at 5% per year.	-	142,300	-	142,300	50,000
Unamortized bond premium	-	12,524	3,131	9,393	-
Total Easton Airport	<u>1,053,602</u>	<u>154,824</u>	<u>280,201</u>	<u>928,225</u>	<u>140,059</u>
Compensated absences	<u>120,557</u>	<u>80,607</u>	<u>87,512</u>	<u>113,652</u>	<u>50,324</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 9,955,023</u>	<u>\$ 1,901,573</u>	<u>\$ 2,785,242</u>	<u>\$ 9,071,354</u>	<u>\$ 982,929</u>

The bonds outstanding at June 30, 2016 for the primary government's governmental activities and business-type activities are general obligation bonds.

On October 14, 2015 the County issued Public Improvement Refunding Bonds of 2015 for \$16,880,000. These bonds carry interest at rates of 2.0 to 5.0 percent and mature serially through 2028. The net proceeds of \$18,183,347 (after receipt of \$1,303,348, a re-offering premium net of underwriter fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Refunding Bonds of 2006 and for a portion of debt service payments on the Refunding Bonds of 2008. As a result, the 2006 and a portion of the 2008 bonds are considered to be defeased.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of old debt of \$1,163,348. The County completed the advance refunding to reduce its total debt service payments over the next thirteen years by \$1,406,816. There was a net present value savings of \$1,249,448.

The County has entered into leases for the acquisition of various equipment items, which transfer ownership at the end of the lease. Accordingly, the present value of future minimum lease payments and the related assets have been recorded in the appropriate fund.

The assets acquired through capital leases are as follows:

Business-Type Activities

Equipment	\$ 230,800
Less: accumulated depreciation	<u>(28,850)</u>
Total	<u><u>\$ 201,950</u></u>

The following is a summary of the future minimum lease payments on the capital leases:

Business-Type Activities

<u>Year Ending June 30</u>	
2017	\$ 50,664
2018	50,664
2019	61,922
Less amounts representing interest	<u>(11,648)</u>
Present value of future minimum lease payments	<u><u>\$ 151,602</u></u>

Funds Used For Debt Service and Liquidation of Compensated Absences

Payments on bonds and notes payable that pertain to the County's governmental activities are made by the general fund. Payments on bonds and notes payable that pertain to the County's business-type activities are made by the fund in which the liability exists. The compensated absences liability attributable to the governmental activities will be liquidated by the County's general fund. The compensated absences liability attributable to business-type activities will be liquidated by the fund in which the liability exists.

Other Obligations

As part of the acquisition agreement between the County and the Martingham Utilities Cooperative for the wastewater treatment facility, the County is obligated to collect fees for use of the Martingham facilities from its customers and remit a portion of those proceeds to service debt related to the entire Martingham facility. The debt is in the name of the Martingham Utilities Cooperative and is not reported on the balance sheet of the County.

**TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

Note 6. Long-Term Debt (continued)

Other Obligations (continued)

The County, on behalf of the Edge Creek Waterway Improvement District, entered into a loan agreement with the State of Maryland, Department of Natural Resources for a 20 year interest-free Waterway Improvement Loan in the amount of \$304,699. The proceeds of this loan were used to dredge Edge Creek and pay the expenses associated with the dredging. This loan is payable from the proceeds of a special assessment levied on parcels within the district and is not backed by the County's full faith and credit. This loan does not appear on the balance sheet of the County. The County acts only as a fiduciary in collecting the assessments and servicing the debt. The balance outstanding as of June 30, 2016 is \$198,054.

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016
<u>Component Units</u>				
<u>Board of Education</u>				
Note payable to Bank of America principal and interest payments of \$7,372 are payable monthly through September 29, 2016; interest payable at 1.72% per annum; collateralized by school buses.	\$ 109,330	\$ -	\$ 87,275	\$ 22,055
Note payable to Branch Bank & Trust Co. principal and interest payments of \$2,009 are payable monthly through September 5, 2017; interest payable at 2.11% per annum; collateralized by school bus.	52,920	-	23,210	29,710
Note payable to Suntrust Equipment Finance & Leasing Corp. principal and interest payments of \$8,638 are payable monthly through September 1, 2018; interest payable at 1.597% per annum; collateralized by school buses.	319,891	-	99,277	220,614
Note payable to Suntrust Equipment Finance & Leasing Corp. principal and interest payments of \$56,321 are payable annually through September 1, 2018; interest payable at 1.58% per annum; collateralized by school buses.	217,505	-	53,744	163,761
Note payable to Branch Bank & Trust Co. principal and interest payments of \$2,142 are payable monthly through June 11, 2020; interest payable at 1.98% per annum; collateralized by school buses.	-	116,563	17,795	98,768
TOTAL BOARD OF EDUCATION	\$ 699,646	\$ 116,563	\$ 281,301	\$ 534,908

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (continued)

A summary of debt service requirements to maturity (excluding compensated absences and capital lease payments) by years is approximately as follows:

Primary Government

	Principal	Interest	Total
Governmental Activities			
Fiscal year Ending June 30,			
2017	\$ 3,538,593	\$ 1,081,408	\$ 4,620,001
2018	3,651,124	898,942	4,550,066
2019	3,151,322	754,409	3,905,731
2020	3,229,019	633,358	3,862,377
2021	3,292,736	518,573	3,811,309
2022 - 2026	11,220,889	1,348,619	12,569,508
2027 - 2031	2,756,335	185,357	2,941,692
2032 - 2034	358,839	29,069	387,908
Total Governmental Activities	<u>\$ 31,198,857</u>	<u>\$ 5,449,735</u>	<u>\$ 36,648,592</u>

Enterprise Fund - Recreational Facilities (excluding capital leases)

Fiscal year Ending June 30,			
2017	\$ 177,295	\$ 63,536	\$ 240,831
2018	193,495	53,857	247,352
2019	210,890	42,838	253,728
2020	207,485	33,387	240,872
2021	221,185	25,262	246,447
2022 - 2026	832,278	54,965	887,243
Total Recreational Facilities	<u>\$ 1,842,628</u>	<u>\$ 273,845</u>	<u>\$ 2,116,473</u>

Enterprise Fund - Sanitary District

Fiscal year Ending June 30,			
2017	\$ 571,306	\$ 42,356	\$ 613,662
2018	574,973	37,489	612,462
2019	578,731	32,531	611,262
2020	552,585	28,076	580,661
2021	556,540	23,159	579,699
2022 - 2026	2,626,927	66,010	2,692,937
2027 - 2031	452,863	5,702	458,565
Total Sanitary District	<u>\$ 5,913,925</u>	<u>\$ 235,323</u>	<u>\$ 6,149,248</u>

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (continued)

Primary Government (continued)

	Principal	Interest	Total
Enterprise Fund - Easton Airport			
Fiscal year Ending June 30,			
2017	\$ 140,059	\$ 39,029	\$ 179,088
2018	141,936	33,236	175,172
2019	141,761	26,836	168,597
2020	101,668	21,517	123,185
2021	87,569	16,711	104,280
2022 - 2026	112,523	48,336	160,859
2027 - 2031	41,417	36,812	78,229
2032 - 2036	51,647	26,583	78,230
2037 - 2041	63,298	14,927	78,225
2042 - 2044	36,954	2,058	39,012
Total Easton Airport	<u>\$ 918,832</u>	<u>\$ 266,045</u>	<u>\$ 1,184,877</u>

Component Units

Board of Education

Fiscal year Ending June 30,			
2017	\$ 224,332	\$ 7,575	\$ 231,907
2018	187,528	4,184	191,712
2019	97,619	1,682	99,301
2020	25,429	274	25,703
Total Board of Education	<u>\$ 534,908</u>	<u>\$ 13,715</u>	<u>\$ 548,623</u>

Obligations Under State Retirement System

Component Unit – Board of Education

State Retirement and Pension System of Maryland	
Payable annually through December 2035.	<u>\$ 575,743</u>

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (continued)

Obligations Under State Retirement System (continued)

Component Unit – Board of Education (continued)

The remaining deficit reduction payment schedule authorized by House Bill 430 is as follows:

<u>Fiscal Year Ending June 30,</u>		
2017	\$	37,434
2018		39,305
2019		41,270
2020		43,334
2021		45,501
2022 - 2026		263,992
2027 - 2031		336,927
2032 - 2036		430,014
Sub-Total		1,237,777
Less amounts representing interest		(662,034)
Liability as of June 30, 2016	\$	575,743

The Board of Education obligation to the State Retirement System was \$562,858 at June 30, 2015. There was an increase of \$12,885 and payments of \$35,651 during fiscal year 2016. The increase is related to an actuarial valuation that produced updated principal balances and was communicated to the Board of Education on November 20, 2015.

Note 7. Pension Plans

The State Retirement Agency is the administrator of the Maryland State Retirement and Pension System (the System). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. Responsibility for the System’s administration and operation is vested in a 15 member Board of Trustees. The System is made up of two cost-sharing employer pools: the “State Pool” and the “Municipal Pool”. The State Pool consists of State agencies, board of education, community colleges, and libraries. The Municipal Pool consists of participating governmental units that elected to join the System. Neither pool shares in each other’s actuarial liabilities, thus participating governmental units that elect to join the System (the “Municipal Pool”) share in the liabilities of the Municipal Pool only. The State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1660, Baltimore, Maryland 21202-1600 or on-line at www.sra.maryland.gov.

The System is comprised of the Teachers’ Retirement and Pension Systems (Teachers’ Systems), Employees’ Retirement and Pension Systems (Employees’ Systems), State Police Retirement System, Judges’ Retirement System, and the Law Enforcement Officers’ Pension System (LEOPS).

**TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

Note 7. Pension Plans (continued)

The following groups of employees participate in:

<u>Employees</u>	<u>Plan</u>
Library	Teachers' Systems
Board of Education - teachers	Teachers' Systems
Board of Education - regular employees	Employees' Systems
Talbot County	Employees' Systems

Both the Employees' Systems and the Teachers' Systems (collectively the Systems) are cost sharing multiple-employer defined benefit pension plans.

Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems

General Plan Policies

The Teachers' Retirement System of the State of Maryland was established on August 1, 1927 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland for the purpose of providing retirement allowances and other benefits to teachers in the State. In addition, on January 1, 1980, the Teachers' Pension System of the State of Maryland was established. In this regard, teachers hired on or after January 1, 1980 become members of the Teachers' Pension System, unless they elect to join an optional retirement program. Until December 31, 2004, existing members of the Teachers' Retirement System had the option of remaining in the Teachers' Retirement System or transferring to the Teachers' Pension System.

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension system was established. Until December 31, 2004, existing members of the Employees' Retirement System had the option of remaining in the Employees' Retirement System or transferring to the Employees' Pension System.

Significant Plan Benefits and Policies

The following is a general description of the significant plan benefits and related contribution requirements for the Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems:

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (continued)

Teachers' and Employees' Retirement Systems

Retirement Benefits:

A member may retire with full benefits after attaining the age of 60, or after completing 30 years of creditable service regardless of age. The annual retirement allowance is equal to 1/55 of a member's average final compensation (i.e. average of the member's three highest years of annual earnable compensation) multiplied by the number of years and months of accumulated creditable service. A member may retire with reduced benefits after completing 25 years of creditable service regardless of age. Retirement allowances are adjusted each year based on the Consumer Price Index. Cost-of-living adjustments (COLAs) are applied to all allowances payable for the year, however, the method by which the COLA is computed depends upon elections made by members and is tied to member contributions.

Vested Allowance:

A member terminating employment before attaining retirement age but after completing 5 years of creditable service becomes eligible for a vested retirement allowance, provided the member lives to the age of 60 and does not withdraw his or her accumulated contributions. Members terminating employment before attaining retirement age and before completing 5 years of creditable service are refunded their accumulated contributions plus earned interest.

Employee Contributions:

Members of the Teachers' and Employees' Retirement System are required to contribute to the systems a fixed percentage of their regular salaries and wages (e.g. 7% or 5%, depending on the COLA option selected). The contributions are deducted from each member's salary and wage payment and are remitted to the systems on a regular, periodic basis.

Teachers' and Employees' Pension System

Pension Benefits:

A member may retire with full benefits after completing 30 years of eligibility service regardless of age, or at age 62 or older with specified years of eligibility service. On retirement from service, a member shall receive an annual service pension allowance. The annual pension allowance is equal to 1.2% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued prior to July 1, 1998 and 1.8% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued on or after July 1, 1998. Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Vested Allowance:

A member terminating employment before attaining retirement age, but after completing 5 years of eligibility service, becomes eligible for a vested pension allowance provided the member lives to age 62. Members terminating employment before attaining retirement age and before completing 5 years of eligibility service are refunded their accumulated contributions plus earned interest.

**TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

Note 7. Pension Plans (continued)

Employee Contributions:

Effective July 1, 2011, members of the Teachers' and Employees' Pension Systems are required to contribute to the systems 7% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2016. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

For members enrolled on and after July 1, 2011, the employee contribution is 7%; vesting requires ten years of eligible service; service retirement is at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement is age 60 with 15 years of eligibility service; average final compensation is a five year average; and the benefit multiplier per year is 1.5%.

Teachers' and Employees' Retirement Systems and Teachers' and Employees' Pension Systems

Employer Contributions:

For the year ended June 30, 2016 total payroll, covered payroll and State on-behalf payments were as follows:

	Total Payroll	Covered Payroll	On-Behalf By State
Talbot County	\$ 14,472,347	\$ 11,975,128	\$ -
Board of Education	34,011,761	31,869,846	3,401,839
Library	931,543	897,702	137,553

Covered payroll refers to all compensation paid to active employees covered by either the Teachers' Systems or Employees' Systems.

During fiscal year 2016, the County reported expense of \$1,021,694 and the Board of Education reported expense of \$899,866 related to the Employees' Systems in the fund financial statements.

Board of Education – Special Funding

During a special session of the Maryland General Assembly – Teacher Pension Cost – it was determined that the State and Local school boards will share the cost of teacher retirement by phasing in a requirement for school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85%, and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016 and the additional maintenance of effort payments required by each county in the same period. The additional cost for fiscal year 2016 is determined to be \$1,171,665. State on-behalf payments are recognized as both a revenue and expense.

As a result of a first time actuarial study of the State Retirement and Pension System of Maryland, the Talbot County Board of Education was identified as one of 23 municipal corporations not having enough assets available to fund the present value of accrued benefits for participants in the retirement system. Under the rules of House Bill 1338, the original deficit amount was determined to be \$925,482 as of June 30, 1996, to be repaid over a period of 40 years. The Board was granted relief of \$210,003 (as of June 30, 1996) by HB1348 enacted in 1997 and further relief of \$210,003 (as of June 30, 1996) by HB430 which was enacted in 1998. The fiscal year 2016 payment was \$35,651. The payments reflect a pattern which increases by 5% per year for the next 20 years. (See also Note 6.)

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

Because the State of Maryland pays the unfunded liability for the Teachers' Systems on behalf of the Board and Library, and the Board pays the normal cost for the Teachers' Systems, the Board and Library are not required to record their share of the unfunded pension liability for the Teachers' Systems, the State of Maryland is required to record that liability. The Board is required to record a liability for the Employees' Systems.

At June 30, 2016, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. The amount recognized by the Board 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 Board were as follows:

District's proportionate share of the net pension liability (Employees' Systems)	\$ 5,054,438
State's proportionate share of the net pension liability associated with the Board (Teachers' System)	<u>37,780,481</u>
Total	<u>\$ 42,834,919</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was calculated as follows by the System(s):

1. Net pension liability for the entire System was calculated. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland and one for primary government employees.
2. Determined the total contributions to the System by the State and by the primary governments, inclusive of any underfunding of contributions.
3. Based on the number of participants at each Board of Education, calculate the difference between what each Board would have contributed if they funded at the rate of all other participating governments and what the Board actually contributed. The difference between what the Board contributed and what they would have contributed if they funded at the rate of the other participating governments, is then added to the total contribution to the System, to calculate the System's adjusted contribution.
4. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each primary government contribution. At June 30, 2014, the Board's proportion was approximately .0243216%.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (continued)

At June 30, 2016, the County reported the following related to pensions:

	<u>Board</u>	<u>Total County</u>
Employer's proportion of the net pension liability	0.0243216%	0.0519721%
Employer's proportionate share of the net pension liability	\$ 5,054,438	\$ 10,800,677
Pension expense recognized by the employer (The Board includes amounts paid for Teachers' Systems)	\$ 1,601,610	\$ 1,021,694
Change in NPL factored for contributions	\$ 1,076,397	\$ 2,634,935
Deferred inflows of resources:		
Net difference between projected and actual investment earnings on pension plan investments	\$ (326,567)	\$ (670,345)
Differences between expected and actual results	(103,511)	(221,188)
<u>Total deferred inflows of resources</u>	<u>\$ (430,078)</u>	<u>\$ (891,533)</u>
Deferred outflows of resources:		
Changes in assumptions	\$ 296,174	\$ 629,252
Net difference between projected and actual investment earnings on pension plan investments	445,191	951,314
Contributions subsequent to the measurement date	429,946	1,021,694
<u>Total deferred outflows of resources</u>	<u>\$ 1,171,311</u>	<u>\$ 2,602,260</u>
Net pension liability at June 30, 2015	\$ 3,978,041	\$ 8,165,742
Change in NPL factored for contributions	1,076,397	2,634,935
<u>Net pension liability at June 30, 2016</u>	<u>\$ 5,054,438</u>	<u>\$ 10,800,677</u>

Deferred outflows of resources resulting from contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Board</u>	<u>Total County</u>
2017	\$ 47,527	\$ 109,511
2018	47,527	109,511
2019	47,527	109,511
2020	141,997	303,428
2021	26,708	57,072

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.95% general, 3.45% wage
Salary increases	3.45% to 10.70%, including inflation
Discount rate	7.55%
Investment rate of return	7.55%
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board of Trustees after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	1%	0.00%
Total	<u>100%</u>	

Discount rate

A single discount rate of 7.55% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the System’s proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

System	1% Decrease to 6.55%	Current Discount	1% Increase to 8.55%
County	\$ 15,265,101	\$ 10,800,677	\$ 7,098,780
Board	7,143,683	5,054,438	3,322,050

Note 8. Other Post-Employment Benefits (OPEB)

Plan Description and Eligibility

The County provides post-retirement health care benefits under the Talbot County Retiree Health Plan (the “Plan”), a single-employer defined benefit healthcare plan administered by the County, to retirees who meet the Maryland State Retirement System qualifications for full retirement benefits. Current County guidelines state that if the retiree has 16 or more years of state creditable service, the County will pay 90% of the health insurance cost for an individual and 85% of the health insurance cost for family coverage. If the retiree has between 5 and 16 years of state creditable service and retired directly from County service, the County reduces the portion it subsidizes by 1/16 per year. The County has the authority to establish and amend benefit provisions of the Plan. The Plan does not issue a separate, publicly available report.

The County also provides life insurance coverage to employees who retire from the County and who are members of the State Retirement and Pension Systems of Maryland. Coverage is limited to one times the employee’s salary when they retire. The benefit is reduced to 65% of the salary at retirement at age 70 and 50% at age 75.

The Talbot County Public Schools Retiree Health Plan (the “Board of Education Plan”) is a single-employer defined benefit healthcare plan that is administered by the Board of Education and covers retired employees of the Board of Education and their dependents. The Board of Education Plan provides for the payment of a portion or all of the health insurance premiums for eligible retired employees depending on their position that was held and length of service. The Board of Education has the authority to establish and amend benefit provisions of the Board of Education Plan. The Board of Education Plan does not issue a separate, publicly available report.

The Library administers a single-employer defined benefit healthcare plan for its retirees. The plan provides healthcare insurance for eligible retirees and their spouses. Employees are eligible to participate in the plan upon retirement provided they have 10 years of service with the Library and meet the eligibility requirements of the State Retirement and Pension System of Maryland. As of July 1, 2015, the date of the actuarial valuation, 3 retirees were receiving benefits under the plan, and an estimated 15 active employees are eligible or potentially eligible to receive future benefits. Active members eligible to receive healthcare benefits are currently covered under Talbot County, Maryland’s healthcare plan.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 8. Other Post-Employment Benefits (OPEB) (continued)

Funding Policy

The County pays for the cost of post-retirement health care benefits under the Plan for eligible retirees and their dependents/family members on a pay-as-you-go basis from the general fund. Eligible retirees must pay for 10% of the cost for individual plans and 15% of the cost for family coverage. For fiscal year 2016, the County paid for coverage of 81 eligible retirees, family members, and dependents at a total cost to the County of \$696,596 and eligible retirees contributed \$119,327. The County has the authority to establish and amend the funding policy of the Plan.

Premiums and other contributions for the Board of Education's share of the cost of group programs may be paid, as determined by the Board, from the assets of the Board. Premium payments for some programs may require contributions by the participant as well as the Board. The frequency and amount of such contributions shall be established from time to time by the County. Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Talbot County Public School Retiree Health Plan pays 66% of the individual premium for each insured retiree who has at least 8 years of service. Retirees with less than 8 years of service are allowed access, but must pay 100% of the published rates.

The Library pays for 66.67% of the cost of eligible retiree healthcare premiums with the retiree paying the remaining portion of the cost. For fiscal year 2016, the Library contributed \$8,492 to the plan for 3 eligible retirees.

Annual OPEB Cost and Net OPEB Obligation

The valuations were done to determine the funded status of the plans as well as the annual required contribution (ARC) for the fiscal year ended June 30, 2016. 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 over a period not to exceed 30 years. The County, Board of Education, and Library make contributions against the net OPEB obligations from the General Fund.

The Library's valuation is performed using the alternative measurement method provided for in GASB 45.

The County, Board of Education, and Library's annual OPEB cost, employer contributions, percentage of annual OPEB cost contributed to the plan, and net OPEB obligation were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
<u>Talbot County</u>				
2014	\$ 513,187	\$ 2,608,194	508.23%	\$ (4,014,264)
2015	513,187	571,089	111.28%	(4,072,166)
2016	533,830	1,696,596	317.82%	(5,234,932)
<u>Board of Education</u>				
2014	\$ 5,620,000	\$ 1,490,000	26.51%	\$ 21,988,425
2015	5,731,000	1,628,000	28.41%	26,091,425
2016	6,090,000	1,321,286	21.70%	30,860,139
<u>Library</u>				
2014	\$ 107,925	\$ 5,301	4.91%	\$ 609,787
2015	107,925	5,493	5.09%	712,219
2016	101,879	8,492	8.34%	805,606

**TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

Note 8. Other Post-Employment Benefits (OPEB) (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

Fiscal year 2009 was the year of implementation of GASB 45, and the County, Board of Education, and Library elected to implement prospectively.

The net OPEB obligation as of June 30, 2016 was calculated as follows:

	County	Board of Education	Library
Annual required contribution (ARC)	\$ 512,189	\$ 6,226,000	\$ 112,994
Interest on net OPEB obligation	(285,052)	1,044,000	28,489
Adjustment to the ARC	306,693	(1,180,000)	(39,604)
Annual OPEB cost	533,830	6,090,000	101,879
Contribution to trust	(1,000,000)	(100,000)	-
Pay as you go	(696,596)	(1,221,286)	(8,492)
Net OPEB change	(1,162,766)	4,768,714	93,387
Net OPEB obligation (asset), beginning of year	(4,072,166)	26,091,425	712,219
Net OPEB obligation (asset), end of year	<u>\$ (5,234,932)</u>	<u>\$ 30,860,139</u>	<u>\$ 805,606</u>

Funded Status and Funding Progress

Year Ended June 30,	Date of Actuarial Valuation Data	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
<u>Talbot County, Maryland</u>							
2014	July 1, 2011	\$ 8,971,830	\$ 12,460,315	72.00%	\$ 3,488,485	\$ 11,048,309	31.6%
2015	July 1, 2013	8,941,298	12,460,315	71.76%	3,519,017	11,048,309	31.9%
2016	July 1, 2015	10,044,684	13,143,268	76.42%	3,098,584	12,769,983	24.3%
<u>Board of Education</u>							
2014	July 1, 2014	\$ -	\$ 62,681,000	0.00%	\$ 62,681,000	\$ 31,677,993	197.9%
2015	July 1, 2015	-	63,986,000	0.00%	63,986,000	31,854,565	200.9%
2016	July 1, 2016	100,000	67,916,000	0.15%	67,816,000	31,869,846	212.8%
<u>Library</u>							
2014	July 1, 2013	\$ -	\$ 1,347,733	0.00%	\$ 1,347,733	\$ 583,855	230.8%
2015	July 1, 2013	-	1,347,733	0.00%	1,347,733	583,855	230.8%
2016	July 1, 2015	-	1,076,251	0.00%	1,076,251	644,111	167.1%

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 8. Other Post-Employment Benefits (OPEB) (continued)

Funded Status and Funding Progress (continued)

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 multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 historical pattern of sharing of benefit costs between the employer and plan 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 County's July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7% interest rate on investments which assumes a 4% inflation rate, and an annual healthcare cost trend rate beginning at 6.5% initially reduced by decrements to an ultimate rate of 4.5%. Assets are valued at their market values. The Plan's unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30 year period using open amortization.

In the Board of Education's June 30, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% 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 at the valuation date, a projected salary increase of 4% per year, and an annual healthcare cost trend rate of 5.7% initially, reduced by decrements to an ultimate rate of 4.9%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2016 was 23 years.

In determining its actuarial valuation of OPEB costs and liabilities, the Library used the projected unit credit cost method using certain assumptions and default values provided for under the alternative measurement method in GASB 45. The actuarial assumptions include a 4% investment rate of return and the projected annual healthcare cost trend rate is 6.5% initially, reduced by decrements to an ultimate rate of 5%. The UAAL is being amortized as a level dollar amount over a 30 year period.

**TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

Note 9. Deferred Compensation

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible County employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The County funds all amounts of compensation deferred under the plan, at the direction of the covered employee, through investments underwritten by the Massachusetts Mutual Life Insurance Company (Mass Mutual).

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the plan participants and are not subject to the claims of the County's general creditors.

The County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. In accordance with GASB No. 32, adopted by the County in 1998, the plan's assets are not reported on the combined balance sheet of the County.

Note 10. Unearned Revenues

Unearned revenue consists of federal and state grants, agricultural taxes collected, and other revenues that have been received by the County, but not expended by June 30, 2016. Property taxes not received within the "available" period are also deferred. The property tax receivable amount is not material, and is netted in with liabilities within the government-wide and fund financial statements. Unearned revenue at June 30, 2016 consisted of the following:

	County	Board of Education
Federal and state grants	\$ 6,021	\$ 705,019
Other sources	4,241,632	1,153
	\$ 4,247,653	\$ 706,172

Note 11. Commitments and Contingencies

Primary Government

Landfills Closure and Post-closure Costs

The County has a 27.21% financial interest in Mid-Shore Regional Solid Waste Facility, which is owned and operated by Maryland Environmental Service (MES). The Landfills are located on the eastern shore and are shared by four counties. Under the Waste Disposal Service Agreement between MES and the County, in the event expenditures should exceed revenues, the County is obligated to cover the deficiency in proportion to its financial interest, however, to date additional funding from the County has not been required nor does management anticipate it.

In December 2010 the Mid-Shore I landfill located in Talbot County accepted its last trash and in January 2011 the Mid-Shore II landfill was opened for commercial business. As of June 30, 2016, total closure and post closure care costs were estimated at approximately \$17.5 million, with approximately \$4.8 million attributable to the County. It is expected that these costs will be funded from future revenues. MES has accrued and reported as a long-term liability at June 30, 2016, a portion of these costs, \$5.2 million, determined by the estimated useful life of the Landfills.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 11. Commitments and Contingencies (continued)

Primary Government (continued)

Similar to the post closure costs, each of the participating Counties is contingently liable for the debt related to the new facility, Mid-Shore II. Mid-Shore II was funded with project revenue bonds. As of June 30, 2016, total debt was approximately \$21 million, with approximately \$5.7 million attributable to the County in the event of default.

MES has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2015. MES expects to satisfy these requirements as of June 30, 2016 using the same criteria.

Due to inflation and changes in technology, laws, and regulations, estimated closure and post closure care costs may change in the future. Financial Statements of the Landfill can be obtained from MES located at 259 Najoles Road, Millersville, MD 21108.

Legal Actions

The County believes it is probable that income tax refunds of approximately \$3,000,000 related to the *Maryland State Comptroller of the Treasury v. Bryan Wynne* case will have to be issued in the future. Maryland's personal income tax on State residents consists of a State income tax and a local tax. Residents who pay income tax to another state were allowed a credit against the State income tax, but not against the local tax. The U.S. Supreme Court determined that this taxing system was unconstitutional.

In addition, there are other various claims and suits pending against the County that arise in the normal course of the County's activities. In the opinion of legal counsel and management, the ultimate disposition of these various claims and suits will have no material adverse impact on the financial condition of the County or affect the County's ability to perform its obligations to the holders of its bonds.

Construction Commitments

The County had entered into contracts for the design, construction, and renovation of facilities at June 30, 2016, which are as follows:

	Amounts Expended To Date	Remaining Construction Commitment	Expected Date of Completion
911 Expansion at Operations Center	\$ 812,101	\$ 344,071	October 2016
Oxford Park	291,185	192,559	October 2016
Martingham Sanitary District	128,331	581,966	November 2016
Dutchman's Lane Improvements	83,778	1,402,990	December 2016
Lower Level T-Hangar Taxiway	-	1,053,578	December 2016

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 12. Risk Management

Primary Government

General Insurance

The County's risk financing techniques include participation in a public entity pool and the purchase of commercial insurance.

For general, property, excess and environmental liability coverage, the County is a member of the Maryland Local Government Insurance Trust (LGIT). This trust is a public entity risk pool, which is owned and directed by the local governments that subscribe to its coverages, and operates under the terms of a Trust Agreement.

Subscribers to coverage by LGIT share in the risk among participants of the pools. As a result, the County's annual premium requirements are affected by the loss experience of the various insurance pools in which it participates. Conversely, favorable performance of certain insurance pools may result in reduced premiums.

The County is fully insured for worker's compensation through commercial insurance, and employees are bonded to limit the loss to the County in the event of employees committing acts of embezzlement or theft. In addition, due to specific exclusions in the County's insurance, the County also has commercial insurance coverage for property liability at the Easton Airport. There has been no significant reduction in insurance coverage from the prior year by major categories of risk, and amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

Health Insurance

The County self-insures health insurance coverage for its active employees with United Health Care providing third party administrative services.

Board of Education

General Insurance

The Board 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 Board participates in the Maryland Association of Boards of Education Group Insurance and Workers Compensation Pools (MABE), which provides casualty and property insurance, and workers compensation coverage. MABE operates as authorized by Section 482B of Article 84A of the Annotated Code of Maryland. The Board pays an annual premium to MABE for its insurance coverage. The agreement for formation of MABE provides that it will be self-sustaining through member premiums and will reinsure through commercial companies as specified in the agreement. As of June 30, 2016, MABE had total pool surplus of approximately \$22 million. It is believed that there are no outstanding claims in excess of the equity.

MABE publishes its own audited financial report based on a June 30 year-end. This report may be obtained from Maryland Association of Boards of Education Group Insurance Pool, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401.

TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

Note 12. Risk Management (continued)

Board of Education (continued)

Health Insurance

The Board participates in the Eastern Shore of Maryland Education Consortium Health Insurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for health insurance coverage. Currently, six Boards of Education and two Counties are participating in the alliance for their health insurance coverage.

The agreement for formation of the alliance provides that the pool will be self-sustaining through member premiums. These funds have been invested in the PNC Local Government Investment Pool and with Wells Fargo Advisors.

The pooling agreement allows for the pool, which is administered by Carefirst Blue Cross/Blue Shield of Maryland, to make additional assessments to make the pool self-sustaining. As of the date of this report, no outstanding claims are believed to exist that are in excess of the equity of the trust.

Note 13. Deficits

At June 30, 2016, the Sanitary District Fund had a deficit in unrestricted net position of \$2,495,297. This deficit is expected to be eliminated through normal operations.

Note 14. Unrestricted Net Position

The County has issued bonds and notes payable for capital assets for the Board of Education of Talbot County and Chesapeake College. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. At June 30, 2016, the outstanding balance of these bonds and notes payables was \$24,617,935 and the effect of this non-capital debt has been reflected in the unrestricted net position of the County.

Note 15. Subsequent Events

Board of Education

On July 20, 2016, the Board approved a lease purchase of one school bus over five years. The total cost of the lease, including interest, is \$132,416, which is payable in monthly installments.

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Required Supplementary Information

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
<u>REVENUES</u>				
TAXES - LOCAL				
LOCAL PROPERTY TAXES				
Real property	\$ 34,240,000	\$ 34,240,000	\$ 34,546,760	\$ 306,760
Railroad and public utilities	750,000	750,000	806,112	56,112
Prior Years	-	-	(5,080)	(5,080)
Penalties and interest	164,500	164,500	173,032	8,532
Total property taxes	35,154,500	35,154,500	35,520,824	366,324
Less: Discounts allowed on taxes	(230,000)	(230,000)	(240,448)	(10,448)
Net property taxes	34,924,500	34,924,500	35,280,376	355,876
LOCAL INCOME TAXES	28,000,000	28,000,000	26,568,636	(1,431,364)
OTHER LOCAL TAXES				
Admissions and amusements	40,000	40,000	23,406	(16,594)
Recordation	5,200,000	5,200,000	6,216,903	1,016,903
Transfer	3,200,000	3,200,000	3,741,415	541,415
Public accommodations	1,200,000	1,200,000	1,295,768	95,768
Mobile manufactured home	57,000	57,000	63,502	6,502
Total other local taxes	9,697,000	9,697,000	11,340,994	1,643,994
Total local taxes	72,621,500	72,621,500	73,190,006	568,506
LICENSES AND PERMITS				
Beer, wine and liquor licenses	165,000	165,000	182,720	17,720
Alcoholic beverages fines	-	-	1,500	1,500
Traders licenses	30,000	30,000	28,769	(1,231)
Animal tags and fines	5,000	5,000	4,465	(535)
Stormwater permits	10,000	10,000	18,450	8,450
Flood plain permits	500	500	1,820	1,320
Boat ramp permits and violations	132,000	132,000	169,474	37,474
Marriage licenses	3,000	3,000	(965)	(3,965)
Plumbing permits	9,000	9,000	11,009	2,009
Gas permits and licenses	7,500	7,500	10,427	2,927
Plumbing licenses	7,000	7,000	7,185	185
HVAC inspections and registrations	8,700	8,700	17,064	8,364
Electrical inspections and licenses	16,000	16,000	17,540	1,540
Building permits	160,000	160,000	212,180	52,180
Total licenses and permits	553,700	553,700	681,638	127,938

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
INTERGOVERNMENTAL REVENUES				
FROM THE FEDERAL GOVERNMENT				
SAMHSA grant	\$ -	\$ -	\$ 2,000	\$ 2,000
HMEP grant	10,000	10,000	-	(10,000)
FEMA	45,000	45,000	80,583	35,583
Emergency management - DHS	25,000	25,000	299,828	274,828
Total Federal revenues	80,000	80,000	382,411	302,411
FROM THE STATE OF MARYLAND				
Police protection	124,079	124,079	97,667	(26,412)
Sex offender grant	8,000	8,000	13,080	5,080
School bus safety grant	12,000	12,000	6,000	(6,000)
Motor carrier - State Highway	2,000	2,000	6,461	4,461
Fire and rescue	290,000	290,000	300,080	10,080
911 grants and numbers system board	230,000	230,000	275,182	45,182
Community service	23,000	23,000	23,700	700
Health and human services grants	-	-	1,000	1,000
Circuit Court - Family Services	167,281	167,281	133,904	(33,377)
Problem solving court grant	139,000	139,000	132,206	(6,794)
Critical areas	15,000	15,000	15,000	-
Highway user revenues	318,000	318,000	375,392	57,392
Recordation	30,000	30,000	50,329	20,329
Program open space	40,500	40,500	35,011	(5,489)
Public landing grants	12,000	12,000	16,465	4,465
Tourism	30,000	30,000	81,146	51,146
DSS-Legal fees	75,000	75,000	69,390	(5,610)
Security filing fees	150	150	-	(150)
Total state revenues	1,516,010	1,516,010	1,632,013	116,003
Total intergovernmental	1,596,010	1,596,010	2,014,424	418,414

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
SERVICE CHARGES				
GENERAL GOVERNMENT CHARGES				
Zoning fees and certificates	\$ 16,300	\$ 16,300	\$ 19,433	\$ 3,133
Subdivision applications	25,000	25,000	13,708	(11,292)
Administrative variance	2,700	2,700	3,600	900
Board of appeals	6,000	6,000	4,800	(1,200)
Site plan reviews	3,000	3,000	2,495	(505)
Forest conservation fees	2,500	2,500	4,025	1,525
Critical area preservation	25,000	25,000	3,086	(21,914)
Bed & breakfast license/home occupation	900	900	1,200	300
Short term rental fees	13,000	13,000	15,850	2,850
Mobile home fees	300	300	525	225
Roadside vendors and produce stand	2,500	2,500	2,500	-
Weed and litter enforcement	2,000	2,000	2,750	750
Weed control spraying	40,000	40,000	55,687	15,687
Economic development/tourism	104,000	104,000	107,409	3,409
Election filing and voter lists	450	450	183	(267)
Sheriff's fees	25,000	25,000	24,862	(138)
Emergency medical services	1,310,000	1,310,000	1,322,721	12,721
MIEMSS-EMS communications	125,000	125,000	125,000	-
Hazmat fees	5,000	5,000	-	(5,000)
Other charges	500	500	2,472	1,972
Total general government	1,709,150	1,709,150	1,712,306	3,156
PUBLIC SAFETY CHARGES				
Boarding of local prisoners	15,000	15,000	21,105	6,105
Weekenders fees	3,000	3,000	1,410	(1,590)
Live-in, work-out fees	2,500	2,500	2,223	(277)
Home detention program	500	500	600	100
Federal prisoner program	-	-	10,603	10,603
Community service fees	4,000	4,000	4,220	220
Total public safety charges	25,000	25,000	40,161	15,161

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
SERVICE CHARGES (continued)				
HEALTH				
Mosquito control fees	\$ 134,000	\$ 134,000	\$ 110,303	\$ (23,697)
RECREATION CHARGES				
Boat slips	60,000	60,000	62,263	2,263
Pool admissions	40,000	40,000	52,748	12,748
Pool group lessons	13,500	13,500	16,238	2,738
Pool memberships	20,000	20,000	24,055	4,055
Pool rental	2,000	2,000	4,180	2,180
Pool program fees	-	-	635	635
Swim team	5,500	5,500	1,475	(4,025)
Other recreation	15,000	15,000	2,380	(12,620)
Total recreation	156,000	156,000	163,974	7,974
Total service charges	2,024,150	2,024,150	2,026,744	2,594
FINES AND FORFEITURES	-	-	3,017	3,017
MISCELLANEOUS				
Rents	30,000	30,000	40,577	10,577
Other	262,390	1,367,390	1,119,673	(247,717)
Total miscellaneous	292,390	1,397,390	1,160,250	(237,140)
INTEREST	50,000	50,000	122,485	72,485
TOTAL REVENUES	77,137,750	78,242,750	79,198,564	955,814
OTHER FINANCING SOURCES				
Transfer from developmental impact fund	212,250	212,250	212,250	-
Issuance of refunding bonds	-	-	15,206,400	15,206,400
Bond premiums	-	-	1,327,418	1,327,418
Reserved and unexpended funds	1,290,000	1,290,000	-	(1,290,000)
Total other financing sources	1,502,250	1,502,250	16,746,068	15,243,818
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 78,640,000	\$ 79,745,000	\$ 95,944,632	\$ 16,199,632

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>EXPENDITURES</u>				
GENERAL GOVERNMENT				
LEGISLATIVE				
County Council:				
Salaries and fringe benefits	\$ 158,648	\$ 158,648	\$ 154,006	\$ 4,642
Other operating	48,200	48,200	51,190	(2,990)
Total legislative	206,848	206,848	205,196	1,652
JUDICIAL				
Circuit Court:				
Salaries and fringe benefits	202,180	202,180	195,384	6,796
Other operating	37,900	37,900	30,202	7,698
Capital outlay	13,000	13,000	9,304	3,696
Court Stenographer:				
Salaries and fringe benefits	41,633	41,633	41,153	480
Other operating	150	150	49	101
Family Services:				
Salaries and fringe benefits	60,081	60,081	62,568	(2,487)
Other operating	107,200	107,200	71,338	35,862
Problem Solving Court:				
Salaries and fringe benefits	113,418	113,418	91,825	21,593
Other operating	26,148	26,148	40,699	(14,551)
Orphan's Court:				
Salaries and fringe benefits	62,846	62,846	49,421	13,425
Other operating	2,225	2,225	759	1,466
State's Attorney:				
Salaries and fringe benefits	790,703	790,703	778,344	12,359
Other operating	54,335	54,335	60,377	(6,042)
Capital outlay	2,500	39,728	42,355	(2,627)
Victim Witness Program:				
Salaries and fringe benefits	156,074	156,074	149,594	6,480
Other operating	5,490	5,490	3,796	1,694
Total judicial	1,675,883	1,713,111	1,627,168	85,943

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
GENERAL GOVERNMENT (continued)				
EXECUTIVE				
County Administration:				
Salaries and fringe benefits	\$ 619,625	\$ 619,625	\$ 644,679	\$ (25,054)
Other operating	53,760	53,760	52,056	1,704
Capital outlay	8,000	8,000	3,852	4,148
Total executive	681,385	681,385	700,587	(19,202)
ELECTIONS				
Board of Supervisors of Elections:				
Salaries and fringe benefits	167,139	245,250	236,976	8,274
Other operating	149,900	149,900	128,425	21,475
Registration and elections				
Salaries and fringe benefits	44,000	44,000	43,779	221
Other operating	5,500	5,500	3,600	1,900
Total elections	366,539	444,650	412,780	31,870
FINANCIAL ADMINISTRATION				
Finance Office:				
Salaries and fringe benefits	706,297	706,297	690,474	15,823
Other operating	192,750	192,750	191,917	833
MD State Department of Assessments and Taxation	210,000	210,000	196,618	13,382
Liquor License Commissioners:				
Salaries and fringe benefits	10,900	10,900	10,755	145
Other operating	3,425	3,425	3,596	(171)
Total financial administration	1,123,372	1,123,372	1,093,360	30,012
LAW				
County Attorney:				
Salaries and fringe benefits	310,981	322,250	322,770	(520)
Other operating	25,700	25,700	20,456	5,244
Total law	336,681	347,950	343,226	4,724
PLANNING AND ZONING				
Planning Office:				
Salaries and fringe benefits	644,945	644,945	567,087	77,858
Other operating	104,900	104,900	29,631	75,269
Board of Appeals:				
Salaries and fringe benefits	89,814	89,814	84,952	4,862
Other operating	15,650	15,650	9,441	6,209
Total planning and zoning	855,309	855,309	691,111	164,198

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
GENERAL GOVERNMENT (continued)				
GENERAL SERVICES				
County Buildings:				
Salaries and fringe benefits	\$ 427,178	\$ 427,178	\$ 428,414	\$ (1,236)
Other operating	342,740	342,740	337,532	5,208
Capital outlay	10,300	10,300	9,537	763
Library Maintenance	146,000	146,000	134,505	11,495
Information Technology:				
Salaries and fringe benefits	280,638	280,638	283,796	(3,158)
Other operating	109,820	94,820	55,099	39,721
Capital outlay	35,000	99,077	94,613	4,464
Insurance	112,000	112,000	109,487	2,513
Total general services	1,463,676	1,512,753	1,452,983	59,770
ECONOMIC DEVELOPMENT				
Office of Economic Development:				
Salaries and fringe benefits	134,367	134,367	134,383	(16)
Other operating	60,700	60,700	54,734	5,966
Arts Council	12,000	12,000	12,000	-
Tourism:				
Salaries and fringe benefits	152,995	152,995	152,742	253
Other operating	398,680	398,680	457,909	(59,229)
Historic Preservation Commission	6,300	6,300	7,449	(1,149)
Other	24,000	24,000	20,729	3,271
Total economic development	789,042	789,042	839,946	(50,904)
Total general government	7,498,735	7,674,420	7,366,357	308,063
PUBLIC SAFETY				
SHERIFF				
Salaries and fringe benefits	2,666,887	2,666,887	2,679,471	(12,584)
Other operating	430,740	430,740	391,557	39,183
Capital outlay	275,850	334,675	336,798	(2,123)
Total sheriff	3,373,477	3,432,302	3,407,826	24,476
MUNICIPAL INSTITUTIONS				
Detention Center:				
Salaries and fringe benefits	2,701,439	2,701,439	2,705,432	(3,993)
Other operating	1,140,160	1,140,160	944,468	195,692
Total municipal institutions	3,841,599	3,841,599	3,649,900	191,699

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
PUBLIC SAFETY (continued)				
OTHER PUBLIC SAFETY				
School Crossing Guards	\$ 59,345	\$ 59,345	\$ 59,345	\$ -
Animal Control Program	409,535	409,535	409,163	372
Emergency Management:				
Salaries and fringe benefits	1,218,718	1,218,718	1,280,014	(61,296)
Other operating	414,428	414,428	349,796	64,632
Capital outlay	49,000	749,000	1,083,957	(334,957)
Volunteer Fire Companies	1,679,699	1,685,099	1,652,578	32,521
Emergency Medical Services:				
Salaries and fringe benefits	3,189,372	3,189,372	3,327,473	(138,101)
Other operating	525,450	525,450	495,739	29,711
Capital outlay	247,000	247,000	212,742	34,258
Hazardous Materials:				
Salaries and fringe benefits	1,140	1,140	136	1,004
Other operating	15,150	15,150	9,265	5,885
Total other public safety	7,808,837	8,514,237	8,880,208	(365,971)
PROTECTIVE INSPECTION				
Electrical Inspection:				
Salaries and fringe benefits	5,973	5,973	6,143	(170)
Other operating	2,690	2,690	681	2,009
Building and Plumbing Inspection:				
Salaries and fringe benefits	316,136	316,136	305,558	10,578
Other operating	34,550	34,550	18,250	16,300
Total protective inspection	359,349	359,349	330,632	28,717
Total public safety	15,383,262	16,147,487	16,268,566	(121,079)
PUBLIC WORKS				
PUBLIC WORKS - GENERAL				
Salaries and fringe benefits	545,152	545,152	555,267	(10,115)
Other operating	40,200	40,200	26,920	13,280
Total public works - general	585,352	585,352	582,187	3,165
PUBLIC LANDINGS AND WHARVES				
Salaries and fringe benefits	194,615	194,615	174,326	20,289
Other operating	48,250	48,250	39,165	9,085
Capital outlay	-	30,500	25,134	5,366
Total public landings and wharves	242,865	273,365	238,625	34,740
SOLID WASTE DISPOSAL				
Salaries and fringe benefits	83,852	83,852	84,480	(628)
Other operating	610,800	610,800	614,446	(3,646)
Total solid waste disposal	694,652	694,652	698,926	(4,274)

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
PUBLIC WORKS (continued)				
HIGHWAYS AND STREETS				
Salaries and fringe benefits	\$ 1,270,696	\$ 1,270,696	\$ 1,254,364	\$ 16,332
Other operating	1,194,318	1,094,318	1,016,132	78,186
Debt service	52,100	52,100	52,228	(128)
Capital outlay	150,000	681,000	610,162	70,838
Total highways and streets	2,667,114	3,098,114	2,932,886	165,228
Total public works	4,189,983	4,651,483	4,452,624	198,859
HEALTH AND HOSPITALS				
Health department	1,610,550	1,610,550	1,612,994	(2,444)
School health	670,950	670,950	670,950	-
Addictions counseling	76,800	76,800	76,800	-
Senior services program	50,000	50,000	50,000	-
Mosquito control	147,300	147,300	118,810	28,490
Total health and hospitals	2,555,600	2,555,600	2,529,554	26,046
SOCIAL SERVICES				
Social services legal	90,000	90,000	69,390	20,610
Neighborhood Service Center	84,626	84,626	84,626	-
Delmarva Community Services	108,760	108,760	108,760	-
Senior Services	246,846	246,846	246,846	-
Social Services	13,000	13,000	13,000	-
St. Martin's Ministries	7,000	7,000	7,000	-
Senior Center bus passes	8,400	8,400	8,400	-
Total social services	558,632	558,632	538,022	20,610
EDUCATION				
Board of Education:				
Operating appropriation	35,175,967	35,175,967	35,175,967	-
Teacher pensions	943,073	943,073	943,073	-
Supplemental appropriation	97,500	97,500	97,500	-
Debt Service	3,371,479	3,371,479	3,248,675	122,804
Library:				
Fringe benefits	-	-	2,624	(2,624)
Operating appropriation	1,167,285	1,167,285	1,167,285	-
Capital outlay	37,284	47,339	44,977	2,362
Community College:				
Operating appropriation	1,502,006	1,502,006	1,502,006	-
Capital outlay	87,516	87,516	87,516	-
Debt Service	159,461	159,461	168,502	(9,041)

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
EDUCATION (continued)				
Chesapeake Developmental Center	\$ 45,005	\$ 45,005	\$ 45,005	\$ -
Drug Abuse Resistance Education (DARE):				
Salaries and fringe benefits	93,269	93,269	73,894	19,375
Other operating	14,370	14,370	9,696	4,674
Total education	42,694,215	42,704,270	42,566,720	137,550
RECREATION				
Parks and Recreation:				
Salaries and fringe benefits	200,883	200,883	161,908	38,975
Other operating	141,925	141,925	126,491	15,434
Capital outlay	45,000	65,000	67,179	(2,179)
Pools				
Salaries and fringe benefits	134,650	134,650	144,999	(10,349)
Other operating	54,940	54,940	58,683	(3,743)
Capital outlay	14,600	14,600	5,800	8,800
Total recreation	591,998	611,998	565,060	46,938
CONSERVATION OF NATURAL RESOURCES				
Agricultural Extension Service	174,341	174,341	174,329	12
Agricultural Preservation				
Operating appropriation	-	-	1,959	(1,959)
Other	7,000	7,000	4,455	2,545
Weed Control:				
Salaries and fringe benefits	59,386	59,386	58,048	1,338
Other operating	28,630	28,630	13,437	15,193
Total conservation of natural resources	269,357	269,357	252,228	17,129
INTERGOVERNMENTAL				
Payments to Municipalities:				
Fire, rescue and ambulance fund	50,000	50,000	32,086	17,914
Bank stock	7,535	7,535	7,535	-
Public accommodations tax	820,000	820,000	908,851	(88,851)
Total intergovernmental	877,535	877,535	948,472	(70,937)

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended June 30, 2016

(Continued)

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
EMPLOYEE BENEFITS				
Health insurance, retirees	\$ 500,000	\$ 500,000	\$ 692,917	\$ (192,917)
OPEB	1,000,000	1,000,000	1,000,000	-
Other operating	3,000	3,000	2,532	468
Total employee benefits	1,503,000	1,503,000	1,695,449	(192,449)
MISCELLANEOUS				
	312,680	312,680	74,127	238,553
DEBT SERVICE				
Principal on long-term debt	815,180	815,180	799,855	15,325
Debt issuance costs	-	-	124,648	(124,648)
Interest on long-term debt	230,647	230,647	212,886	17,761
Total debt service	1,045,827	1,045,827	1,137,389	(91,562)
RESERVE FOR CONTINGENCIES				
	615,086	288,621	81,219	207,402
TOTAL EXPENDITURES				
	78,095,910	79,200,910	78,475,787	725,123
OTHER FINANCING USES				
Payments to bond refunding agent	-	-	16,410,830	(16,410,830)
Transfers:				
Pool - Operating appropriation	-	-	191,030	(191,030)
Recreation - Operating appropriation	544,090	544,090	544,090	-
Total other financing uses	544,090	544,090	17,145,950	(16,601,860)
TOTAL EXPENDITURES AND OTHER FINANCING USES				
	78,640,000	79,745,000	95,621,737	(15,876,737)
Net change in fund balances	\$ -	\$ -	\$ 322,895	\$ 322,895

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GRANTS FUND**

For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental - Federal	\$ 1,767,630	\$ 1,767,630	\$ 1,424,566	\$ (343,064)
Intergovernmental - State	1,839,800	1,839,800	1,583,699	(256,101)
Miscellaneous	165,000	165,000	112,994	(52,006)
Contribution	43,500	43,500	44,298	798
Total revenues	3,815,930	3,815,930	3,165,557	(650,373)
EXPENDITURES				
General government	273,780	273,780	209,008	64,772
Public safety	170,130	170,130	71,156	98,974
Public works	2,065,000	2,065,000	1,944,698	120,302
Health and hospitals	35,000	35,000	11,114	23,886
Social services	1,267,020	1,267,020	927,648	339,372
Education	5,000	5,000	-	5,000
Recreation	-	-	1,933	(1,933)
Total expenditures	3,815,930	3,815,930	3,165,557	650,373
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -

TALBOT COUNTY, MARYLAND

**SCHEDULE OF FUNDING PROGRESS - OTHER
POST-EMPLOYMENT BENEFITS**

June 30, 2016

Year Ended June 30,	Date of Actuarial Valuation Data	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
<u>Talbot County, Maryland</u>							
2014	July 1, 2011	\$ 8,971,830	\$ 12,460,315	72.00%	\$ 3,488,485	\$ 11,048,309	31.6%
2015	July 1, 2013	8,941,298	12,460,315	71.76%	3,519,017	11,048,309	31.9%
2016	July 1, 2015	10,044,684	13,143,268	76.42%	3,098,584	12,769,983	24.3%
<u>Board of Education</u>							
2014	July 1, 2014	\$ -	\$ 62,681,000	0.00%	\$ 62,681,000	\$ 31,677,993	197.9%
2015	July 1, 2015	-	63,986,000	0.00%	63,986,000	31,854,565	200.9%
2016	July 1, 2016	100,000	67,916,000	0.15%	67,816,000	31,869,846	212.8%
<u>Library</u>							
2014	July 1, 2013	\$ -	\$ 1,347,733	0.00%	\$ 1,347,733	\$ 583,855	230.8%
2015	July 1, 2013	-	1,347,733	0.00%	1,347,733	583,855	230.8%
2016	July 1, 2015	-	1,076,251	0.00%	1,076,251	644,111	167.1%

TALBOT COUNTY, MARYLAND

**MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Year Ended June 30, 2016**

Fiscal Year	Measurement Date	County's Proportion (Percentage) of the NPL A	County's Proportionate Share of the NPL B	County's Covered Employee Payroll C	Proportionate Share as a Percentage of Covered Payroll (B / C)	Plan's Total Fiduciary Net Position D	Plan's Total Pension Liability E	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)
2015	June 30, 2014	0.04601%	\$ 8,165,742	\$ 11,581,689	70.51%	\$ 45,339,988,000	\$ 63,086,719,000	71.87%
2016	June 30, 2015	0.05197%	\$ 10,800,677	\$ 11,975,128	90.19%	\$ 45,789,840,000	\$ 66,571,552,000	68.78%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

TALBOT COUNTY, MARYLAND

**MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
SCHEDULE OF CONTRIBUTIONS
Year Ended June 30, 2016**

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A-B)	Employer's Covered Employee Payroll C	Actual Contribution as a Percentage of Covered Payroll (B/C)
2015	June 30, 2014	\$ 1,095,431	\$ 1,095,431	\$ -	\$ 11,581,689	9.46%
2016	June 30, 2015	\$ 1,021,694	\$ 1,021,694	\$ -	\$ 11,975,128	8.53%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

TALBOT COUNTY, MARYLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Basis

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered part of the basic financial statements. Such information includes budgetary comparison schedules for the general fund and the schedule of funding progress for other post employment benefits. The budgetary information is prepared and adopted on a basis that is consistent with generally accepted accounting principles.

Note 2. Schedule of Funding Progress - Other Post-Employment Benefits

Effective January 2009, the County increased its contribution percentage for post-employment benefits from 66.66% to 90% for eligible individual plans and 85% for family coverage.

The information in this schedule is intended to help users assess the County's OPEB Plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

Note 3. Pensions

Change in Benefit Terms

There were no benefit changes during the year.

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2015 valuation:

1. Investment return assumption changed from 7.65% to 7.55%
2. Inflation assumption changed from 2.90% to 2.70%

Method and Assumptions used in Calculations of Actuarially Determined Contributions

<p>Actuarial Amortization method Remaining amortization period Asset valuation method Inflation Salary increases Investment rate of return Retirement age</p>	<p>Entry age normal Level percentage of payroll, closed 25 years for State system 5-year smoothed market; 20% collar 2.95% general, 3.45% wage 3.45% to 10.70%, including inflation 7.55% Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2015 valuation pursuant to an experience study of the period 2010 - 2014 RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.</p>
<p>Mortality</p>	

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Other Supplementary Information

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental - State	\$ 2,430,000	\$ 2,430,000	\$ 12,893	\$ (2,417,107)
Interest	-	-	6,828	6,828
Total revenues	2,430,000	2,430,000	19,721	(2,410,279)
EXPENDITURES				
General government	-	-	66,798	(66,798)
Public safety	2,595,000	2,595,000	1,024,271	1,570,729
Public works	580,000	580,000	608,741	(28,741)
Health and hospitals	-	-	3,500	(3,500)
Education	845,749	845,749	680,286	165,463
Recreation	295,000	295,000	34,230	260,770
Total expenditures	4,315,749	4,315,749	2,417,826	1,897,923
OTHER FINANCING SOURCES (USES)				
Designated fund balance	1,713,749	1,713,749	-	(1,713,749)
Issuance of long-term debt	-	-	37,360	37,360
Proceeds from sale of land	-	-	3,510,650	3,510,650
Transfer from developmental impact	172,000	172,000	172,000	-
Total other financing sources (uses)	1,885,749	1,885,749	3,720,010	1,834,261
Net Change in Fund Balance	\$ -	\$ -	\$ 1,321,905	\$ 1,321,905

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
DEVELOPMENTAL IMPACT FUND
For the Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Licenses and permits:				
Impact fees:				
General government	\$ 60,000	\$ 60,000	\$ 62,325	\$ 2,325
Public works	50,000	50,000	262,496	212,496
Education				
Public schools	85,000	85,000	86,230	1,230
Library	20,000	20,000	16,104	(3,896)
Community College	4,000	4,000	3,411	(589)
Recreation	25,000	25,000	19,123	(5,877)
Interest	2,000	2,000	3,183	1,183
Total revenues	246,000	246,000	452,872	206,872
OTHER FINANCING SOURCES (USES)				
Transfers:				
Capital projects	(172,000)	(172,000)	(172,000)	-
General fund	(212,250)	(212,250)	(212,250)	-
Recreation fund	(53,700)	(53,700)	(53,700)	-
Appropriated fund balance	191,950	191,950	-	(191,950)
Total other financing sources (uses)	(246,000)	(246,000)	(437,950)	(191,950)
Net Change in Fund Balance	\$ -	\$ -	\$ 14,922	\$ 14,922

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
TALBOT FAMILY NETWORK
For the Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental - State	\$ 270,750	\$ 270,750	\$ 357,380	\$ 86,630
Interest	-	-	144	144
Total revenues	270,750	270,750	357,524	86,774
EXPENDITURES				
Social services	270,750	270,750	355,977	(85,227)
Net Change in Fund Balance	\$ -	\$ -	\$ 1,547	\$ 1,547

TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
ENTERPRISE FUND - RECREATION FACILITIES
For the Year Ended June 30, 2016

	Hog Neck Golf Course		
	<u>Revised</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
OPERATING REVENUES			
Program fees and admissions	\$ -	\$ -	\$ -
Room rents	-	-	-
Ice revenues	-	-	-
Pro shop and concessions	286,500	291,188	4,688
Cart rentals	35,000	22,997	(12,003)
Green fees	850,000	942,589	92,589
Other operating	29,000	18,957	(10,043)
Total operating revenues	1,200,500	1,275,731	75,231
OPERATING EXPENSES			
Salaries and related expenses	624,645	640,979	(16,334)
Professional fees	10,000	8,338	1,662
Office	20,200	32,358	(12,158)
Insurance	5,800	4,030	1,770
Repairs and maintenance	155,500	133,942	21,558
Utilities	59,000	60,197	(1,197)
Supplies and equipment	71,500	72,094	(594)
Lessons and programs	-	-	-
Pro shop and concessions	112,000	138,784	(26,784)
Other operating	27,800	40,660	(12,860)
Total operating expenses	1,086,445	1,131,382	(44,937)
Operating income (loss) before depreciation	114,055	144,349	30,294
Depreciation	-	143,991	(143,991)
Net operating income (loss)	114,055	358	(113,697)
NON-OPERATING REVENUES (EXPENSES)			
Transfers from general fund	126,800	126,800	-
Transfer from developmental impact fund	-	-	-
Gain on disposal of capital assets	-	5,500	5,500
Debt issuance costs	-	-	-
Program open space grant	-	-	-
Interest expense	(124,255)	(23,389)	100,866
Net non-operating revenues (expenses)	2,545	108,911	106,366
Change in net position	\$ 116,600	\$ 109,269	\$ (7,331)
OTHER BUDGETED EXPENSES			
Capital outlay	\$ (116,600)		
Total other budgeted expenses	(116,600)		
Budgeted net income (loss)	\$ -		

Talbot Community Center			Combined Totals		
<u>Revised</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>	<u>Revised</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
\$ 193,000	\$ 200,799	\$ 7,799	\$ 193,000	\$ 200,799	\$ 7,799
45,000	80,261	35,261	45,000	80,261	35,261
173,000	236,396	63,396	173,000	236,396	63,396
29,000	34,838	5,838	315,500	326,026	10,526
-	-	-	35,000	22,997	(12,003)
-	-	-	850,000	942,589	92,589
10,000	17,638	7,638	39,000	36,595	(2,405)
<u>450,000</u>	<u>569,932</u>	<u>119,932</u>	<u>1,650,500</u>	<u>1,845,663</u>	<u>195,163</u>
297,850	312,262	(14,412)	922,495	953,241	(30,746)
12,500	22,128	(9,628)	22,500	30,466	(7,966)
22,500	24,649	(2,149)	42,700	57,007	(14,307)
14,500	11,847	2,653	20,300	15,877	4,423
73,000	92,574	(19,574)	228,500	226,516	1,984
141,500	136,318	5,182	200,500	196,515	3,985
5,000	4,988	12	76,500	77,082	(582)
107,500	112,091	(4,591)	107,500	112,091	(4,591)
25,000	30,868	(5,868)	137,000	169,652	(32,652)
11,800	19,649	(7,849)	39,600	60,309	(20,709)
<u>711,150</u>	<u>767,374</u>	<u>(56,224)</u>	<u>1,797,595</u>	<u>1,898,756</u>	<u>(101,161)</u>
(261,150)	(197,442)	63,708	(147,095)	(53,093)	94,002
-	545,974	(545,974)	-	689,965	(689,965)
<u>(261,150)</u>	<u>(743,416)</u>	<u>(482,266)</u>	<u>(147,095)</u>	<u>(743,058)</u>	<u>(595,963)</u>
417,290	417,290	-	544,090	544,090	-
53,700	53,700	-	53,700	53,700	-
-	-	-	-	5,500	5,500
-	(15,939)	(15,939)	-	(15,939)	(15,939)
180,810	142,536	(38,274)	180,810	142,536	(38,274)
<u>(189,750)</u>	<u>(48,683)</u>	<u>141,067</u>	<u>(314,005)</u>	<u>(72,072)</u>	<u>241,933</u>
<u>462,050</u>	<u>548,904</u>	<u>86,854</u>	<u>464,595</u>	<u>657,815</u>	<u>193,220</u>
\$ 200,900	\$ (194,512)	\$ (395,412)	\$ 317,500	\$ (85,243)	\$ (402,743)
<u>\$ (200,900)</u>			<u>\$ (317,500)</u>		
<u>(200,900)</u>			<u>(317,500)</u>		
<u>\$ -</u>			<u>\$ -</u>		

TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
ENTERPRISE FUND - SANITARY DISTRICT
For the Year Ended June 30, 2016

	<u>St. Michaels District</u>			<u>Royal Oak District</u>		
	<u>Revised Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>	<u>Revised Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
OPERATING REVENUES						
Sewer service charges	\$ 972,095	\$ 956,696	\$ (15,399)	\$ 251,950	\$ 258,149	\$ 6,199
Sewer connection charges	1,240,000	-	(1,240,000)	48,000	46,950	(1,050)
Residential benefit charges	-	-	-	-	-	-
Wind/solar renewable energy	-	-	-	-	-	-
Miscellaneous	-	3,849	3,849	-	221	221
Total operating revenues	2,212,095	960,545	(1,251,550)	299,950	305,320	5,370
OPERATING EXPENSES						
Salaries and related expenses	366,019	378,964	(12,945)	82,044	82,297	(253)
Professional fees	100	380	(280)	150	190	(40)
Office	5,100	7,274	(2,174)	1,600	2,189	(589)
Insurance	12,500	9,380	3,120	1,600	747	853
Contracted services	103,000	238,429	(135,429)	46,200	64,464	(18,264)
Repairs and maintenance	78,800	202,218	(123,418)	25,100	30,316	(5,216)
Other operating	20,500	42,232	(21,732)	3,800	8,063	(4,263)
Total operating expenses	586,019	878,877	(292,858)	160,494	188,266	(27,772)
Operating income (loss) before depreciation	1,626,076	81,668	(1,544,408)	139,456	117,054	(22,402)
Depreciation	1,115,681	620,706	494,975	16,456	145,360	(128,904)
Net operating income (loss)	510,395	(539,038)	(1,049,433)	123,000	(28,306)	(151,306)
NON-OPERATING REVENUES (EXPENSES)						
Intergovernmental revenues	30,000	30,000	-	33,500	101,121	67,621
Interest income	4,405	3,297	(1,108)	1,500	2,486	986
Interest expense	(42,300)	(19,001)	23,299	(21,000)	(15,401)	5,599
Net non-operating revenues (expenses)	(7,895)	14,296	22,191	14,000	88,206	74,206
Change in net position	\$ 502,500	\$ (524,742)	\$ (1,027,242)	\$ 137,000	\$ 59,900	\$ (77,100)
OTHER BUDGETED EXPENSES						
Debt service	\$ (415,000)			\$ (84,000)		
Capital outlay	(87,500)			(53,000)		
Total other budgeted expenses	(502,500)			(137,000)		
Budgeted net income (loss)	\$ -			\$ -		

Tilghman District			Unionville District		
<u>Revised</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance With</u> <u>Final Budget</u>	<u>Revised</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance With</u> <u>Final Budget</u>
\$ 228,500	\$ 228,602	\$ 102	\$ 108,200	\$ 108,593	\$ 393
7,450	2,980	(4,470)	12,000	-	(12,000)
24,000	23,878	(122)	-	-	-
-	-	-	-	-	-
5,000	361	(4,639)	-	193	193
<u>264,950</u>	<u>255,821</u>	<u>(9,129)</u>	<u>120,200</u>	<u>108,786</u>	<u>(11,414)</u>
134,485	134,072	413	36,260	35,701	559
50	78	(28)	100	66	34
2,500	3,558	(1,058)	1,050	1,332	(282)
3,200	1,285	1,915	850	292	558
41,500	73,533	(32,033)	21,600	26,620	(5,020)
39,400	54,558	(15,158)	6,300	21,036	(14,736)
-	180	(180)	1,400	2,684	(1,284)
<u>221,135</u>	<u>267,264</u>	<u>(46,129)</u>	<u>67,560</u>	<u>87,731</u>	<u>(20,171)</u>
43,815	(11,443)	(55,258)	52,640	21,055	(31,585)
6,615	154,323	(147,708)	6,890	139,183	(132,293)
<u>37,200</u>	<u>(165,766)</u>	<u>(202,966)</u>	<u>45,750</u>	<u>(118,128)</u>	<u>(163,878)</u>
-	-	-	-	-	-
3,000	1,271	(1,729)	1,800	714	(1,086)
(5,200)	(2,080)	3,120	(9,050)	(6,787)	2,263
<u>(2,200)</u>	<u>(809)</u>	<u>1,391</u>	<u>(7,250)</u>	<u>(6,073)</u>	<u>1,177</u>
<u>\$ 35,000</u>	<u>\$ (166,575)</u>	<u>\$ (201,575)</u>	<u>\$ 38,500</u>	<u>\$ (124,201)</u>	<u>\$ (162,701)</u>
\$ (30,000)			\$ (36,000)		
<u>(5,000)</u>			<u>(2,500)</u>		
<u>(35,000)</u>			<u>(38,500)</u>		
<u>\$ -</u>			<u>\$ -</u>		

TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
ENTERPRISE FUND - SANITARY DISTRICT
For the Year Ended June 30, 2016 (Continued)

	<u>Bio-solids Utilization Facility</u>			<u>Onsite Sewage Disposal</u>		
	<u>Revised Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>	<u>Revised Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
OPERATING REVENUES						
Sewer service charges	\$ 260,000	\$ 316,384	\$ 56,384	\$ -	\$ -	\$ -
Sewer connection charges	-	-	-	-	-	-
Residential benefit charges	-	-	-	-	-	-
Wind/solar renewable energy	125,000	57,578	(67,422)	-	-	-
Miscellaneous	-	372	372	36,600	-	(36,600)
Total operating revenues	385,000	374,334	(10,666)	36,600	-	(36,600)
OPERATING EXPENSES						
Salaries and related expenses	134,490	135,993	(1,503)	51,951	44,976	6,975
Professional fees	1,100	-	1,100	200	-	200
Office	2,300	1,387	913	150	-	150
Insurance	8,600	6,279	2,321	-	-	-
Contracted services	76,800	76,047	753	827,500	619,099	208,401
Repairs and maintenance	14,250	38,760	(24,510)	-	-	-
Other operating	3,000	150	2,850	-	24,600	(24,600)
Total operating expenses	240,540	258,616	(18,076)	879,801	688,675	191,126
Operating income (loss) before depreciation	144,460	115,718	(28,742)	(843,201)	(688,675)	154,526
Depreciation	64,460	209,693	(145,233)	36,799	-	36,799
Net operating income (loss)	80,000	(93,975)	(173,975)	(880,000)	(688,675)	191,325
NON-OPERATING REVENUES (EXPENSES)						
Intergovernmental revenues	-	-	-	880,000	605,254	(274,746)
Interest income	-	627	627	-	-	-
Interest expense	(75,000)	(6,202)	68,798	-	-	-
Net non-operating revenues (expenses)	(75,000)	(5,575)	69,425	880,000	605,254	(274,746)
Change in net position	\$ 5,000	\$ (99,550)	\$ (104,550)	\$ -	\$ (83,421)	\$ (83,421)
OTHER BUDGETED EXPENSES						
Debt service	\$ -			\$ -		
Capital outlay	(5,000)			-		
Total other budgeted expenses	(5,000)			-		
Budgeted net income (loss)	\$ -			\$ -		

<u>Martingham District</u>			<u>Combined Totals</u>		
<u>Revised</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance With</u> <u>Final Budget</u>	<u>Revised</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance With</u> <u>Final Budget</u>
\$ 198,240	\$ 199,095	\$ 855	\$ 2,018,985	\$ 2,067,519	\$ 48,534
-	-	-	1,307,450	49,930	(1,257,520)
-	-	-	24,000	23,878	(122)
-	-	-	125,000	57,578	(67,422)
20	45	25	41,620	5,041	(36,579)
<u>198,260</u>	<u>199,140</u>	<u>880</u>	<u>3,517,055</u>	<u>2,203,946</u>	<u>(1,313,109)</u>
55,009	54,811	198	860,258	866,814	(6,556)
400	4,047	(3,647)	2,100	4,761	(2,661)
2,200	1,819	381	14,900	17,559	(2,659)
200	166	34	26,950	18,149	8,801
32,350	46,707	(14,357)	1,148,950	1,144,899	4,051
18,300	58,674	(40,374)	182,150	405,562	(223,412)
2,700	2,709	(9)	31,400	80,618	(49,218)
<u>111,159</u>	<u>168,933</u>	<u>(57,774)</u>	<u>2,266,708</u>	<u>2,538,362</u>	<u>(271,654)</u>
87,101	30,207	(56,894)	1,250,347	(334,416)	(1,584,763)
58,176	4,949	53,227	1,305,077	1,274,214	30,863
<u>28,925</u>	<u>25,258</u>	<u>(3,667)</u>	<u>(54,730)</u>	<u>(1,608,630)</u>	<u>(1,553,900)</u>
-	-	-	943,500	736,375	(207,125)
75	-	(75)	10,780	8,395	(2,385)
(24,000)	(21,695)	2,305	(176,550)	(71,166)	105,384
<u>(23,925)</u>	<u>(21,695)</u>	<u>2,230</u>	<u>777,730</u>	<u>673,604</u>	<u>(104,126)</u>
<u>\$ 5,000</u>	<u>\$ 3,563</u>	<u>\$ (1,437)</u>	<u>\$ 723,000</u>	<u>\$ (935,026)</u>	<u>\$ (1,658,026)</u>
\$ -			\$ (565,000)		
(5,000)			(158,000)		
<u>(5,000)</u>			<u>(723,000)</u>		
<u>\$ -</u>			<u>\$ -</u>		

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL**

ENTERPRISE FUND - EASTON AIRPORT

For the Year Ended June 30, 2016

	Revised <u>Final Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
OPERATING REVENUES			
Charges - operations	\$ 324,411	\$ 327,479	\$ 3,068
Charges - fuel facility	2,014,800	1,563,120	(451,680)
Charges - hangars	578,600	582,725	4,125
Other operating	13,500	54,439	40,939
Total operating revenues	2,931,311	2,527,763	(403,548)
OPERATING EXPENSES			
Salaries and related expenses	352,470	351,538	932
Cost of sales - fuel	1,691,866	1,393,452	298,414
Professional fees	30,000	1,400	28,600
Office	21,200	20,710	490
Insurance	16,000	22,433	(6,433)
Repairs and maintenance	103,750	120,640	(16,890)
Utilities	54,800	48,449	6,351
Supplies and equipment	350	103	247
Other operating	11,725	28,951	(17,226)
Total operating expenses	2,282,161	1,987,676	294,485
Operating income (loss) before depreciation	649,150	540,087	(109,063)
Depreciation	288,435	1,994,159	(1,705,724)
Net operating income (loss)	360,715	(1,454,072)	(1,814,787)
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental revenues	-	344,721	344,721
Loss on sale of asset	-	(295,931)	(295,931)
Interest income	750	1,551	801
Interest expense	(49,665)	(40,519)	9,146
Net non-operating revenues (expenses)	(48,915)	9,822	58,737
Change in net position	\$ 311,800	\$ (1,444,250)	\$ (1,756,050)
OTHER BUDGETED EXPENSES			
Debt service	\$ (197,200)		
Capital outlay	(114,600)		
Total other budgeted expenses	(311,800)		
Budgeted net income (loss)	\$ -		

TALBOT COUNTY, MARYLAND
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2016

	Special Revenue Funds		
	Developmental Impact	Talbot Family Network	Total Other Governmental Funds
ASSETS			
Cash and short-term investments	\$ 1,129,589	\$ 30,017	\$ 1,159,606
Cash and short-term investments - earned reinvestment	-	95,943	95,943
Receivables:			
Accounts receivable	-	2,262	2,262
Total Assets	\$ 1,129,589	\$ 128,222	\$ 1,257,811
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ 26,258	\$ 26,258
Unearned revenue	-	6,021	6,021
Total Liabilities	-	32,279	32,279
FUND BALANCES			
Restricted for: Social Services	-	95,943	95,943
Committed for: Capital Projects	883,589	-	883,589
Assigned for: Future Budget	246,000	-	246,000
Total Fund Balances	1,129,589	95,943	1,225,532
Total Liabilities and Fund Balances	\$ 1,129,589	\$ 128,222	\$ 1,257,811

TALBOT COUNTY, MARYLAND

**COMBINING SCHEDULE OF REVENUES AND EXPENDITURES
OTHER GOVERNMENTAL FUNDS
Year Ended June 30, 2016**

	Special Revenue Funds		
	Developmental <u>Impact</u>	Talbot Family <u>Network</u>	Total Other Governmental <u>Funds</u>
REVENUES			
Intergovernmental			
State	\$ -	\$ 357,380	\$ 357,380
Licenses and permits	449,689	-	449,689
Interest	3,183	144	3,327
Total revenues	452,872	357,524	810,396
EXPENDITURES			
Social services	-	355,977	355,977
Total Expenditures	-	355,977	355,977
Excess of Revenues Over Expenditures	452,872	1,547	454,419
OTHER FINANCING SOURCES (USES)			
Transfers out to other funds:			
Capital projects fund	(172,000)	-	(172,000)
General fund	(212,250)	-	(212,250)
Recreation fund	(53,700)	-	(53,700)
Total Other Financing Sources (Uses)	(437,950)	-	(437,950)
Net change in fund balances	14,922	1,547	16,469
Fund balances at beginning of year	1,114,667	94,396	1,209,063
Fund balances at end of year	\$ 1,129,589	\$ 95,943	\$ 1,225,532

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES AND EXPENDITURES -
AS REQUIRED BY THE GOC FOR LMB OFFICES
ON BEHALF OF THE CHILDREN'S CABINET
Year Ended June 30, 2016**

REVENUES

Intergovernmental:		
Community partnership	\$	330,978
Planning grant		25,000
Reinvestment		1,402
Interest		144
<hr/>		
Total revenues		357,524

EXPENDITURES

Social services		
Community partnership programs:		
After school program		59,319
Healthy families		81,912
Voluntary family services		42,255
Kids on the block		10,000
Local access and family navigators		50,100
Obesity prevention		12,794
Substance abuse		10,000
<hr/>		
Total Community partnership programs		266,380
<hr/>		
Non-community partnership programs:		
Administration		64,597
Planning grant		25,000
<hr/>		
Total non-community partnership programs		89,597
<hr/>		
Total Expenditures		355,977
<hr/>		
Net change in fund balances	\$	1,547

TALBOT COUNTY, MARYLAND
NOTES TO OTHER SUPPLEMENTARY INFORMATION

Note 1. Budgetary Basis

Other supplementary information includes financial statements and schedules that are not required by the Governmental Accounting Standards Board nor are they considered part of the basic financial statements. Such information is included for purposes of additional analysis. The budgetary information contained in this section is prepared and adopted on a basis consistent with generally accepted accounting principles. Such statements and schedules include:

Budgetary Comparison Schedules:

- Capital Projects Fund
- Developmental Impact Fund
- Talbot Family Network
- Recreation Facilities
- Sanitary District
- Easton Airport

Combining Balance Sheet - Other Governmental Funds

Combining Schedule of Revenues and Expenditures - Other Governmental Funds

Schedule of Revenues and Expenditures - as Required by the GOC for LMB

- Offices on Behalf of the Children's Cabinet

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STATISTICAL SECTION

The Statistical Section presents detailed information as a context for understanding what the information in the preceding sections says about the County's overall financial health. They differ from financial statements in that they usually cover more than one year and may present non-accounting data. For this reason, they are unaudited.

Schedules 1-4 reflect **financial trends** data to help the reader understand how the County's financial performance and well-being have changed over time.

Schedules 5-11 reflect **revenue capacity** and help the reader assess the County's most significant local revenue sources.

Schedules 12-15 reflect **debt capacity** and help the reader to assess the affordability of the County's current level of outstanding debt and the County's ability to issue additional debt in the future.

Schedules 16-17 offer **demographic and economic information** to help the reader understand the environment within which the County's financial activities take place.

Schedules 18-20 contain **operating information** to help the reader understand how the information in the County's financial report relates to the services the County provides.

Unless otherwise noted, the source for all data presented is the Talbot County Finance Department.

Schedule 1
Talbot County, Maryland
Net Position by Component
(accrual basis of accounting)

	Fiscal Year									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014*</u>	<u>2015</u>	<u>2016</u>
Governmental activities										
Net investment in capital assets	\$ 43,541,925	\$ 50,706,906	\$ 60,070,294	\$ 75,347,678	\$ 77,628,434	\$ 78,931,013	\$ 80,387,586	\$ 80,625,199	\$ 80,132,665	\$ 78,908,012
Restricted					547,778	287,350	144,869	94,239	94,396	95,943
Unrestricted	<u>53,678,457</u>	<u>48,711,869</u>	<u>40,028,210</u>	<u>14,736,372</u>	<u>1,031,005</u>	<u>(2,611,189)</u>	<u>523,202</u>	<u>(3,752,306)</u>	<u>2,973,933</u>	<u>7,325,290</u>
Total governmental activities net position	\$ 97,220,382	\$ 99,418,775	\$ 100,098,504	\$ 90,084,050	\$ 79,207,217	\$ 76,607,174	\$ 81,055,657	\$ 76,967,132	\$ 83,200,994	\$ 86,329,245
Business-type activities										
Net investment in capital assets	\$ 40,239,226	\$ 51,317,665	\$ 53,100,037	\$ 54,672,754	\$ 57,872,067	\$ 55,881,195	\$ 54,021,693	\$ 51,985,231	\$ 52,050,922	\$ 49,231,203
Unrestricted	<u>1,819,349</u>	<u>940,871</u>	<u>(2,028,817)</u>	<u>(399,540)</u>	<u>(310,795)</u>	<u>152,157</u>	<u>(140,916)</u>	<u>(101,952)</u>	<u>(521,710)</u>	<u>(434,743)</u>
Total business-type activities net position	\$ 42,058,575	\$ 52,258,536	\$ 51,071,220	\$ 54,273,214	\$ 57,561,272	\$ 56,033,352	\$ 53,880,777	\$ 51,883,279	\$ 51,529,212	\$ 48,796,460
Primary government										
Net investment in capital assets	\$ 83,781,151	\$ 102,024,571	\$ 113,170,331	\$ 130,020,432	\$ 135,500,501	\$ 134,812,208	\$ 134,409,279	\$ 132,610,430	\$ 132,183,587	\$ 128,139,215
Restricted					547,778	287,350	144,869	94,239	94,396	95,943
Unrestricted	<u>55,497,806</u>	<u>49,652,740</u>	<u>37,999,393</u>	<u>14,336,832</u>	<u>720,210</u>	<u>(2,459,032)</u>	<u>382,286</u>	<u>(3,854,258)</u>	<u>2,452,223</u>	<u>6,890,547</u>
Total primary government net position	\$ <u>139,278,957</u>	\$ <u>151,677,311</u>	\$ <u>151,169,724</u>	\$ <u>144,357,264</u>	\$ <u>136,768,489</u>	\$ <u>132,640,526</u>	\$ <u>134,936,434</u>	\$ <u>128,850,411</u>	\$ <u>134,730,206</u>	\$ <u>135,125,705</u>

* FY 2014 net position was restated due to the implementation of Governmental Accounting Standards Board's Statement No. 68 *Accounting and Financial Reporting for Pensions*.

Schedule 2
Talbot County, Maryland
Changes in Net Position
(accrual basis of accounting)

	Fiscal Year									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Expenses										
Governmental activities:										
General government	\$ 5,447,411	\$ 8,476,977	\$ 10,151,451	\$ 9,518,269	\$ 10,183,649	\$ 9,523,067	\$ 9,358,236	\$ 9,551,119	\$ 10,360,176	\$ 11,224,921
Public safety	11,161,287	12,911,154	13,731,318	13,185,294	13,657,735	12,854,721	14,018,219	16,071,849	14,798,173	15,364,473
Public works	4,637,883	4,085,559	4,831,967	4,249,569	4,334,793	4,601,524	4,509,239	3,788,820	5,919,975	6,550,228
Health and hospitals	1,880,034	1,964,816	2,338,752	2,410,440	3,120,074	3,576,751	3,829,281	4,099,374	4,394,559	2,550,428
Social services	1,402,948	1,404,799	1,484,690	1,499,755	1,224,920	1,147,850	838,625	857,752	936,371	1,821,647
Education	39,858,261	45,950,955	46,271,163	39,811,132	39,715,193	37,597,612	38,491,514	41,640,092	39,518,549	41,025,371
Recreation	2,577,757	894,668	885,695	864,772	748,414	738,616	642,770	632,538	541,540	734,248
Conservation of natural resources	295,659	274,430	302,516	269,891	255,489	226,264	218,361	252,375	242,700	252,228
Interest on long-term debt	100,461	86,132	71,418	55,936	23,388	15,904	14,456	13,439	173,141	212,886
Total governmental activities expenses	<u>67,361,701</u>	<u>76,049,490</u>	<u>80,068,970</u>	<u>71,865,058</u>	<u>73,263,655</u>	<u>70,282,309</u>	<u>71,920,701</u>	<u>76,907,358</u>	<u>76,885,184</u>	<u>79,736,430</u>
Business-type activities:										
Recreation facilities	3,217,842	3,825,521	3,258,076	2,958,425	3,162,507	2,582,398	2,624,390	2,652,143	2,647,744	2,676,732
Sanitary district	1,649,537	2,910,842	3,396,151	2,759,881	2,952,404	3,353,238	3,354,872	3,430,264	3,710,861	3,883,742
Airport	3,468,909	4,089,080	4,280,559	3,855,297	4,712,248	4,655,128	4,903,460	4,837,671	4,464,150	4,312,785
Pool	343,182	397,365	397,202	329,445	267,306	233,239	257,766	215,301	249,430	-
Total business-type activities expenses	<u>8,679,470</u>	<u>11,222,808</u>	<u>11,331,988</u>	<u>9,903,048</u>	<u>11,094,465</u>	<u>10,824,003</u>	<u>11,140,488</u>	<u>11,135,379</u>	<u>11,072,185</u>	<u>10,873,259</u>
Total primary government expenses	<u>\$ 76,041,171</u>	<u>\$ 87,272,298</u>	<u>\$ 91,400,958</u>	<u>\$ 81,768,106</u>	<u>\$ 84,358,120</u>	<u>\$ 81,106,312</u>	<u>\$ 83,061,189</u>	<u>\$ 88,042,737</u>	<u>\$ 87,957,369</u>	<u>\$ 90,609,689</u>
Program Revenues										
Governmental activities:										
Charges for services										
General government	\$ 2,294,954	\$ 2,298,674	\$ 2,239,048	\$ 2,083,519	\$ 2,133,251	\$ 2,392,795	\$ 2,400,453	\$ 2,384,760	\$ 2,569,426	\$ 2,459,286
Public safety	568,421	565,415	487,375	318,213	465,453	213,574	111,437	17,709	26,450	40,161
Public works	1,089,966	321,330	233,621	152,197	30,693	162,353	30,938	228,548	416,507	262,496
Health and hospitals	63,159	75,854	89,123	89,939	70,199	118,979	130,705	133,248	115,961	110,303
Education	532,531	292,956	189,303	267,153	112,872	115,776	80,295	151,045	99,143	105,745
Recreation	135,440	124,690	133,934	144,521	75,602	101,816	102,867	99,968	97,455	183,097
Operating/Capital grants and contributions	<u>10,045,423</u>	<u>10,108,796</u>	<u>9,192,985</u>	<u>3,134,627</u>	<u>5,877,037</u>	<u>6,067,814</u>	<u>8,217,559</u>	<u>5,640,620</u>	<u>5,813,482</u>	<u>5,392,962</u>
Total governmental activities program revenues	<u>14,729,894</u>	<u>13,787,715</u>	<u>12,565,389</u>	<u>6,190,169</u>	<u>8,765,107</u>	<u>9,173,107</u>	<u>11,074,254</u>	<u>8,655,898</u>	<u>9,138,424</u>	<u>8,554,050</u>

	Fiscal Year									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Program Revenues (continued)										
Business-type activities:										
Charges for services										
Recreation facilities	1,698,087	1,726,905	1,475,498	1,446,815	1,473,218	1,637,646	1,490,032	1,417,840	1,445,070	1,845,663
Sanitary district	1,151,340	1,803,762	2,100,885	2,045,673	2,103,019	2,318,164	2,166,256	2,328,288	2,440,190	2,203,946
Easton airport	2,824,353	3,075,162	2,898,388	2,519,061	3,015,851	3,397,868	3,216,518	3,351,214	2,992,658	2,527,763
Pool	87,769	79,302	77,082	87,317	113,324	133,023	116,353	109,084	108,506	-
Operating/Capital grants and contributions	6,416,909	7,269,502	2,297,603	5,282,059	6,431,135	1,219,494	1,453,759	1,315,605	3,098,649	1,223,632
Total business-type activities program revenues	<u>12,178,458</u>	<u>13,954,633</u>	<u>8,849,456</u>	<u>11,380,925</u>	<u>13,136,547</u>	<u>8,706,195</u>	<u>8,442,918</u>	<u>8,522,031</u>	<u>10,085,073</u>	<u>7,801,004</u>
Total primary government program revenues	<u>\$ 26,908,352</u>	<u>\$ 27,742,348</u>	<u>\$ 21,414,845</u>	<u>\$ 17,571,094</u>	<u>\$ 21,901,654</u>	<u>\$ 17,879,302</u>	<u>\$ 19,517,172</u>	<u>\$ 17,177,929</u>	<u>\$ 19,223,497</u>	<u>\$ 16,355,054</u>
Net (Expense)/Revenue										
Governmental activities	\$ (52,631,807)	\$ (62,261,775)	\$ (67,503,581)	\$ (65,674,889)	\$ (64,498,548)	\$ (61,109,202)	\$ (60,846,447)	\$ (68,251,460)	\$ (67,746,760)	\$ (71,182,380)
Business-type activities	<u>3,498,988</u>	<u>2,731,825</u>	<u>(2,482,532)</u>	<u>1,477,877</u>	<u>2,042,082</u>	<u>(2,117,808)</u>	<u>(2,697,570)</u>	<u>(2,613,348)</u>	<u>(987,112)</u>	<u>(3,072,255)</u>
Total primary government net expense	<u>\$ (49,132,819)</u>	<u>\$ (59,529,950)</u>	<u>\$ (69,986,113)</u>	<u>\$ (64,197,012)</u>	<u>\$ (62,456,466)</u>	<u>\$ (63,227,010)</u>	<u>\$ (63,544,017)</u>	<u>\$ (70,864,808)</u>	<u>\$ (68,733,872)</u>	<u>\$ (74,254,635)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Property taxes	\$ 25,051,218	\$ 26,371,828	\$ 27,436,368	\$ 28,324,937	\$ 29,154,652	\$ 30,002,020	\$ 32,741,855	\$ 33,660,872	\$ 34,726,851	\$ 35,280,376
Local income tax	28,794,974	31,626,307	31,635,555	19,260,503	18,551,894	20,269,343	23,140,754	27,108,102	28,562,934	26,568,636
Other local taxes	12,002,501	9,949,967	7,097,837	6,831,278	6,792,369	8,449,480	9,727,044	9,522,629	10,706,846	11,340,994
Interest	3,049,507	3,405,782	2,470,720	980,562	221,952	166,317	105,007	94,004	91,344	132,640
Miscellaneous	622,980	456,406	739,625	1,927,226	136,104	197,427	115,471	2,306,687	514,997	1,317,542
Transfers in (out)	<u>(1,563,108)</u>	<u>(7,350,122)</u>	<u>(1,196,795)</u>	<u>(1,664,071)</u>	<u>(1,235,256)</u>	<u>(575,428)</u>	<u>(535,201)</u>	<u>(598,850)</u>	<u>(622,350)</u>	<u>(329,557)</u>
Total governmental activities	<u>67,958,072</u>	<u>64,460,168</u>	<u>68,183,310</u>	<u>55,660,435</u>	<u>53,621,715</u>	<u>58,509,159</u>	<u>65,294,930</u>	<u>72,093,444</u>	<u>73,980,622</u>	<u>74,310,631</u>
Business-type activities:										
Interest	139,807	115,854	98,421	60,046	10,720	14,460	7,333	6,500	6,195	9,946
Miscellaneous	(2,740)	2,160	-	-	-	-	2,461	10,500	4,500	-
Transfers in (out)	<u>1,563,108</u>	<u>7,350,122</u>	<u>1,196,795</u>	<u>1,664,071</u>	<u>1,235,256</u>	<u>575,428</u>	<u>535,201</u>	<u>598,850</u>	<u>622,350</u>	<u>329,557</u>
Total business-type activities	<u>1,700,175</u>	<u>7,468,136</u>	<u>1,295,216</u>	<u>1,724,117</u>	<u>1,245,976</u>	<u>589,888</u>	<u>544,995</u>	<u>615,850</u>	<u>633,045</u>	<u>339,503</u>
Total primary government	<u>\$ 69,658,247</u>	<u>\$ 71,928,304</u>	<u>\$ 69,478,526</u>	<u>\$ 57,384,552</u>	<u>\$ 54,867,691</u>	<u>\$ 59,099,047</u>	<u>\$ 65,839,925</u>	<u>\$ 72,709,294</u>	<u>\$ 74,613,667</u>	<u>\$ 74,650,134</u>
Prior Period Restatement*	<u>\$ -</u>	<u>\$ (7,930,509)</u>	<u>\$ -</u>	<u>\$ -</u>						
Change in Net Position										
Governmental activities	\$ 15,326,265	\$ 2,198,393	\$ 679,729	\$ (10,014,454)	\$ (10,876,833)	\$ (2,600,043)	\$ 4,448,483	\$ (4,088,525)	\$ 6,233,862	\$ 3,128,251
Business-type activities	<u>5,199,163</u>	<u>10,199,961</u>	<u>(1,187,316)</u>	<u>3,201,994</u>	<u>3,288,058</u>	<u>(1,527,920)</u>	<u>(2,152,575)</u>	<u>(1,997,498)</u>	<u>(354,067)</u>	<u>(2,732,752)</u>
Total primary government	<u>\$ 20,525,428</u>	<u>\$ 12,398,354</u>	<u>\$ (507,587)</u>	<u>\$ (6,812,460)</u>	<u>\$ (7,588,775)</u>	<u>\$ (4,127,963)</u>	<u>\$ 2,295,908</u>	<u>\$ (6,086,023)</u>	<u>\$ 5,879,795</u>	<u>\$ 395,499</u>

* FY 2014 net position was restated due to the implementation of Governmental Accounting Standards Board's Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Schedule 3
Talbot County, Maryland
Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>	<u>2012*</u>	<u>2013*</u>	<u>2014*</u>	<u>2015*</u>	<u>2016*</u>
General Fund										
Reserved	\$ 2,509,615	\$ 913,869	\$ 966,200	\$ 105,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved										
Designated	15,812,496	15,353,614	17,643,743	15,947,750	-	-	-	-	-	-
Undesignated	23,095,026	25,439,870	22,625,265	16,992,681	-	-	-	-	-	-
Non spendable										
Prepaid	-	-	-	-	56,271	94,005	143,711	74,482	205,551	83,672
Committed	-	-	-	-	7,000,000	-	-	-	-	-
Assigned	-	-	-	-	1,350,000	1,487,600	761,814	-	1,290,000	2,156,000
Unassigned	-	-	-	-	15,517,033	15,305,808	18,617,745	20,772,381	23,744,224	23,322,998
Total General Fund	<u>\$ 41,417,137</u>	<u>\$ 41,707,353</u>	<u>\$ 41,235,208</u>	<u>\$ 33,045,700</u>	<u>\$ 23,923,304</u>	<u>\$ 16,887,413</u>	<u>\$ 19,523,270</u>	<u>\$ 20,846,863</u>	<u>\$ 25,239,775</u>	<u>\$ 25,562,670</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved										
Designated - Capital Fund	7,613,828	32,119,063	22,890,931	20,893,889	-	-	-	-	-	-
Designated - Special Revenue Funds	4,839,284	24,295	2,391,733	2,805,745	-	-	-	-	-	-
Undesignated - Special Revenue Funds	337,033	801,305	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	547,778	287,350	144,869	94,239	94,396	95,943
Committed	-	-	-	-	16,971,966	10,501,167	10,118,592	10,628,689	9,883,203	11,411,980
Assigned	-	-	-	-	1,000,000	1,997,000	910,000	300,000	437,950	246,000
Unassigned	-	-	-	-	-	(1,289)	(1,289)	(1,289)	-	-
Total all other governmental funds	<u>\$ 12,790,145</u>	<u>\$ 32,944,663</u>	<u>\$ 25,282,664</u>	<u>\$ 23,699,634</u>	<u>\$ 18,519,744</u>	<u>\$ 12,784,228</u>	<u>\$ 11,172,172</u>	<u>\$ 11,021,639</u>	<u>\$ 10,415,549</u>	<u>\$ 11,753,923</u>
Total Governmental Funds	<u>\$ 54,207,282</u>	<u>\$ 74,652,016</u>	<u>\$ 66,517,872</u>	<u>\$ 56,745,334</u>	<u>\$ 42,443,048</u>	<u>\$ 29,671,641</u>	<u>\$ 30,695,442</u>	<u>\$ 31,868,502</u>	<u>\$ 35,655,324</u>	<u>\$ 37,316,593</u>

*Prior year amounts have not been restated for the implementation of GASB 54 in FY 2011.

Schedule 4
Talbot County, Maryland
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenues										
Property tax	\$ 25,051,218	\$ 26,371,828	\$ 27,436,368	\$ 28,324,937	\$ 29,154,652	\$ 30,002,020	\$ 32,741,855	\$ 33,660,872	\$ 34,726,851	\$ 35,280,376
Income tax	28,794,974	31,626,307	31,635,555	19,260,503	18,551,894	20,269,343	23,140,754	27,108,102	28,562,934	26,568,636
Other local taxes	12,002,501	9,949,967	7,097,837	6,831,278	6,792,369	8,449,480	9,727,044	9,522,629	10,706,846	11,340,994
Licenses and permits	2,634,811	1,451,225	1,031,899	1,079,221	754,521	921,714	709,104	1,064,650	1,197,384	1,131,327
Intergovernmental:										
Federal	1,166,795	986,313	1,440,141	862,601	3,204,079	3,255,988	2,458,706	2,611,375	2,711,862	1,806,977
State	8,878,628	9,122,483	7,752,844	2,272,026	2,672,958	2,811,826	2,618,853	2,980,645	3,096,220	3,585,985
Contributions/Cost Sharing							1,500,000	-	-	-
Other Grants							6,268	48,600	5,400	-
Service charges	2,035,151	2,220,939	2,336,814	1,967,453	2,129,649	2,178,232	2,135,969	1,939,522	2,124,798	2,026,744
Fines and forfeitures	14,509	6,755	3,691	8,868	3,900	5,347	5,354	11,106	2,760	3,017
Miscellaneous	622,980	456,406	739,625	1,927,226	136,104	197,427	115,471	2,306,687	514,997	1,317,542
Interest Income	3,049,507	3,405,782	2,470,720	980,562	221,952	166,317	105,007	94,004	91,344	132,640
Total revenues	<u>84,251,074</u>	<u>85,598,005</u>	<u>81,945,494</u>	<u>63,514,675</u>	<u>63,622,078</u>	<u>68,257,694</u>	<u>75,264,385</u>	<u>81,348,192</u>	<u>83,741,396</u>	<u>83,194,238</u>
Expenditures										
General Government	5,191,173	5,958,766	12,998,191	5,704,039	8,000,023	8,964,591	5,846,871	6,070,668	6,350,740	7,642,163
Public Safety	9,994,797	11,246,960	11,633,072	11,048,315	11,736,551	10,525,791	12,240,008	13,799,168	20,277,465	17,363,993
Public Works	5,528,800	6,371,000	6,148,333	3,563,248	4,592,005	4,554,963	5,059,652	5,182,051	5,781,264	6,953,835
Debt service interest - Public Works								4,375	4,555	3,618
Debt service principal - Public Works								43,339	47,658	48,610
Health and hospitals	1,872,922	3,963,933	2,331,749	2,404,180	3,113,814	3,570,491	3,823,021	4,093,114	4,416,125	2,544,168
Social services	1,401,182	1,390,590	1,468,953	1,484,019	1,209,401	1,033,099	838,625	857,752	936,371	1,821,647
Education	38,998,222	44,676,973	44,485,803	38,135,444	38,808,462	36,421,420	37,384,195	40,601,847	38,573,503	39,829,829
Debt service interest - Educ	891,193	1,273,144	1,751,927	1,701,468	1,393,224	1,253,516	1,184,643	1,115,569	1,022,369	711,277
Debt service principal - Educ	1,124,548	1,162,079	2,027,389	2,138,863	2,278,475	2,143,416	2,233,937	2,298,447	2,464,368	2,705,900
Recreation	2,992,661	2,497,017	1,279,319	491,376	329,191	286,009	550,994	389,354	490,067	601,223
Conservation of natural resources	295,659	274,430	313,771	269,891	255,489	226,264	218,361	252,375	242,700	252,228
Employee Benefits	2,748,331	2,644,213	2,926,325	3,116,961	3,460,899	10,461,176	3,247,384	5,695,880	4,038,964	1,695,449
Miscellaneous	94,132	233,696	122,362	130,043	216,666	77,239	95,150	79,206	101,568	74,127
Intergovernmental	860,102	860,442	750,180	722,861	761,613	820,446	822,434	874,438	1,068,923	948,472
Debt service interest	100,461	86,132	71,418	55,936	23,388	15,904	14,456	13,439	173,141	212,886
Debt service principal	318,022	333,097	345,390	363,245	381,392	59,651	48,355	48,645	50,680	799,855
Debt issuance costs	-	-	-	-	-	-	-	-	-	124,648
Contingencies	135,445	157,807	228,661	306,253	440,569	39,697	97,297	214,355	41,972	81,219
Total expenditures	<u>72,547,650</u>	<u>83,130,279</u>	<u>88,882,843</u>	<u>71,636,142</u>	<u>77,001,162</u>	<u>80,453,673</u>	<u>73,705,383</u>	<u>81,634,022</u>	<u>86,082,433</u>	<u>84,415,147</u>
Excess of revenues over (under) expenditures	<u>11,703,424</u>	<u>2,467,726</u>	<u>(6,937,349)</u>	<u>(8,121,467)</u>	<u>(13,379,084)</u>	<u>(12,195,979)</u>	<u>1,559,002</u>	<u>(285,830)</u>	<u>(2,341,037)</u>	<u>(1,220,909)</u>
Other Financing Sources (Uses)										
Proceeds from long-term debt	-	25,020,000	-	13,000	12,281,271	-	-	2,057,740	6,750,209	15,243,760
Payment to refunded debt escrow agent	-	-	-	-	(12,650,858)	-	-	-	-	(16,410,830)
Bond premium	-	307,130	-	-	681,641	-	-	-	-	1,327,418
Proceeds from Sale of Land	-	-	-	-	-	-	-	-	-	3,510,650
Transfers in (out)										
Pools	(148,960)	(152,776)	(144,014)	(79,561)	(164,281)	(100,216)	(142,231)	(113,850)	(107,950)	(191,030)
Recreation	(1,414,148)	(7,197,346)	(1,052,781)	(1,584,510)	(1,070,975)	(475,212)	(392,970)	(485,000)	(514,400)	(597,790)
Total other financing sources (uses)	<u>(1,563,108)</u>	<u>17,977,008</u>	<u>(1,196,795)</u>	<u>(1,651,071)</u>	<u>(923,202)</u>	<u>(575,428)</u>	<u>(535,201)</u>	<u>1,458,890</u>	<u>6,127,859</u>	<u>2,882,178</u>
Net change in fund balances	\$ 10,140,316	\$ 20,444,734	\$ (8,134,144)	\$ (9,772,538)	\$ (14,302,286)	\$ (12,771,407)	\$ 1,023,801	\$ 1,173,060	\$ 3,786,822	\$ 1,661,269

Schedule 5
Talbot County, Maryland
Debt Service as a Percentage of Non Capital Expenditures
Last Ten Fiscal Years

	Fiscal Year									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total expenditures	72,547,650	83,130,279	88,882,843	71,636,142	77,001,162	80,453,673	73,705,383	81,634,022	86,082,433	84,415,147
Less Capital Outlay Expenditures	<u>6,447,135</u>	<u>8,684,330</u>	<u>11,186,721</u>	<u>2,281,158</u>	<u>5,990,743</u>	<u>4,978,811</u>	<u>3,716,763</u>	<u>3,862,623</u>	<u>10,214,790</u>	<u>4,676,266</u>
Non-Capital Expenditures	66,100,515	74,445,949	77,696,122	69,354,984	71,010,419	75,474,862	69,988,620	77,771,399	75,867,643	79,738,881
Debt Service Expenditures*										
Principal	1,442,570	1,495,176	2,372,779	2,502,108	2,659,867	2,203,067	2,282,292	2,390,431	2,562,706	3,554,365
Interest	<u>991,654</u>	<u>1,359,276</u>	<u>1,823,345</u>	<u>1,757,404</u>	<u>1,416,612</u>	<u>1,269,420</u>	<u>1,199,099</u>	<u>1,133,383</u>	<u>1,200,065</u>	<u>927,781</u>
Total Debt Service Expenditures	2,434,224	2,854,452	4,196,124	4,259,512	4,076,479	3,472,487	3,481,391	3,523,814	3,762,771	4,482,146
Debt service as a percentage of Non-capital expenditures	3.68%	3.83%	5.40%	6.14%	5.74%	4.60%	4.97%	4.53%	4.96%	5.62%

* Note - Debt Service Expenditures include Debt Service in Public Works, Education and Debt Service categories of expenditures. See Schedule 4 for Debt Service detail by function.

Schedule 6
Talbot County, Maryland
Assessed Value and Actual Value of Taxable Property,
Last Ten Fiscal Years

Fiscal Year	Real Property ^a				Public Utility Personal Property ^b			Total Estimated Market Value
	Assessed Value	Estimated Market Value	Tax Rate ^c	Weighted Average Tax Rate ^d	Assessed Value	Estimated Market Value	Tax Rate ^c	
2016	\$ 8,354,090,629	\$ 8,354,090,629	\$ 0.536	\$ 0.488	\$ 63,153,192	\$ 63,153,192	\$ 1.340	\$ 8,417,243,821
2015	8,494,000,738	8,494,000,738	0.527	0.481	62,229,920	62,229,920	1.318	8,556,230,658
2014	8,812,185,090	8,812,185,090	0.512	0.466	56,604,950	56,604,950	1.280	8,868,790,040
2013	9,278,557,414	9,278,557,414	0.491	0.447	59,473,730	59,473,730	1.228	9,338,031,144
2012	9,710,928,300	9,710,928,300	0.448	0.405	59,151,090	59,151,090	1.120	9,770,079,390
2011	10,093,360,351	10,093,360,351	0.432	0.389	58,123,220	58,123,220	1.080	10,151,483,571
2010	10,076,574,525	10,076,574,525	0.432	0.389	56,285,760	56,285,760	1.080	10,132,860,285
2009	9,079,721,565	9,079,721,565	0.449	0.407	54,920,220	54,920,220	1.123	9,134,641,785
2008	7,849,685,172	7,849,685,172	0.475	0.434	54,664,610	54,664,610	1.188	7,904,349,782
2007	6,664,737,183	6,664,737,183	0.500	0.464	55,889,230	55,889,230	1.250	6,720,626,413

Source: State of Maryland, Department of Assessments and Taxation

Notes:

^a Real Property is reassessed every three years. Real Property is assessed at market value.

^b Public Utility Personal Property is assessed at market value.

^c Per \$100 of value. Direct tax rate for properties located in the unincorporated areas of the County

^d Per \$100 of value. Weighted Average tax rate for all properties in the County.

Schedule 7
Talbot County, Maryland
Direct and Overlapping Property Tax Rates,
Last Ten Years
(rate per \$100 of assessed value)

Fiscal Year Ending June 30	-----Talbot County Direct Real Property Tax Rate-----							-----Overlapping Real Property Tax Rates-----					-----Total-----					
	Unincorporated Area of County	Easton	Oxford	Queen Anne	St. Michaels	Trappe	Weighted Average Tax Rate	Easton	Oxford	Queen Anne	St. Michaels	Trappe	Unincorporated Area of County	Easton	Oxford	Queen Anne	St. Michaels	Trappe
2016	\$ 0.536	0.403	0.419	0.475	0.409	0.438	0.488	0.520	0.2952	0.180	0.450	0.290	\$ 0.536	0.923	0.7142	0.655	0.859	0.728
2015	\$ 0.527	0.395	0.410	0.466	0.400	0.430	0.481	0.520	0.2783	0.180	0.450	0.290	\$ 0.527	0.915	0.6883	0.646	0.850	0.720
2014	\$ 0.512	0.380	0.396	0.452	0.386	0.425	0.466	0.520	0.2438	0.180	0.450	0.290	\$ 0.512	0.900	0.6398	0.632	0.836	0.715
2013	\$ 0.491	0.361	0.377	0.433	0.367	0.406	0.447	0.520	0.2438	0.180	0.520	0.290	\$ 0.491	0.881	0.6208	0.613	0.887	0.696
2012	\$ 0.448	0.319	0.335	0.391	0.325	0.364	0.405	0.520	0.220	0.180	0.580	0.290	\$ 0.448	0.839	0.5550	0.571	0.905	0.654
2011	\$ 0.432	0.302	0.318	0.374	0.308	0.347	0.389	0.520	0.2306	0.180	0.640	0.290	\$ 0.432	0.822	0.5486	0.554	0.948	0.637
2010	\$ 0.432	0.303	0.319	0.375	0.309	0.348	0.389	0.520	0.2438	0.180	0.640	0.300	\$ 0.432	0.823	0.5628	0.555	0.949	0.648
2009	\$ 0.449	0.321	0.337	0.393	0.327	0.368	0.407	0.520	0.256	0.180	0.640	0.300	\$ 0.449	0.841	0.5930	0.573	0.967	0.668
2008	\$ 0.475	0.349	0.365	0.420	0.355	0.395	0.434	0.520	0.280	0.180	0.640	0.300	\$ 0.475	0.869	0.6450	0.600	0.995	0.695
2007	\$ 0.500	0.385	0.400	0.450	0.390	0.430	0.464	0.480	0.290	0.180	0.640	0.300	\$ 0.500	0.865	0.6900	0.630	1.030	0.730

Source: Talbot County Finance Office and State of Maryland, Department of Assessments and Taxation

Notes:
Real property is assessed at full cash value.

Section 614 of the Talbot County Charter states that "revenues derived from taxes on properties existing on the County real property tax rolls at the commencement of the County fiscal year shall not increase, compared with the previous year, by more than two percent, or by the Consumer Price Index for all urban consumers (CPI-U) percentage of change for the latest calendar year, determined by the U.S. Department of Labor, whichever is the lesser."

**Schedule 8
Talbot County, Maryland
Principal Property Tax Payers,
Current Year and Nine Years Ago**

Taxpayer	Fiscal Year 2016			Fiscal Year 2007		
	Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Assessed Value	Rank	Percentage of Total Taxable Assessed Value
RDC Inn at Perry Cabin LLC	\$ 15,449,000	1	0.18%	\$ 16,131,932	2	0.24%
Bayleigh Chase, Inc	15,175,400	2	0.18%			
Easton Shoppes Business Trust	13,933,900	3	0.16%	14,059,900	3	0.21%
Lowe's Home Centers, Inc.	11,923,900	4	0.14%			
Fre USA LLC	10,649,000	5	0.13%			
Remco Properties, LLC	10,251,500	6	0.12%			
Target Corporation	10,108,500	7	0.12%			
Wal Mart Real Estate Business Trust	9,660,600	8	0.11%	8,206,800	6	0.12%
Tred Avon LLC	8,666,800	9	0.10%	6,700,000	10	0.10%
Achievement Park LLC	8,354,200	10	0.10%			
Retirement Comm of Easton Inc				16,256,400	1	0.24%
Eastern Shore Retirement Assoc.				11,662,200	4	0.17%
Hampden Investment Properties LLC				9,345,900	5	0.14%
Individual				8,181,000	7	0.12%
Cal-Mar Associates				7,613,400	8	0.11%
Easton Marketplace LLC				7,260,600	9	0.11%
Total	\$ 114,172,800		1.34%	\$ 105,418,132		1.58%

Source: Talbot County Finance Office

Schedule 9
Talbot County, Maryland
Property Tax Levies and Collections,
Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections/(Refunds/ Adjustments) in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2016	\$ 34,576,428	\$ 34,546,760	99.91%	\$ -	\$ 34,546,760	99.91%
2015	34,024,027	33,996,787	99.92%	5,080	34,001,867	99.93%
2014	33,071,077	33,026,089	99.86%	(3,756)	33,022,333	99.85%
2013	32,194,472	32,120,054	99.77%	(10,659)	32,109,395	99.74%
2012	29,426,822	29,384,626	99.86%	(8,652)	29,375,974	99.83%
2011	28,628,850	28,599,021	99.90%	17,892	28,616,913	99.96%
2010	27,801,093	27,801,093	100.00%	(17,417)	27,783,676	99.94%
2009	26,909,600	26,898,002	99.96%	(31,611)	26,866,391	99.84%
2008	25,789,640	25,775,727	99.95%	2,593	25,778,320	99.96%
2007	24,484,233	24,452,320	99.87%	(4,651)	24,447,669	99.85%

Source: Talbot County Finance Office

Note: The information in this schedule relates to the County's own property tax levies, and does not include those it collects on behalf of other governments.

Schedule 10
Talbot County, Maryland
Income Tax Rates
Last Ten Tax Years

State Income Tax Rates*									
Tax Year	\$1 to \$1,000 Net Taxable Income	\$1,001 to \$2,000 Net Taxable Income	\$2,001 to \$3,000 Net Taxable Income	In excess of \$3,000 Net Taxable Income	\$3,001 to \$100,000 Net Taxable Income	\$100,001 to \$125,000 Net Taxable Income	\$125,001 to \$150,000 Net Taxable Income	\$150,001 to \$250,000 Net Taxable Income	In excess of \$250,000 Net Taxable Income
2015	2.00%	3.00%	4.00%	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2014	2.00%	3.00%	4.00%	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2013	2.00%	3.00%	4.00%	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2012	N/A	N/A	N/A	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2011	2.00%	3.00%	4.00%	N/A					
2010	2.00%	3.00%	4.00%	N/A					
2009	2.00%	3.00%	4.00%	N/A					
2008	2.00%	3.00%	4.00%	N/A					
2007	2.00%	3.00%	4.00%	4.75%					
2006	2.00%	3.00%	4.00%	4.75%					

State Income Tax Rates*							Talbot County Income Tax Direct Rate
Tax Year	\$3,001 to \$150,000 Net Taxable Income	\$150,001 to \$300,000 Net Taxable Income	\$300,001 to \$500,000 Net Taxable Income	\$500,001 to \$1,000,000 Net Taxable Income	In excess of \$1,000,000 Net Taxable Income		
2015	N/A	N/A	N/A	N/A	N/A	N/A	2.40%
2014	N/A	N/A	N/A	N/A	N/A	N/A	2.40%
2013	N/A	N/A	N/A	N/A	N/A	N/A	2.40%
2012	N/A	N/A	N/A	N/A	N/A	N/A	2.25%
2011	4.75%	5.00%	5.25%	5.50%	5.50%	6.25%	2.25%
2010	4.75%	5.00%	5.25%	5.50%	5.50%	6.25%	2.25%
2009	4.75%	5.00%	5.25%	5.50%	5.50%	6.25%	2.25%
2008	4.75%	5.00%	5.25%	5.50%	5.50%	6.25%	2.25%
2007							2.25%
2006							2.25%

Source: Revenue Administration Division, State of Maryland Comptroller's Office.

Notes:
*Individual Filing Status

The current maximum allowed local income tax rate is 3.2%.

**Schedule 11
Talbot County, Maryland
Income Tax Filers Summary Information
Last Ten Tax Years**

Tax Year	Number of Taxable Returns	Maryland Adjusted Gross Income	Net Taxable Income	Net State Income Tax	Local Income Tax	Total Tax Liability	Talbot County Income Tax Direct Rate
2014	14,603	\$ 1,403,550,972	\$ 1,135,662,569	\$ 52,780,635	\$ 26,577,777	\$ 79,358,412	2.40%
2013	14,331	1,386,024,598	1,111,304,912	50,085,415	26,353,729	76,439,144	2.40%
2012	14,370	1,394,066,465	1,124,865,958	51,652,571	25,013,073	76,665,644	2.25%
2011	14,068	1,285,429,925	1,014,019,704	45,374,930	22,534,206	67,909,136	2.25%
2010	13,970	1,231,712,157	966,801,287	43,848,608	21,476,332	65,324,940	2.25%
2009	13,615	1,152,941,209	892,490,578	41,524,166	19,813,516	61,337,682	2.25%
2008	14,129	1,275,092,494	997,801,625	45,438,942	22,225,752	67,664,694	2.25%
2007	15,098	1,637,948,218	1,327,023,177	55,858,849	29,601,486	85,460,335	2.25%
2006	14,912	1,479,509,503	1,198,242,460	50,575,137	26,704,974	77,280,111	2.25%
2005	14,598	1,291,510,360	1,044,209,152	45,179,814	23,253,365	68,433,179	2.25%

Source: Revenue Administration Division, State of Maryland Comptroller's Office.

Notes:

See Schedule 12 for detailed breakout of adjusted gross income.

Talbot County Income Tax Direct Rate is a percentage of Maryland taxable income.

Schedule 12
Talbot County, Maryland
Income Tax Filers, Net Taxable Income, and Liability by Adjusted Gross Income Level
Current Year and Nine Years Ago

Tax Year 2014						
	Number of Taxable Returns	Percentage of Total	Net Taxable Income	Percentage of Total	Local Tax Liability	Percentage of Total
Adjusted Gross Income Level						
\$500,000 and higher	264	1.8%	\$ 340,698,889	30.0%	\$ 7,841,257	29.5%
\$250,000 - 499,999	531	3.6%	161,221,998	14.2%	3,867,369	14.6%
\$100,000 - 249,999	2,528	17.3%	308,322,564	27.1%	7,398,391	27.8%
\$50,000 - 99,999	3,670	25.1%	194,333,575	17.1%	4,664,002	17.5%
\$25,000 - 49,999	4,121	28.2%	99,118,115	8.7%	2,185,993	8.2%
\$5,000 - 24,999	3,411	23.4%	31,841,725	2.8%	617,859	2.3%
Under \$5,000	78	0.5%	125,703	0.0%	2,906	0.0%
Totals	14,603	100.0%	\$ 1,135,662,569	100.0%	\$ 26,577,777	100.0%

Tax Year 2005						
	Number of Taxable Returns	Percentage of Total	Net Taxable Income	Percentage of Total	Local Tax Liability	Percentage of Total
Adjusted Gross Income Level						
\$500,000 and higher	284	1.9%	\$ 381,882,154	36.6%	\$ 8,592,349	37.0%
\$250,000 - 499,999	396	2.7%	118,493,106	11.3%	2,666,095	11.5%
\$100,000 - 249,999	1,858	12.7%	219,680,575	21.0%	4,942,984	21.3%
\$50,000 - 99,999	3,499	24.0%	182,622,404	17.5%	4,109,009	17.7%
\$25,000 - 49,999	4,146	28.4%	100,656,796	9.6%	2,203,652	9.5%
\$5,000 - 24,999	4,278	29.3%	40,666,357	3.9%	735,238	3.2%
Under \$5,000	137	0.9%	207,760	0.0%	4,038	0.0%
Totals	14,598	100.0%	\$ 1,044,209,152	100.0%	\$ 23,253,365	100.0%

Source: Revenue Administration Division, State of Maryland Comptroller's Office.

Schedule 13
Talbot County, Maryland
Ratios of Outstanding Debt by Type,
Last Ten Fiscal Years

Fiscal Year	Governmental Activities	Business Activities		Total Primary Government	Percentage of Personal Income	Debt Per Capita
	General Obligation Bonds	General Obligation Bonds	Capital Leases			
2016	\$ 32,753,625	\$ 8,806,100	\$ 151,602	\$ 41,711,327	1.72%	\$ 1,112
2015	35,367,806	9,641,102	193,364	45,202,272	1.86%	1,205
2014	31,257,626	10,503,339	48,875	41,809,840	1.76%	1,111
2013	31,667,641	11,114,740	95,555	42,877,936	1.85%	1,130
2012	34,027,257	11,969,066	159,691	46,156,014	2.01%	1,213
2011	36,307,648	12,809,338	210,316	49,327,302	2.33%	1,297
2010	39,141,954	13,596,277	70,269	52,808,500	2.55%	1,398
2009	41,656,842	13,582,399	129,153	55,368,394	2.70%	1,527
2008	44,076,728	14,074,978	180,211	58,331,917	2.76%	1,615
2007	20,283,936	13,541,483	273,950	34,099,369	1.67%	945

Sources: Talbot County Finance Office and Bureau of Economic Analysis, U.S. Department of Commerce

Notes:

2016 percentages calculated using 2015 personal income data, which is the most recent available.

2016 debt per capita is calculated using 2015 population estimate, which is the most recent available.

See Schedule 17 for population and personal income data.

Schedule 14
Talbot County, Maryland
Ratios of General Bonded Debt Outstanding,
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds^a	Total Taxable Assessable Base^b	Percentage of Total Taxable Assessable Base	Population^c	General Obligation Debt Per Capita
2016	41,559,725	8,417,243,821	0.49%	*	1,108
2015	45,008,908	8,556,230,658	0.53%	37,512	1,200
2014	41,760,965	8,868,790,040	0.47%	37,643	1,109
2013	42,782,381	9,338,031,144	0.46%	37,931	1,128
2012	45,996,323	9,770,079,390	0.47%	38,040	1,209
2011	49,116,986	10,151,483,571	0.48%	38,025	1,292
2010	52,738,231	10,132,860,285	0.52%	37,782	1,396
2009	55,239,241	9,134,641,785	0.60%	36,262	1,523
2008	58,151,706	7,904,349,782	0.74%	36,112	1,610
2007	33,825,419	6,720,626,413	0.50%	36,077	938

Sources:

^a Talbot County Finance Office

^b State of Maryland, Department of Assessments and Taxation

^c U.S. Census Bureau.

* Information not yet available; 2016 debt per capita is calculated using 2015 population estimate data.

Schedule 15
Talbot County, Maryland
Direct and Overlapping Governmental Activities Debt
As of June 30, 2016

Governmental Unit	Total Assessed Valuation of Real Property^a	% of Assessed Valuation to County Total	Pro Rata Share of County General Obligation Bonded Debt	Municipal Debt Outstanding^b	Estimated Share of Direct and Overlapping Debt
Easton	2,081,269,290	24.91%	8,159,968	\$ 12,295,000	\$ 20,454,968
Oxford	332,931,266	3.99%	1,305,313	-	1,305,313
Queen Anne	7,926,433	0.09%	31,077	-	31,077
St. Michaels	286,260,689	3.43%	1,122,333	-	1,122,333
Trappe	83,853,136	1.00%	328,760	271,924	600,684
Unincorporated	<u>5,561,849,815</u>	<u>66.58%</u>	<u>21,806,173</u>	<u>-</u>	<u>21,806,173</u>
Total	<u>8,354,090,629</u>	<u>100%</u>	<u>32,753,625</u>	<u>\$ 12,566,924</u>	<u>\$ 45,320,549</u>

Sources:

^a State of Maryland, Department of Assessments and Taxation

^b Municipal Town Clerks

Schedule 16
Talbot County, Maryland
Legal Debt Margin Information,
Last Ten Fiscal Years
(dollars in thousands)

	Fiscal Year									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Taxable Assessable Base *	\$ 6,353,469	\$ 7,508,763	\$ 8,695,733	\$ 9,633,030	\$ 10,093,360	\$ 9,710,928	\$ 9,278,557	\$ 8,812,185	\$ 8,494,001	\$ 8,354,091
Debt Limit, 15% of Assessable Base	953,020	1,126,314	1,304,360	1,444,955	1,514,004	1,456,639	1,391,784	1,321,828	1,274,100	1,253,114
Amount of Debt Applicable to Limit										
General Obligation Bonds	20,284	43,777	41,373	38,873	35,404	33,201	31,668	31,258	35,368	32,754
Legal Debt Margin	<u>\$ 932,736</u>	<u>\$ 1,082,537</u>	<u>\$ 1,262,987</u>	<u>\$ 1,406,082</u>	<u>\$ 1,478,600</u>	<u>\$ 1,423,438</u>	<u>\$ 1,360,116</u>	<u>\$ 1,290,570</u>	<u>\$ 1,238,732</u>	<u>\$ 1,220,360</u>
Total net debt applicable to the limit as a percentage of debt limit	2.13%	3.89%	3.17%	2.69%	2.34%	2.28%	2.28%	2.36%	2.78%	2.61%

Source:

* State of Maryland, Department of Assessments and Taxation

Note:

Section 222 of the Talbot County Charter limits the County's outstanding general obligation long-term debts to no more than 15 percent of the assessable property tax base of the County.

Schedule 17
Talbot County, Maryland
Demographic and Economic Statistics,
Last Ten Fiscal Years

Year	Population^a	Personal Income^b <i>(thousands of dollars)</i>	Per Capita Personal Income^b	Public School Enrollment^c	Unemployment Rate^d
2016	*	*	*	4,625	4.1%
2015	37,512	2,430,909	64,804	4,630	5.2%
2014	37,643	2,375,672	63,111	4,537	6.1%
2013	37,931	2,318,765	61,131	4,570	7.6%
2012	38,040	2,297,444	60,395	4,547	7.3%
2011	38,025	2,118,791	55,721	4,504	7.2%
2010	37,782	2,072,002	54,701	4,495	7.8%
2009	36,262	2,049,065	56,507	4,419	7.4%
2008	36,112	2,110,997	58,457	4,396	4.4%
2007	36,077	2,041,855	56,597	4,398	3.5%

Sources:

^a U.S. Census Bureau.

^b Bureau of Economic Analysis, U.S. Department of Commerce.

^c Maryland State Department of Education.

^d Maryland Department of Labor, Licensing and Regulation.

* Information not yet available.

**Schedule 18
Talbot County, Maryland
Principal Private Employers,
Current Year and Nine Years Ago**

<u>Employer</u>	<u>CY 2015</u>			<u>CY 2006</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
Univ. of MD/Shore Medical Systems	1,641	1	8.98%			
Genesis Healthcare/The Pines	250	2	1.37%	186	9	0.96%
Bayleigh Chase	220	3	1.20%			
Wal-Mart	205	4	1.12%	320	3	1.66%
Quality Health Strategies	185	5	1.01%			
Shore Bancshares	177	6	0.97%			
EAG Laboratories	160	7	0.88%			
Chesapeake Building Components	156	8	0.85%	200	6	1.04%
Aphena Pharma Solutions	150	9	0.82%			
Target	150	10	0.82%			
Shore Health Systems/EMH				1,200	1	6.22%
Allen Family Foods				700	2	3.63%
Cadmus Prof. Communications				265	4	1.37%
Lowes				215	5	1.11%
APG Chesapeake Publishing				200	7	1.04%
William Hill Manor				200	8	1.11%
Protemp Staffing Solutions				175	10	0.91%
	<u>3,294</u>		<u>18.03%</u>	<u>3,661</u>		<u>18.97%</u>

Source: Maryland Department of Business and Economic Development

Schedule 19
Talbot County, Maryland
Full-time Equivalent County Government Employees by Function,
Last Ten Fiscal Years

<u>Function/Program</u>	Full-time Equivalent Employees as of June 30,									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Government	65.8	66.7	68.4	66.0	63.0	60.3	61.1	63.8	65.8	65.4
Public Safety	128.7	139.6	151.1	151.3	152.0	146.7	151.2	156.3	161.7	170.2
Public Works	39.9	44.7	48.3	50.5	46.0	42.5	41.2	40.8	41.9	44.7
Social Services	4.0	4.8	4.0	3.4	3.0	0.8	-	-	-	-
Recreation	51.1	52.4	51.8	46.0	34.0	32.8	33.0	35.1	35.9	35.6
Airport	<u>5.0</u>	<u>5.0</u>	<u>4.9</u>	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	<u>5.1</u>	<u>5.1</u>	<u>5.0</u>	<u>5.1</u>
Total	<u>294.5</u>	<u>313.3</u>	<u>328.5</u>	<u>322.2</u>	<u>303.0</u>	<u>288.1</u>	<u>291.6</u>	<u>301.1</u>	<u>310.3</u>	<u>321.0</u>

Sources: Talbot County Finance Office.

Notes:

A full-time employee is scheduled to work 260 days per year (52 weeks x 5 days per week). At eight hours per day, 2,080 hours are scheduled per year (including vacation and sick leave). Full-time-equivalent employment is calculated by dividing total labor hours by 2,080.

**Schedule 20
Talbot County, Maryland
Operating Indicators by Function,
Last Ten Fiscal Years**

<u>Function/Program</u>	Fiscal Year									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Government										
Building Permits issued	626	529	388	316	308	267	261	245	239	259
Value of new construction (000's)	76,505	58,812	36,505	31,116	36,974	27,067	28,540	24,379	28,289	34,149
Public Safety										
Detention Center										
Avg. daily population	106	106	90	92	104	85	81	72	63	67
Bookings	764	989	821	807	771	1,020	954	880	804	775
9-1-1 Calls Answered										
Fire	1,462	1,557	1,427	1,724	1,705	1,975	2,034	1,917	2,112	2,523
Emergency Medical Services	4,767	4,330	4,334	4,408	4,330	4,458	4,551	4,358	4,774	4,682
Sheriff	10,939	12,592	14,891	15,191	13,627	13,923	12,165	13,139	13,397	14,896
Other Police	6,578	7,289	7,755	7,399	7,383	8,367	11,533	12,040	11,184	11,834
Education										
Students	4,398	4,396	4,419	4,495	4,504	4,547	4,570	4,537	4,630	4,625
Teachers Instructional	300	301	308	304	316	312	321	321	321	326
Recreation Facilities										
Boat ramp permits	3,635	6,673	6,288	6,848	6,724	6,689	6,443	6,185	6,034	5,886
Golf rounds	43,110	30,140	33,670	22,781	27,969	31,467	28,439	29,057	26,889	35,998
Public Works										
Centerline miles of road maintained	372	372	372	372	372	374	374	374	374	373
Wastewater treated (mgd)	0.561	0.450	0.415	0.558	0.481	0.477	0.483	0.460	0.363	0.428
Airport										
Based aircraft	170	185	147	143	146	146	176	220	216	229
Gallons of fuel sold	809,242	690,904	679,857	614,612	646,268	633,071	581,342	642,726	648,140	660,362

Sources: Talbot County Finance Office, applicable County Departments, and Maryland State Board of Education.

Schedule 21
Talbot County, Maryland
Capital Asset Statistics by Function,
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Public Safety										
Detention center capacity	140	140	140	140	140	145	145	145	145	145
Fire stations	7	7	7	7	7	7	7	7	7	7
Emergency Medical Services Stations	5	5	5	5	5	5	5	5	5	5
Education										
Elementary Schools	6	6	6	6	6	6	6	6	6	6
Middle Schools	2	2	2	2	2	2	2	2	2	2
High Schools	2	2	2	2	2	2	2	2	2	2
Public Libraries	3	3	3	3	3	3	2	2	2	2
Recreation Facilities										
Community Center/Ice Rink	1	1	1	1	1	1	1	1	1	1
Golf Course (27 holes)	1	1	1	1	1	1	1	1	1	1
County Parks	13	13	13	17	17	17	19	19	19	19
Park acreage	632	632	672	672	672	672	693	693	693	693
Public Landings & Wharves	29	29	29	29	30	30	30	30	30	30
Boat Slips	113	113	113	117	117	136	136	136	136	136
Public Pools	2	2	2	2	2	2	2	2	2	2
Public Works										
Centerline miles of county roads	372	372	372	372	372	374	374	374	374	373
Bridges	9	9	9	9	9	9	9	9	9	9
Wastewater Treatment Plants	2	3	3	3	3	3	3	3	3	3
Miles of mains	33	38	38	38	38	38	38	40	40	40
Pump stations	12	12	12	12	12	12	12	12	12	12
Airport										
Number of Runways	2	2	2	2	2	2	2	2	2	2

Sources: Talbot County Finance Office and applicable County Departments.