

SOMERSET COUNTY, MARYLAND

FINANCIAL REPORT

June 30, 2017

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INDEPENDENT AUDITORS' REPORT

The Board of County Commissioners
Somerset County, Maryland
Princess Anne, 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 The County Commissioners of Somerset County, Maryland (the "County") as of and for the year ended June 30, 2017, 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 Somerset County Sanitary District, Inc. and the Somerset County Liquor Control Board. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Somerset County Sanitary District, Inc. and the Somerset County Liquor Control Board is based solely upon 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 reports 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, 2017, 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, Maryland State Retirement and Pension Systems schedules and Schedule of Funding Progress – Other Post-Employment Benefits, 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 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 other supplementary information 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The additional 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. In our opinion, the additional supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2017, 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 "HSM Group LLC". The signature is fluid and cursive, with "HSM" at the top, "Group" in the middle, and "LLC" at the bottom right.

Salisbury, Maryland
December 26, 2017



Management's Discussion and Analysis

Somerset County's Financial Report for fiscal year ended June 30, 2017 reflects reporting in accordance with the format brought about by the Governmental Accounting Standards Board's (GASB) Statement No. 34 for State and Local Governments. One of the requirements of GASB 34 is this discussion and analysis that will provide the following things:

- Present the year's financial highlights.
- Describe the basic financial statements.
- Present condensed government-wide financial information.
- Analyze financial position and results of operations.
- Analyze balances and transactions of individual funds.
- Provide a budgetary analysis.
- Present capital asset and long-term debt activity.
- Describe any currently known significant facts, decisions or conditions.

While this discussion and analysis provides an overview of the financial performance of Somerset County, readers are encouraged to use the information presented in this section in conjunction with the basic financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

The total assets of Somerset County exceeded liabilities at the end of fiscal year 2017 by \$22.9 million. A net pension liability of \$7.69 million is reflected as a liability in accordance with the pension standard, as required under GASB 68.

The total net position of the County decreased approximately \$1.3 million during fiscal year 2017. The current year increase in other postemployment benefits expense accounted for \$1.1 million of this change.

The County's total governmental funds show a fund balance of \$15.7 million as of the end of the fiscal year. Of this total, \$12.2 million is either committed or assigned for capital projects, debt service, other post-employment benefits, future budget purposes, or other fund purposes. Approximately \$3.5 million remains unassigned.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report consists of four sections: the independent auditor's report, required supplementary information, which includes this discussion and analysis, the basic financial statements, and the Uniform Guidance Supplementary Information. Somerset County's basic financial statements comprise three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements.

Government-wide Financial Statements provide a broad, entity-wide view of the County's financial position and changes in that position. The government-wide statements are another addition arising from GASB 34. Accountability is the paramount objective of financial reporting and two essential components of accountability are fiscal accountability and operational accountability. Fiscal accountability refers to the government's responsibility to justify compliance with public decisions concerning the raising and spending of public moneys during one budget cycle, whereas operational



accountability refers to governments' responsibility to use all available resources to meet their operating goals efficiently and effectively and whether they can continue to meet those objectives in the foreseeable future.

Historically, governments have used fund accounting that achieved the goal of fiscal accountability but not operational accountability. Government-wide financial statements have now been added to assess a government's operational accountability and provide a complementary component with fund accounting.

Government-wide financial statements use a measurement focus and basis of accounting that provide both a long and short-term perspective on the County's financial health. The measurement focus reports changes in economic resources and the basis of accounting is full accrual. Therefore, these statements recognize increases or decreases in economic resources as soon as the underlying event or transaction occurs. Fund financial statements on the other hand focus on increases and decreases in current financial resources only to the extent that they reflect current cash inflows and outflows.

The government-wide statements consist of the Statement of Net Position and the Statement of Activities. The Statement of Net Position presents the County's assets, liabilities, and net position at the end of the fiscal year. The Statement of Activities presents the transactions during the fiscal year and the resulting changes in net position. The expenses and revenues attributable to each function of government are netted to show how much each function relies on general revenue sources such as taxes, interest earnings and other general revenue. Both of these statements distinguish between governmental activities and business-type activities. Governmental activities rely principally on taxes and intergovernmental revenues whereby business-type activities are intended to recover a significant portion of their costs through user fees and charges for services.

Both of the government-wide statements also present a column that summarizes and combines the financial statements of the County's Component Units. This column includes the Board of Education, the Library, the Sanitary District, the Liquor Control Board, and the Local Management Board. These are considered component units of the Primary government because they either receive substantial funding from the Primary government or the County Commissioners appoint a majority of their board members.

Fund Financial Statements segregate financial operations into separate funds for accounting purposes and provide control over resources and activities designated for specific objectives or activities. These funds are grouped into three different types: governmental, proprietary, and fiduciary funds.

Governmental Funds include the General Fund, and Special Revenue Funds, which is comprised of the Roads Department, the Economic Development Commission, Hurricane Sandy and other non-major funds. Governmental funds focus on near-term flows of expendable resources and balances of resources available at the end of the fiscal year. The focus of governmental funds is narrower than that of the government-wide statements and both should be compared to evaluate both long and near term information.

Proprietary Funds, or enterprise funds, report on the Great Hope Golf Course and provide the same type of information as the government-wide statements, only report in more depth and detail.



Fiduciary funds account for resources held by the County for outside parties. These funds include the State Tax Fund, the Dental Fund, the Retirees Health fund, and an Agency fund which includes the following funds, States Attorneys Drug Bust Fund, States Attorneys County Property Forfeiture Fund, the Somerset County Detention Center Commissary Fund and the Somerset County Detention Center Inmate Welfare Fund.

Financial Data and Management's Analysis

Government-wide Statements

The following Statement of Net Position is a condensed version of that presented in the Financial Statements section of this report. Governmental activities include the General Fund, the Roads Department, the Economic Development Commission, Hurricane Sandy and other non-major governmental funds. Business-type activities consist solely of the Great Hope Golf Course. Component units include the Board of Education, the Library, the Sanitary District, the Liquor Control Board, and the Local Management Board.

Current and other assets are a broad category of assets that are readily convertible to cash and available to pay liabilities. Restricted assets are legally restricted for a specific use that originate from Federal, State, local code, grant agreements, or other contracts. Capital assets include land, buildings, vehicles, and equipment that have an extended useful life and depreciate in value over time.

Current and other liabilities consist of obligations that will be paid with currently available resources within a year. Long-term liabilities include debt balances beyond one year on bonds, notes and capital leases and accrued liabilities for compensated absences.

Net position, represents the remaining equity after subtracting liabilities from assets; and, is presented in three categories: assets invested in capital assets net of related debt, restricted net position and unrestricted net position.

Current assets amount to \$22,067,527 for the Primary Government at June 30, 2017, with \$14,757,983 in cash and cash equivalents including restricted cash. Capital assets amount to \$44,247,248, net of accumulated depreciation.

Total liabilities amount to \$45,324,564, which includes \$9,013,202 for Board of Education projects, \$11,265,672 for Landfill and Solid Waste projects and obligations and \$7,688,418 for the net pension liability under GASB 68. In addition, the balance sheet includes a liability for the unfunded annual required contribution for retirees' future post-employment health care benefits. This liability was estimated by our actuary to be \$9,855,616 for all governmental and business type entities.

Total net position amounted to \$22,874,640 of which \$27,633,200 is invested in capital assets net of related debt and \$4,948,562 is the unrestricted deficit, after recording the net pension liability.



SOMERSET COUNTY MARYLAND
SUMMARY OF STATEMENT OF NET POSITION
June 30, 2017 and 2016

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Current and other assets	\$ 22,029,656	\$ 21,175,787	\$ 37,871	\$ 28,634
Restricted	190,002	192,532	-	-
Capital assets	42,756,609	44,317,969	1,490,639	1,516,559
Total assets	\$ 64,976,267	\$ 65,686,288	\$ 1,528,510	\$ 1,545,193
Deferred outflows of resources	2,226,032	1,728,773	-	-
Current and other liabilities	8,603,497	9,993,162	175,378	140,015
Long-term liabilities	36,449,439	33,980,804	96,250	28,707
Total liabilities	\$ 45,052,936	\$ 43,973,966	\$ 271,628	\$ 168,722
Deferred inflows of resources	531,605	641,754	-	-
Net position:				
Invested in capital assets				
net of related debt	26,238,811	28,936,459	1,394,389	1,487,852
Restricted	190,002	192,532	-	-
Unrestricted	(4,811,055)	(6,329,650)	(137,507)	(111,381)
Total net position	\$ 21,617,758	\$ 22,799,341	\$ 1,256,882	\$ 1,376,471



Total		Component Units	
2017	2016	2017	2016
\$ 22,067,527	\$ 21,204,421	\$ 8,482,385	\$ 7,909,484
190,002	192,532	1,910,098	1,720,635
44,247,248	45,834,528	86,108,714	85,826,618
<u>\$ 66,504,777</u>	<u>\$ 67,231,481</u>	<u>\$ 96,501,197</u>	<u>\$ 95,456,737</u>
 2,226,032	 1,728,773	 809,067	 608,313
 8,778,875	 10,133,177	 5,810,104	 5,653,533
 36,545,689	 34,009,511	 23,268,682	 22,542,022
<u>\$ 45,324,564</u>	<u>\$ 44,142,688</u>	<u>\$ 29,078,786</u>	<u>\$ 28,195,555</u>
 531,605	 641,754	 166,148	 192,444
 27,633,200	 30,424,311	 72,780,439	 72,221,319
 190,002	 192,532	 1,492,639	 1,291,203
 (4,948,562)	 (6,441,031)	 (6,207,748)	 (5,835,471)
<u>\$ 22,874,640</u>	<u>\$ 24,175,812</u>	<u>\$ 68,065,330</u>	<u>\$ 67,677,051</u>



The Statement of Activities presented below is a condensed version of the more detailed one presented in the Financial Statements section. Program revenues are listed first followed by General revenues and then expenses attributable to each function of the County government. The Change in net position is equal to the revenues minus expenses and is added (subtracted) to Net position beginning of year to reach Net position end of year.

Governmental activities had expenses and transfers that exceeded revenues by \$1,181,583 for the year ended June 30, 2017. The current year increase in other postemployment benefits expense accounted for \$1,117,318 of this change. The remaining change is due to a combination of factors.

In the general revenue category, the disparity grant, listed under State of Maryland – Disparity Grant, is the County's third largest revenue source and amounted to \$5,290,166. The Disparity Grant is provided from the State to counties whose per capita taxable income falls below 75% of the State average.



**SOMERSET COUNTY MARYLAND
STATEMENT OF ACTIVITIES**
For the Fiscal Years Ended June 30, 2017 and 2016

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Program Revenues				
Charges for services	\$ 3,036,300	\$ 2,247,898	\$ 417,163	\$ 451,287
Operating Grants and contributions	10,237,664	9,862,518	-	-
Capital grants and contributions	522,160	2,479,693	-	-
	13,796,124	14,590,109	417,163	451,287
General Revenues:				
Property taxes	16,030,824	16,430,509	-	-
Income taxes	6,908,675	7,093,148	-	-
Other taxes	690,708	511,578	-	-
State of Maryland - Disparity Grant	5,290,166	5,290,166	-	-
Other	652,902	271,551	(509)	(1,405)
	29,573,275	29,596,952	(509)	(1,405)
Total revenues	43,369,399	44,187,061	416,654	449,882
Expenses				
General Government	6,751,678	6,956,170	-	-
Public safety	8,307,572	8,550,770	-	-
Public works	6,324,343	6,521,505	-	-
Health	930,511	906,392	-	-
Social services	266,993	245,110	-	-
Education	11,595,556	11,329,964	-	-
Recreation & culture	1,161,019	3,739,355	-	-
Conservation of natural resources	102,045	112,980	-	-
Economic and community development	7,830,421	5,682,392	-	-
Intergovernmental	165,875	172,444	-	-
Interest on long-term debt	559,969	609,609	-	-
Golf-course	-	-	1,091,243	982,401
Component units	-	-	-	-
Total expenses	43,995,982	44,826,691	1,091,243	982,401
Transfers	(555,000)	(470,000)	555,000	470,000
Change in net position	(1,181,583)	(1,109,630)	(119,589)	(62,519)
Net position beginning of year	22,799,341	23,908,971	1,376,471	1,438,990
Net position end of year	\$ 21,617,758	\$ 22,799,341	\$ 1,256,882	\$ 1,376,471



Total		Component Units	
<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
\$ 3,453,463	\$ 2,699,185	\$ 4,787,382	\$ 4,748,500
10,237,664	9,862,518	50,487,443	52,794,314
522,160	2,479,693	3,170,372	2,351,747
14,213,287	15,041,396	58,445,197	59,894,561
16,030,824	16,430,509	-	-
6,908,675	7,093,148	-	-
690,708	511,578	-	-
5,290,166	5,290,166	-	-
652,393	270,146	166,807	199,032
29,572,766	29,595,547	166,807	199,032
43,786,053	44,636,943	58,612,004	60,093,593
6,751,678	6,956,170	-	-
8,307,572	8,550,770	-	-
6,324,343	6,521,505	-	-
930,511	906,392	-	-
266,993	245,110	-	-
11,595,556	11,329,964	-	-
1,161,019	3,739,355	-	-
102,045	112,980	-	-
7,830,421	5,682,392	-	-
165,875	172,444	-	-
559,969	609,609	-	-
1,091,243	982,401	-	-
-	-	58,223,725	58,774,008
45,087,225	45,809,092	58,223,725	58,774,008
-	-	-	-
(1,301,172)	(1,172,149)	388,279	1,319,585
24,175,812	25,347,961	67,677,051	66,357,466
\$ 22,874,640	\$ 24,175,812	\$ 68,065,330	\$ 67,677,051



Governmental funds

Total governmental fund balances at the end of the fiscal year amounted to \$15,684,742 of which \$138,126 is non-spendable, \$9,300,000 is committed, \$2,557,540 is assigned and \$3,499,074 is unassigned.

The general fund constitutes the main operating fund of the Somerset County Government and reports a fiscal year ending fund balance of \$13,695,575. The general fund balance increased by \$1,447,600 during fiscal year 2017. This result is significantly better than the budgeted decrease of \$1,812,641.

Budgetary Variations

Somerset County legally adopts the General Fund budget each year in June and holds an advertised public hearing and accepts public input before finalizing and subsequently adopting it. This section highlights notable differences between the adopted budget and actual ending balances. A statement detailing the variances by budget line item of both revenues and expenditures can be found in the supplementary information section.

Recordation tax revenue was \$188,417 greater than budget primarily due to increased sales activity of existing homes in Somerset County, as compared to activity from recent prior years. Significant Federal and State grant revenues were anticipated for airport projects but the projects have not fully materialized yet, creating the negative airport program revenue variance of \$346,470.

The County received \$158,149 in State grant revenue that was not budgeted in fiscal year 2017 for a Library capital expansion project in Crisfield. The expenditure side of the project was only budgeted as the County's net share of the project cost of \$30,000. Total capital expenditures for this project were \$189,018, which resulted in actual net expenditures of \$30,869.

Waterways projects totaling \$408,000 were budgeted in 2017 for boat ramps in Shelltown, Rumbley and Tylerton, but these projects did not materialize during the year, creating a budget variance in this area. Also, the Truancy Court program ceased to be part of Somerset County during 2017, causing the Family Services grant to fall far below the budget by \$168,554.

Planning and Zoning fees far surpassed the fees for the prior year because of the zoning fees of \$640,114 received for the Algonquin Solar Farm project. Also, landfill tipping fees unexpectedly exceeded budget by \$203,390, due to increased activity at the landfills.

Two County owned properties were sold in 2017 that created a large excess over budget in proceeds from sale of capital assets. In addition, the local health department recently returned \$532,918 of unused County appropriations that had accumulated over an eight year period. This created the positive variance in other revenue.

Proceeds from debt financing were \$2,835,810 more than budget because the Board of Education's interim school construction loan was refinanced to a ten year term loan, totaling \$3,000,000.

Budgeted expenditures for transportation exceeded actual by \$384,014, primarily because an airport capital project progressed much slower than anticipated.

In addition to the Library project that was mentioned above, an indoor soccer facility was completed in Princess Anne that totaled \$168,554. These two projects created the negative budget variance in Recreation and Culture of \$300,092.



The County shows a favorable variance of \$476,988 for Education primarily because the design stage of the new proposed J. M. Tawes Technology and Career Center, progressed more slowly than anticipated. In addition, an alternative plan was used for a wireless tower capital project that saved money by utilizing an existing County owned tower located in Mt. Vernon.

Debt Service expenditures show a negative budget variance of \$2,915,242 because the County refinanced a \$3 million construction loan for the Library, Tax Office and for School construction to a ten year loan, and the payoff of the old loan was included in debt service.

Transfers to the County Roads were \$300,063 less than budget because the County Roads department made a conscious effort to use available fund balance in lieu of maximizing county draws.

Transfers to the Golf Course during the fiscal year ended June 30, 2017, exceeded budget by \$148,823. This was due to the fact that revenue declined from the previous year and also there were unanticipated expenses incurred to maintain the golf course over was a very challenging year, weather wise.

Capital Asset and Long-term Debt Activity

The investment in capital assets for the County as of June 30, 2017 amounted to \$44,247,248 for both governmental and business-type activities. The schedule below summarizes the capital assets by category. Total additions for fiscal year 2017 amounted to \$31,797, net of transfers to construction in progress. There were no significant additions during the year ended June 30, 2017.

School construction reimbursements to the Somerset Board of Education, which are not included in the County's investment in capital assets, totaled \$1,683,059 for the year. In addition, capital expenditures of \$189,018 for the Crisfield Library are also not included in the County's investment in capital assets since they are listed as Library fixed assets.

The Roads Department investment in capital assets as of June 30, 2017, totaled \$7,493,047, net of depreciation. Major additions for fiscal year 2017 included the purchase of equipment, totaling \$100,538, and surface treatment work totaling \$430,569.



SOMERSET COUNTY MARYLAND
Capital Assets
(Net of Depreciation)
For the Fiscal Years Ended June 30, 2017 and 2016

	Governmental Activities		Business-type Activities	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land (not depreciated)	\$ 4,221,777	\$ 3,906,626	\$ -	\$ -
Land improvements	-	-	679,894	759,359
Construction in Progress	446,295	1,714,662	-	-
Buildings, improvements	12,520,889	12,745,737	674,297	696,373
Improvements, non-buildings	21,727,012	22,173,232	-	-
Vehicles	875,807	714,912	-	-
Furniture, machinery, equipment	2,964,829	3,062,800	136,448	60,827
Total	\$ 42,756,609	\$ 44,317,969	\$ 1,490,639	\$ 1,516,559



Total	
<u>2017</u>	<u>2016</u>
\$ 4,221,777	\$ 3,906,626
679,894	759,359
446,295	1,714,662
13,195,186	13,442,110
21,727,012	22,173,232
875,807	714,912
3,101,277	3,123,627
<hr/> <u>\$ 44,247,248</u>	<u>\$ 45,834,528</u>



Long-term debt for governmental and business-type activities amounted to \$21,817,519 at the end of the fiscal year. Additions for fiscal year 2017 included \$1,588,890 of short term borrowings for school construction loan projects and \$3,000,000 for a loan refinancing. Debt service for the fiscal year 2017 was \$2,583,235, which was 7.3% of the 2017 general fund actual expenditures, net of the refinancing.

Currently Known Facts, Decisions, or Conditions

Somerset County has committed approximately \$2 million in fiscal year 2018, and \$7.4 million overall, to fund a school construction project at the J.M. Tawes Technology & Career Center. Temporary financing for \$4 million has been obtained to finance this construction. Debt service of \$25,000 has been budgeted in the fiscal year ending June 30, 2017 on this new loan.

A 50 acre Industrial Park has been proposed for the City of Crisfield. The Park would be located in the former, 73,000 square foot, Carvel Hall facility that has been annexed to the City of Crisfield. Funding from State Community Development Block Grant funds of \$1.3 million to the County, and \$600,000 in USDA RBEG funds to the City of Crisfield, have been obtained for this project. Currently, officials are working to attract companies to this facility.

During 2013, Somerset County was awarded an \$8.6 million Community Development Block Grant- Disaster Relief to be used for Hurricane Sandy recovery efforts within the County. Approximately 89% of this grant has been expended through November, 2017 for housing rehabilitation as well as economic development related improvements. The County is also a recipient of an additional \$16.7 million of federal funding for a second round of infrastructure related disaster relief that started in FY 2015. These funds, which are 75% expended at November, 2017, have been specifically set aside by the Maryland Department of Housing and Community Development for exclusive use by Somerset County.

The Governmental Accounting Standards Board issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This standard, which was first implemented by Somerset County in fiscal year 2009, required governments to estimate the liability for certain post-employment benefits, such as health insurance. GASB 45 also required that the annual expense be recorded on an accrual basis rather than a pay as you go basis, and any unfunded liability is required to be recorded on the Statement of Net Assets. The County, working jointly with the Board of Education, hired the firm CBIZ Benefits and Insurance Services, Inc., to prepare an actuarial study. As a result of the standard, a liability as discussed below has been recorded on the County's Statement of Net Position.

Based on the study, the County's actuarial accrued liability at July 2016, the date of the last updated actuarial report, was estimated to be \$15.2 million, excluding the Board of Education and the Library. If the unfunded actuarial liability was amortized over a thirty year period, for the County portion only, the total annual required contribution would be \$1,449,683.

Due to significant decreases in State funding of the Highway User Revenues over the past five years, there have been significant reductions of capital roads construction projects over this period. Moreover, County Roads efforts over this period have been shifted to system preservation of the existing road network.



This financial report is intended to provide an overview of Somerset County's financial position and results of operation. Requests for additional information should be addressed to:

Somerset County Commissioners
11916 Somerset Avenue, Room 111
Princess Anne, MD 21853

SOMERSET COUNTY, MARYLAND
STATEMENT OF NET POSITION
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 14,469,951	\$ 26,046	\$ 14,495,997
Investments	71,984	-	71,984
Receivables			
Property taxes, net of allowance of \$146,065	1,786,230	-	1,786,230
Accounts receivable	72,869	-	72,869
Notes receivable	2,389	-	2,389
Due from other governmental units	4,369,515	-	4,369,515
Other	1,064,189	2,961	1,067,150
Internal balances	48,826	(48,826)	-
Inventories, at cost	138,126	57,690	195,816
Other	5,577	-	5,577
Restricted assets			
Cash and cash equivalents	190,002	-	190,002
Investments	-	-	-
Receivables, net of allowance of \$324,600	-	-	-
Capital assets, not being depreciated	4,668,072	-	4,668,072
Capital assets, being depreciated, net	38,088,537	1,490,639	39,579,176
Total assets	<u>\$ 64,976,267</u>	<u>\$ 1,528,510</u>	<u>\$ 66,504,777</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (see Note 9)	2,226,032	-	2,226,032
LIABILITIES			
Accounts payable and accrued expenses	3,095,179	114,391	3,209,570
Due to other governmental units	1,210,172	-	1,210,172
Unearned revenue	202,516	60,987	263,503
Due to fiduciary fund	266,494	-	266,494
Other	-	-	-
Long-term liabilities			
Due within one year			
Compensated absences	121,925	-	121,925
Bonds, notes and capital leases payable	3,707,211	18,778	3,725,989
Due in more than one year			
Compensated absences	891,347	-	891,347
Bonds, notes and capital leases payable	18,014,058	77,472	18,091,530
Other post-employment benefit obligation	9,855,616	-	9,855,616
Net pension liability (see Note 9)	7,688,418	-	7,688,418
Total liabilities	<u>45,052,936</u>	<u>271,628</u>	<u>45,324,564</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions (see Note 9)	531,605	-	531,605
NET POSITION			
Invested in capital assets, net of related debt	26,238,811	1,394,389	27,633,200
Restricted	190,002	-	190,002
Unrestricted	(4,811,055)	(137,507)	(4,948,562)
Total net position	<u>\$ 21,617,758</u>	<u>\$ 1,256,882</u>	<u>\$ 22,874,640</u>

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

Component Units

<u>Board of Education</u>	<u>Library</u>	<u>Sanitary District</u>	<u>Liquor Control Board</u>	<u>Local Management Board</u>
\$ 2,305,272	\$ 591,903	\$ 818,028	\$ 86,545	\$ 308,525
-	103,446	163,359	-	-
-	-	1,126,332	-	255,955
-	-	-	-	-
2,274,409	38,566	9,750	-	-
-	-	2,738	-	-
-	-	-	-	-
24,140	-	-	348,433	-
3,824	-	8,635	12,130	395
-	-	1,589,581	-	-
-	-	122,766	-	-
-	-	197,751	-	-
4,009,741	195,060	5,484,681	-	-
48,468,860	6,641,882	21,308,490	-	-
\$ 57,086,246	\$ 7,570,857	\$ 30,832,111	\$ 447,108	\$ 564,875
571,727	-	237,340	-	-
3,305,051	46,748	295,633	143,624	159,727
10,943	-	217,231	121,596	212,403
291,420	1,820	450,431	-	-
-	-	-	-	-
-	-	102,503	31,888	-
25,000	-	20,636	-	-
-	-	373,450	-	-
726,541	-	116,938	-	-
-	-	12,954,825	-	-
6,150,822	500,852	-	-	-
2,033,593	-	785,111	-	-
12,543,370	549,420	15,316,758	297,108	372,130
111,655	-	54,493	-	-
52,478,601	6,836,942	13,464,896	-	-
-	-	1,287,419	-	205,220
(7,475,653)	184,495	945,885	150,000	(12,475)
\$ 45,002,948	\$ 7,021,437	\$ 15,698,200	\$ 150,000	\$ 192,745

SOMERSET COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
GOVERNMENTAL ACTIVITIES				
General Government	\$ 6,751,678	\$ 1,007,745	\$ 7,249,084	\$ 33,997
Public safety	8,307,572	90,217	756,342	13,939
Public works	6,324,343	1,840,042	735,940	195,214
Health	930,511	43,880	50,000	-
Social services	266,993	-	186,573	-
Education	11,595,556	-	-	-
Recreation and culture	1,161,019	54,416	74,374	279,010
Conservation of natural resources	102,045	-	40,556	-
Economic and community development	7,830,421	-	1,144,795	-
Intergovernmental	165,875	-	-	-
Interest on long-term debt	559,969	-	-	-
Total Governmental Activities	43,995,982	3,036,300	10,237,664	522,160
BUSINESS-TYPE ACTIVITIES				
Golf Course	1,091,243	417,163	-	-
Total Business-Type Activities	1,091,243	417,163	-	-
Total Primary Government	\$ 45,087,225	\$ 3,453,463	\$ 10,237,664	\$ 522,160
COMPONENT UNITS				
Board of Education	\$ 50,560,034	\$ 110,926	\$ 47,836,709	\$ 3,085,794
Library	1,218,034	11,546	1,090,734	-
Sanitary District	3,962,402	2,979,747	678,902	84,578
Liquor Control Board	1,566,176	1,685,163	-	-
Local Management Board	917,079	-	881,098	-
Total Component Units	\$ 58,223,725	\$ 4,787,382	\$ 50,487,443	\$ 3,170,372

General Revenues

Taxes:

Property

Income

Other

State of Maryland - Disparity Grant

Payments in lieu of taxes

Distributions from Somerset County Dispensary

Interest

Special item - gain (loss) on sale of assets

Other

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					Local Management Board
Governmental Activities	Business-Type Activities	Total	Board of Education	Library	Sanitary District	Liquor Control Board	Local Management Board	
\$ 1,539,148	\$ -	\$ 1,539,148	\$ -	\$ -	\$ -	\$ -	\$ -	
(7,447,074)	-	(7,447,074)	-	-	-	-	-	
(3,553,147)	-	(3,553,147)	-	-	-	-	-	
(836,631)	-	(836,631)	-	-	-	-	-	
(80,420)	-	(80,420)	-	-	-	-	-	
(11,595,556)	-	(11,595,556)	-	-	-	-	-	
(753,219)	-	(753,219)	-	-	-	-	-	
(61,489)	-	(61,489)	-	-	-	-	-	
(6,685,626)	-	(6,685,626)	-	-	-	-	-	
(165,875)	-	(165,875)	-	-	-	-	-	
(559,969)	-	(559,969)	-	-	-	-	-	
<u>(30,199,858)</u>	<u>-</u>	<u>(30,199,858)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>-</u>	<u>(674,080)</u>	<u>(674,080)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>-</u>	<u>(674,080)</u>	<u>(674,080)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>\$ (30,199,858)</u>	<u>\$ (674,080)</u>	<u>\$ (30,873,938)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 473,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 473,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (115,754)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (219,175)</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,987</u>	<u>\$ -</u>	
<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (35,981)</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 473,395</u>	<u>\$ (115,754)</u>	<u>\$ (219,175)</u>	<u>\$ 118,987</u>	<u>\$ (35,981)</u>	
 16,030,824	 -	 16,030,824	 -	 -	 -	 -	 -	
6,908,675	-	6,908,675	-	-	-	-	-	
690,708	-	690,708	-	-	-	-	-	
5,290,166	-	5,290,166	-	-	-	-	-	
54,742	-	54,742	-	-	-	-	-	
98,935	-	98,935	-	-	-	(121,596)	-	
19,961	(1,279)	18,682	198,224	6,508	2,942	-	22	
(502,542)	-	(502,542)	-	-	-	-	-	
981,806	770	982,576	31,002	47,096	-	2,609	-	
<u>29,573,275</u>	<u>(509)</u>	<u>29,572,766</u>	<u>229,226</u>	<u>53,604</u>	<u>2,942</u>	<u>(118,987)</u>	<u>22</u>	
<u>(555,000)</u>	<u>555,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>29,018,275</u>	<u>554,491</u>	<u>29,572,766</u>	<u>229,226</u>	<u>53,604</u>	<u>2,942</u>	<u>(118,987)</u>	<u>22</u>	
<u>(1,181,583)</u>	<u>(119,589)</u>	<u>(1,301,172)</u>	<u>702,621</u>	<u>(62,150)</u>	<u>(216,233)</u>	<u>-</u>	<u>(35,959)</u>	
<u>22,799,341</u>	<u>1,376,471</u>	<u>24,175,812</u>	<u>44,300,327</u>	<u>7,083,587</u>	<u>15,914,433</u>	<u>150,000</u>	<u>228,704</u>	
<u>\$ 21,617,758</u>	<u>\$ 1,256,882</u>	<u>\$ 22,874,640</u>	<u>\$ 45,002,948</u>	<u>\$ 7,021,437</u>	<u>\$ 15,698,200</u>	<u>\$ 150,000</u>	<u>\$ 192,745</u>	

SOMERSET COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	Special Revenue Funds						Total Governmental Funds
	General Fund	Roads Board	Economic Development Commission	Hurricane Sandy	Other Governmental Funds		
ASSETS							
Cash and cash equivalents	\$ 12,495,102	\$ 978,654	\$ 786,780	\$ 74,337	\$ 135,078	\$ 14,469,951	
Investments	71,984	-	-	-	-	-	71,984
Receivables:							
Property taxes	1,786,230	-	-	-	-	-	1,786,230
Accounts receivable	-	72,869	-	-	-	-	72,869
Notes receivable	-	-	2,389	-	-	-	2,389
Due from other governmental units	2,108,401	62,380	-	2,165,738	32,996	4,369,515	
Other	1,063,962	-	227	-	-	-	1,064,189
Due from other funds	1,323,721	27,285	55,114	-	28,170	1,434,290	
Inventories, at cost	-	138,126	-	-	-	-	138,126
Other	4,097	-	1,480	-	-	-	5,577
Restricted Assets							
Cash and cash equivalents	190,002	-	-	-	-	-	190,002
Total assets	\$ 19,043,499	\$ 1,279,314	\$ 845,990	\$ 2,240,075	\$ 196,244	\$ 23,605,122	
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable and accrued expenses	\$ 2,035,744	\$ 101,458	\$ 2,478	\$ 915,239	\$ 40,260	\$ 3,095,179	
Due to other funds	362,243	30,794	-	1,251,100	7,821	1,651,958	
Due to other governmental units	1,189,382	-	1,452	-	19,338	1,210,172	
Unearned revenue	1,760,555	-	-	74,336	128,180	1,963,071	
Total liabilities	5,347,924	132,252	3,930	2,240,675	195,599	7,920,380	
FUND BALANCES							
Nonspendable	-	138,126	-	-	-	-	138,126
Restricted for:							
Future expenditures	190,002	-	-	-	-	-	190,002
Committed for:							
Capital projects	5,800,000	-	-	-	-	-	5,800,000
Debt Service	2,300,000	-	-	-	-	-	2,300,000
OPEB	1,200,000	-	-	-	-	-	1,200,000
Assigned for:							
Future budget	705,899	-	-	-	-	-	705,899
Fund purpose	-	1,008,936	842,060	-	645	1,851,641	
Unassigned	3,499,674	-	-	(600)	-	-	3,499,074
Total fund balances	13,695,575	1,147,062	842,060	(600)	645	15,684,742	
Total liabilities and fund balances	\$ 19,043,499	\$ 1,279,314	\$ 845,990	\$ 2,240,075	\$ 196,244	\$ 23,605,122	

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2017

Total fund balances, governmental funds	\$ 15,684,742
 Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	42,756,609
Certain revenues that do not provide current financial resources are reported as unearned revenue in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position.	1,760,555
Deferred outflows of resources - pensions (see Note 9)	2,226,032
Deferred inflows of resources - pensions (see Note 9)	(531,605)
 Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. Those liabilities consist of:	
Other post-employment benefit obligation	(9,855,616)
Bonds, notes and capital leases payable	(21,721,269)
Compensated absences	(1,013,272)
Net pension liability (see Note 9)	<u>(7,688,418)</u>
Total long-term liabilities	<u>(40,278,575)</u>
Net position of governmental activities in the Statement of Net Position	<u>\$ 21,617,758</u>

SOMERSET COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	Special Revenue Funds					Total Governmental Funds
	General Fund	Roads Board	Economic Development Commission	Hurricane Sandy	Other Governmental Funds	
REVENUE						
Taxes						
Local - property	\$ 16,023,689	\$ -	\$ -	\$ -	\$ -	\$ 16,023,689
Local - income	6,908,675	-	-	-	-	6,908,675
Local - other	690,708	-	-	-	-	690,708
State shared	-	320,527	-	-	-	320,527
Licenses and permits	208,342	-	-	-	-	208,342
Intergovernmental						
Federal	893,799	-	26,254	6,670,081	152,882	7,743,016
State	6,621,280	-	-	-	1,048,102	7,669,382
Local	163,677	-	-	-	65,807	229,484
Program income	-	-	-	56,748	-	56,748
Charges for services	2,396,005	431,952	-	-	-	2,827,957
Miscellaneous	1,001,769	156,187	25,004	-	3,319	1,186,279
Total revenue	34,907,944	908,666	51,258	6,726,829	1,270,110	43,864,807
EXPENDITURES						
Current						
General government	6,031,632	-	-	-	-	6,031,632
Public safety	7,468,301	-	-	-	-	7,468,301
Public works	2,121,663	2,564,060	-	-	-	4,685,723
Health	904,358	-	-	-	-	904,358
Social services	46,040	-	-	-	220,953	266,993
Education	9,912,497	-	-	-	-	9,912,497
Recreation and culture	882,026	-	-	-	-	882,026
Conservation of natural resources	102,045	-	-	-	-	102,045
Economic and community development	-	-	228,581	6,552,683	1,049,157	7,830,421
Intergovernmental	165,875	-	-	-	-	165,875
Debt service						
Principal retirement	5,023,266	-	-	-	-	5,023,266
Interest and fiscal charges	559,969	-	-	-	-	559,969
Capital outlay	2,872,482	183,021	-	173,485	-	3,228,988
Total expenditures	36,090,154	2,747,081	228,581	6,726,168	1,270,110	47,062,094
Excess of revenues over (under) expenditures	(1,182,210)	(1,838,415)	(177,323)	661	-	(3,197,287)
OTHER FINANCING (USES) SOURCES						
Proceeds from debt financing	4,759,810	-	-	-	-	4,759,810
Operating transfers, net	(2,130,000)	1,400,000	175,000	-	-	(555,000)
Total other financing (uses) sources	2,629,810	1,400,000	175,000	-	-	4,204,810
Net change in fund balances	1,447,600	(438,415)	(2,323)	661	-	1,007,523
Fund balances, beginning	12,247,975	1,585,477	844,383	(1,261)	645	14,677,219
Fund balances, ending	\$ 13,695,575	\$ 1,147,062	\$ 842,060	\$ (600)	\$ 645	\$ 15,684,742

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

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2017

Net change in fund balances, governmental funds	\$ 1,007,523
Amounts reported for governmental activities in the statement of activities are different because:	
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 and reported as depreciation expense. In the current period, these amounts are:	
Capital outlay	1,280,376
Depreciation expense	<u>(2,339,194)</u>
	(1,058,818)
The proceeds from the sale of capital assets are reported as revenue in the governmental funds. The cost of the capital assets is removed from the capital asset account on the statement of net position and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.	
Gain (loss) on disposal of capital assets	(502,542)
Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, loans of this amount were issued.	
	(4,759,810)
Because some revenues will not be collected for several months after the County's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Unearned revenues changed by this amount this year.	
	7,135
Governmental funds report repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	
	5,023,266
The change in estimated landfill closure costs recorded in governmental activities and related expenditures increase or decrease a liability on the government-wide statements, but are not a use of current financial resources in the governmental funds.	
	(64,400)
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. These activities consist of:	
Increase in other post-employment benefits	(1,117,318)
Change in compensated absences	(86,472)
Change in pension expense (see Note 9)	<u>369,853</u>
	<u>(833,937)</u>
Change in net position of governmental activities	<u>\$ (1,181,583)</u>

SOMERSET COUNTY, MARYLAND
STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
June 30, 2017

	<u>Enterprise Fund</u>
	<u>Golf</u>
	<u>Course</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 26,046
Membership receivables	2,961
Inventory	57,690
Total current assets	<u>86,697</u>
Noncurrent assets	
Capital assets at cost	5,125,815
Less accumulated depreciation	(3,635,176)
Total noncurrent assets	<u>1,490,639</u>
Total assets	<u>1,577,336</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	114,391
Due to other funds	48,826
Unearned revenue	60,987
Current maturities of long-term debt	18,778
Total current liabilities	<u>242,982</u>
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>77,472</u>
Total liabilities	<u>320,454</u>
NET POSITION	
Invested in capital assets, net of related debt	1,394,389
Unrestricted deficit	(137,507)
Total net position	<u>\$ 1,256,882</u>

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

SOMERSET COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
Year Ended June 30, 2017

	<u>Enterprise Fund</u>
	Golf
	<u>Course</u>
OPERATING REVENUE	
Charges for services	\$ 417,163
Other operating	770
Total operating revenue	417,933
OPERATING EXPENSES	
Salaries and related taxes	516,170
Repairs and maintenance	72,137
Supplies	178,550
Utilities	51,368
Insurance	63,099
Depreciation and amortization	123,345
Other operating	86,574
Total operating expenses	1,091,243
Net operating loss	(673,310)
NON-OPERATING (EXPENSES) REVENUE	
Financial expense, net	(1,279)
Total non-operating expenses	(1,279)
Loss before contributions, distributions and transfers	(674,589)
Operating transfers, net	555,000
Change in net position	(119,589)
Total net position, beginning	1,376,471
Total net position, ending	\$ 1,256,882

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

SOMERSET COUNTY, MARYLAND

**STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES**
Year Ended June 30, 2017

	<u>Enterprise Fund</u>
	Golf
	Course
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 402,450
Payments to suppliers	(241,358)
Payments to employees	(512,649)
Other payments	(200,271)
Net cash used by operating activities	(551,828)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers	555,000
Net cash provided by noncapital financing activities	555,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from long-term debt	79,792
Principal paid on long-term debt	(12,249)
Interest paid on long-term debt	(1,279)
Additions of capital assets	(97,425)
Net cash used by capital and related financing activities	(31,161)
Net decrease in cash and cash equivalents	(27,989)
Cash and cash equivalents, beginning	54,035
Cash and cash equivalents, ending	\$ 26,046

SOMERSET COUNTY, MARYLAND

**STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES**

(Continued)

Year Ended June 30, 2017

Reconciliation of operating loss to net cash

used by operating activities:

Operating loss	\$ (673,310)
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Adjustments to reconcile operating loss to net cash

used by operating activities:

Depreciation and amortization expense	123,345
---------------------------------------	---------

Changes in assets and liabilities:

Receivables, net	(518)
------------------	-------

Accounts and other payables	49,558
-----------------------------	--------

Inventories	(4,925)
-------------	---------

Unearned revenue	(14,195)
------------------	----------

Due to other funds	(31,783)
--------------------	----------

Net cash used by operating activities	\$ (551,828)
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The Notes to Financial Statements are an integral part of this statement.

SOMERSET COUNTY, MARYLAND

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**
June 30, 2017

	State Tax Fund	Agency	Dental Fund	Retirees Health Fund
ASSETS				
Cash	\$ -	\$ 17,033	\$ 16,363	\$ 135,242
Property taxes receivable	143,140	-	-	-
Due from other funds	266,494	-	-	-
Total assets	\$ 409,634	\$ 17,033	\$ 16,363	\$ 135,242
LIABILITIES				
Due to other governmental units	\$ 409,634	\$ -	\$ -	\$ -
Other liabilities	-	17,033	16,363	135,242
Total liabilities	409,634	17,033	16,363	135,242
NET POSITION				
Restricted	\$ -	\$ -	\$ -	\$ -

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Somerset County, Maryland

Somerset County, Maryland (the “County”) founded in 1666, is governed by a Board of Commissioners form of government and is located in Princess Anne, Maryland. The County directly provides all basic local governmental services.

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 five discretely presented component units – the Board of Education of Somerset County, the Somerset County Liquor Control Board, the Somerset County Sanitary District, Inc., the Somerset County Library System, and the Somerset County Local Management Board. 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. Copies of the financial statements for the component units can be obtained from the County Commissioners’ office in Princess Anne, Somerset County, Maryland.

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

The *Liquor Control Board of Somerset County* (the “Liquor Control Board”) is a separately elected body that oversees the operation of liquor sales in the County. The Liquor Control Board is organized as a separate legal entity, but does not have the power to levy taxes or issue bonds. The County approves the Liquor Control Board’s budget. The Liquor Control Board is included as of and for the year ended April 30, 2017.

The *Somerset County Sanitary District, Inc.* (the “Sanitary District”) is a body politic and corporate that was created by the Somerset County Commissioners. The Commissioners of the Sanitary District, who is appointed by the Somerset County Commissioners, exercises the powers of the Sanitary District. The County is a guarantor of the Sanitary District’s debt. The Sanitary District is authorized and empowered to acquire, hold, construct, reconstruct, repair, improve, maintain, and operate water systems, sewage systems, and disposal plants for the benefit of Somerset County.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

The *Somerset County Library System* (the “Library”) is a separately appointed body that administers the public library system in the County. The Library is organized as a separate legal entity, but does not have the power to levy taxes or issue bonds. The County provides a significant portion of its operational funding.

The *Somerset County Local Management Board* (the “LMB”) is a quasi-governmental agency of Somerset County. The LMB’s purpose is to promote a safe, healthy and stable environment of all Somerset County children and families by achieving a comprehensive system of education, health and human services through public and private interagency collaboration.

Blended component units, although separate legal entities, are part of the government’s operations. The following summarizes the blended component unit of the County:

Blended component unit – There is one blended component unit, which is accounted for as a special revenue fund, that is part of the government’s operations that provides services related to the building, repairing, reconstructing, maintenance, and regulation of the use of the public roads and for the purchase and maintenance of equipment, land and buildings to be used for that purpose. These services are provided by the Somerset County Roads Board (the “Roads Board”).

B. Basis of Presentation

The County’s basic financial statements consist of government-wide statements, including a statement of net assets 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 County except for fiduciary funds. The statements distinguish between those activities of the County that are governmental and those that are considered business-type activities.

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 for business-type activities of the County. 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 which 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 business segment or governmental function is self-financing or draws from general revenues of the County.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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 a more detailed level. The focus of governmental and enterprise 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. Fiduciary funds are reported by type.

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. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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:

General Fund - The general fund is the general operating fund of the County. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Special Revenue Fund - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The County's major special revenue funds are:

Somerset County Roads Board - The Roads Board has control over the public landings, culverts, ferries, roads, and related curbs and gutters in the County. The Roads Board is responsible for building, repairing, reconstructing, maintenance, and regulation of the use of the public roads and for the purchase and maintenance of equipment, land and buildings to be used for that purpose. The authorization to identify the specific purpose for which these funds are used rests with the Roads Board.

Economic Development Commission - The Economic Development Commission ("EDC") is a not-for-profit organization established to enhance the economic viability of the Somerset County area by promoting business attractions, assisting with business retention and expansion projects and fostering the growth of tourist related projects that would create economic opportunity and growth for Somerset County. EDC is presented as a major governmental fund in these financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

C. Fund Accounting (continued)

Hurricane Sandy CDBG Grant – The Hurricane Sandy CDBG Grant funding is to be used for Hurricane Sandy recovery efforts within the County. The grant includes funding for housing rehabilitation as well as economic development related improvements.

In addition, the County has four non-major governmental funds: CDBG Programs, Rental Allowance Program, Special Loan Program and Commission on Aging – SSTAP.

PROPRIETARY FUNDS

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

Enterprise funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The County's major enterprise fund is:

Great Hope Golf Course - The golf course fund is used to account for all financial transactions, related to the operations of the Great Hope Golf Course, a community golf course.

FIDUCIARY FUND TYPES

Fiduciary funds account for assets held by the County in a trustee or agency capacity. Agency funds are custodial in nature and do not involve measurement of results of operations.

Trust and Agency Funds – Trust and Agency Funds are used to account for assets held by the County as an agent for other funds and/or other governments. These funds include the State Tax Fund, the Dental Fund, Retirees Health Fund, and an Agency fund, which includes the following funds, States Attorneys Drug Bust Fund, States Attorneys County Property Federal Forfeiture Fund, Somerset County Detention Center Commissary Fund and Somerset County Detention Center Inmate Welfare Fund.

D. Measurement Focus

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

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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 statements for government funds.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Measurement Focus (continued)

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

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 and fiduciary 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.

E. Basis of Accounting

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 be used to pay liabilities of the current fiscal year. For the County, available is defined as collected within 60 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 specified 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 modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, interest and rent.

Unearned revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements, receivables that were not collected within the available period have been reported as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of 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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

E. Basis of Accounting (continued)

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category.

Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

F. Budgetary Process

The County follows these procedures in establishing the General Fund budgetary data reflected in the financial statements:

- (1) Prior to April 30, the County Administrator submits to the County Commissioners a proposed budget for the fiscal year commencing the following July 1. The budget includes requested expenditures and the means of financing them.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) No later than the first Tuesday in June, the budget is legally enacted through passage of a budget resolution.
- (4) The County Administrator is not authorized to make any transfers of budgeted amounts. Any commitments, which could result in a significant over-expenditure of an appropriation, must be approved by the County Commissioners.
- (5) Formal budgets are employed as a management control device during the year for the general fund and the Roads Board-special revenue fund. Annual budgets are legally adopted and presented in the budgetary comparison schedules for the general fund and Roads Board-special revenue fund.

G. Cash Equivalents

For purposes of the statement of cash flows, the enterprise funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

H. Property Tax

Property taxes are levied on July 1 and become delinquent on October 1. Taxes are assessed an interest penalty after September 30. Owner occupied residential property owners may pay their taxes annually or semiannually. The first payment must be paid by September 30. The second payment is due on or before December 31. If the second payment has not been paid by the due date, taxes are assessed interest and penalties. The County bills and collects its own taxes. County property tax revenue is recognized when collected.

I. Inventories

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 Roads Board and the enterprise funds are stated at the lower of cost (moving average method) or market on a first-in, first-out basis.

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 fixed assets are recorded at their fair market values as of the date received. The County maintains a capitalization threshold of \$5,000. 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 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 the following useful lives:

	Discretely Presented Component Units				
	Governmental Activities	Business-Type Activities	Board of Education	Library	Sanitary District
Buildings and improvements	20 - 60 years	15 - 60 years	7 - 50 years	N/A	N/A
Improvements, non-buildings	10 - 60 years	7 - 30 years	20 years	N/A	N/A
Vehicles	3 - 10 years	N/A	8 years	N/A	12 years
Furniture, machinery and equipment	5 - 20 years	5 - 10 years	5 - 15 years	5 years	3 - 10 years
Library materials	N/A	N/A	5 years	10 years	N/A
Water and sewer plant, mains and lines	N/A	N/A	N/A	N/A	40 years
Water and sewer equipment	N/A	N/A	N/A	N/A	20 - 30 years

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

K. Compensated Absences

The County accrues a liability for vested compensated absences including vacation and compensatory time with various limitations on each type of compensated absence. All accrued compensated absences liabilities are recorded in the government-wide financial statements.

County employees earn annual leave based on length of service. Annual leave accumulates, and any unused portion is paid upon termination. Annual leave generally must be taken by December 31 each year. Up to 50 days may be transferred to the next fiscal year.

Sick leave for all County employees is earned at a rate of 6.67 hours per month. 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

During fiscal year 2013, the Governmental Accounting Standards Board's Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was implemented. This statement provides a standardized presentation for deferred outflows of resources and deferred inflows of resources and their effect on a government's 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, net of related debt 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 are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

M. Net Position (continued)

Restricted resources are applied first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

N. Fund Balance Reserves

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

Nonspendable – Amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. Nonspendable fund balances also consist of prepaid amounts.

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 determined by the formal action of the County Commissioners' ordinances or resolutions.

Assigned – Amounts that are designated by the Commissioners or management with intent to be used for specific purposes, but are neither restricted or committed by ordinance or resolution.

Unassigned – Amounts not included in other spendable classifications.

O. 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 golf course activities.

Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Revenues not meeting these definitions are reported as non-operating.

P. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Q. 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 fiduciary activities. These amounts are reflected as Due to fiduciary funds.

NOTES TO FINANCIAL STATEMENTS

Note 3. Deposits and Investments

A. Deposits

Primary Government

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

At June 30, 2017, the Primary Government had deposits with various commercial banks of \$16,794,241 (carrying value \$14,685,999). As required by law, a depository is to pledge securities, in addition to Federal Deposit Insurance Corporation ("FDIC") insurance, at least equal to the amount on deposit at all times. The depository banks pledge collateral for specific accounts, which are held in the County's name by their trust departments or agents. At June 30, 2017 the deposits were fully insured or collateralized. Petty cash totaled \$1,110 as of June 30, 2017.

Board of Education

At June 30, 2017, the Board's demand deposits, savings deposits and certificates of deposit were covered by FDIC insurance in the amount of \$250,000 and \$2,343,507 (carrying value \$2,305,272) was collateralized with federal securities held by the bank's trust department, in the Board's name. The Board's exposure to investment rate and credit risk is minimal, as all investments are in cash and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by attempting to have all investments fully collateralized by securities.

Library

At June 30, 2017 the Library had deposits with various commercial banks totaling \$637,901 (carrying value \$591,703), which were either fully insured or collateralized with securities held in the name of the Library.

Sanitary District

At June 30, 2017, the Sanitary District had deposits with various commercial banks totaling \$2,103,077 (carrying value \$2,407,609). All deposits were fully collateralized as of June 30, 2017.

Liquor Control Board

At April 30, 2017, the Liquor Control Board had deposits with various commercial banks totaling \$86,106 (carrying value \$86,545), which were either fully insured or collateralized with securities held in the name of the Liquor Control Board.

LMB

At June 30, 2017, the LMB had deposits with various commercial banks totaling \$308,525 (carrying value \$308,525). All deposits were fully insured as of June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

Note 3. Deposits and Investments (continued)

B. Investments

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 94 22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Institutional Investments, 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 quarterly basis and provide suggestions to enhance the pool. The MLGIP is rated AAA by Standard and Poor's. The fair value of the pool is the same as the value of the pool shares.

At June 30, 2017, the County and the Library had investments in MLGIP of \$71,984 and \$47,362, respectively, which are recorded at fair value.

The County's exposure to investment rate and credit risk is minimal, as all investments are in cash, MLGIP, or certificates of deposit and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by having investments collateralized by securities as mentioned previously.

At June 30, 2017, the Library had investments in the Community Foundation of the Eastern Shore totaling \$56,084 (carrying value \$56,084).

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, 2017, appropriate due from/to other funds have been established.

Due from/to other funds balances as of June 30, 2017 were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental activities	\$ 1,434,290	\$ 1,651,958
Business-type activities	-	48,826
Fiduciary fund	266,494	-
	<hr/>	<hr/>
	\$ 1,700,784	\$ 1,700,784

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Transfers and Additions	Transfers and Reductions	Balance June 30, 2017
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,906,626	\$ 315,151	\$ -	\$ 4,221,777
Construction in progress	1,714,662	77,637	(1,346,004)	446,295
Total capital assets, not being depreciated	<u>5,621,288</u>	<u>392,788</u>	<u>(1,346,004)</u>	<u>4,668,072</u>
Capital assets, being depreciated:				
Buildings and improvements	18,210,938	152,741	62,645	18,426,324
Improvements, non-buildings	60,936,794	115,100	557,490	61,609,384
Vehicles	4,236,996	338,854	28,117	4,603,967
Furniture, machinery and equipment	10,327,696	280,893	174,715	10,783,304
Total capital assets, being depreciated	<u>93,712,424</u>	<u>887,588</u>	<u>822,967</u>	<u>95,422,979</u>
Less accumulated depreciation:				
Buildings and improvements	5,465,201	440,234	-	5,905,435
Improvements, non-buildings	38,763,562	1,139,305	(20,495)	39,882,372
Vehicles	3,522,084	206,076	-	3,728,160
Furniture, machinery and equipment	7,264,896	553,579	-	7,818,475
Total accumulated depreciation	<u>55,015,743</u>	<u>2,339,194</u>	<u>(20,495)</u>	<u>57,334,442</u>
Total capital assets, being depreciated, net	<u>38,696,681</u>	<u>(1,451,606)</u>	<u>843,462</u>	<u>38,088,537</u>
Governmental activities capital assets, net	<u>\$ 44,317,969</u>	<u>\$ (1,058,818)</u>	<u>\$ (502,542)</u>	<u>\$ 42,756,609</u>
 Business-Type Activities:				
Great Hope Golf Course				
Capital assets, being depreciated:				
Land improvements	\$ 3,093,557	\$ 5,133	\$ -	\$ 3,098,690
Buildings and improvements	1,361,623	-	-	1,361,623
Furniture, machinery and equipment	573,210	92,292	-	665,502
Total capital assets, being depreciated	<u>5,028,390</u>	<u>97,425</u>	<u>-</u>	<u>5,125,815</u>
Less accumulated depreciation:				
Land improvements	2,334,198	84,598	-	2,418,796
Buildings and improvements	665,250	22,076	-	687,326
Furniture, machinery and equipment	512,383	16,671	-	529,054
Total accumulated depreciation	<u>3,511,831</u>	<u>123,345</u>	<u>-</u>	<u>3,635,176</u>
Total capital assets, being depreciated, net	<u>1,516,559</u>	<u>(25,920)</u>	<u>-</u>	<u>1,490,639</u>
Business-type activities capital assets, net	<u>\$ 1,516,559</u>	<u>\$ (25,920)</u>	<u>\$ -</u>	<u>\$ 1,490,639</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (continued)

	Balance June 30, 2016	Additions	Transfers and Reductions	Balance June 30, 2017
Board of Education				
Capital assets, not being depreciated:				
Land	\$ 493,252	\$ -	\$ -	\$ 493,252
Construction in progress	734,284	2,900,696	(118,491)	3,516,489
Total capital assets, not being depreciated	<u>1,227,536</u>	<u>2,900,696</u>	<u>(118,491)</u>	<u>4,009,741</u>
Capital assets, being depreciated:				
Land improvements	3,295,046	-	100,000	3,395,046
Buildings and improvements	72,558,991	43,182	18,491	72,620,664
Library materials	2,763,693	-	(2,763,693)	-
Vehicles	248,644	62,700	-	311,344
Furniture, machinery and equipment	3,156,948	94,601	-	3,251,549
Total capital assets, being depreciated	<u>82,023,322</u>	<u>200,483</u>	<u>(2,645,202)</u>	<u>79,578,603</u>
Less accumulated depreciation:				
Land improvements	2,854,899	46,511	-	2,901,410
Buildings and improvements	23,559,101	1,745,423	-	25,304,524
Library materials	2,763,693	-	(2,763,693)	-
Vehicles	62,067	31,471	-	93,538
Furniture, machinery and equipment	2,720,660	89,611	-	2,810,271
Total accumulated depreciation	<u>31,960,420</u>	<u>1,913,016</u>	<u>(2,763,693)</u>	<u>31,109,743</u>
Total capital assets, being depreciated, net	<u>50,062,902</u>	<u>(1,712,533)</u>	<u>118,491</u>	<u>48,468,860</u>
Total Board of Education capital assets, net	\$ 51,290,438	\$ 1,188,163	\$ -	\$ 52,478,601

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (continued)

	Balance June 30, 2016	Additions	Transfers and Reductions	Balance June 30, 2017
Library				
Capital assets, not being depreciated:				
Land	\$ 195,060	\$ -	\$ -	\$ 195,060
Total capital assets, not being depreciated	<u>195,060</u>	<u>-</u>	<u>-</u>	<u>195,060</u>
Capital assets, being depreciated:				
Books and media	838,434	81,226	(112,239)	807,421
Furniture, machinery and equipment	678,844	22,333	-	701,177
Buildings	5,792,761	233,512	-	6,026,273
Total capital assets, being depreciated	<u>7,310,039</u>	<u>337,071</u>	<u>(112,239)</u>	<u>7,534,871</u>
Less accumulated depreciation:				
Books and media	454,206	87,905	(112,239)	429,872
Furniture, machinery and equipment	225,077	72,948	-	298,025
Buildings	12,978	152,114	-	165,092
Total accumulated depreciation	<u>692,261</u>	<u>312,967</u>	<u>(112,239)</u>	<u>892,989</u>
Total capital assets, being depreciated, net	<u>6,617,778</u>	<u>24,104</u>	<u>-</u>	<u>6,641,882</u>
Total Library capital assets, net	<u>\$ 6,812,838</u>	<u>\$ 24,104</u>	<u>\$ -</u>	<u>\$ 6,836,942</u>
 Sanitary District				
Capital assets, not being depreciated:				
Land	\$ 17,512	\$ -	\$ -	\$ 17,512
Construction in progress	5,142,878	324,291	-	5,467,169
Total capital assets, not being depreciated	<u>5,160,390</u>	<u>324,291</u>	<u>-</u>	<u>5,484,681</u>
Capital assets, being depreciated:				
Sewage treatment plants and lines	38,499,652	-	-	38,499,652
Water plants and lines	12,060,509	-	-	12,060,509
Equipment and vehicles	3,255,807	33,736	-	3,289,543
Total capital assets, being depreciated	<u>53,815,968</u>	<u>33,736</u>	<u>-</u>	<u>53,849,704</u>
Less accumulated depreciation:				
Sewage treatment plants and lines	22,205,931	904,537	-	23,110,468
Water plants and lines	6,583,581	269,307	-	6,852,888
Equipment and vehicles	2,463,505	114,353	-	2,577,858
Total accumulated depreciation	<u>31,253,017</u>	<u>1,288,197</u>	<u>-</u>	<u>32,541,214</u>
Total capital assets, being depreciated, net	<u>22,562,951</u>	<u>(1,254,461)</u>	<u>-</u>	<u>21,308,490</u>
Total Sanitary District capital assets, net	<u>\$ 27,723,341</u>	<u>\$ (930,170)</u>	<u>\$ -</u>	<u>\$ 26,793,171</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 262,161
Public safety	495,437
Public works	1,487,892
Recreation and culture	75,026
Health	<u>18,678</u>
 Total depreciation expense	 <u>\$ 2,339,194</u>

Note 6. Notes Payable and Long-Term Debt

Sanitary District

Notes payable of the Sanitary District consists of unsecured demand notes due a bank. Amounts borrowed are used to pay construction costs until either the Federal or State grant amounts are received, or until long-term financing can be obtained for the local share portion of project costs.

Liquor Control Board

The Liquor Control Board has a line of credit with Hebron Savings Bank for \$150,000 with interest at 5%. At April 30, 2017, the outstanding balance was \$28,288.

NOTES TO FINANCIAL STATEMENTS

Note 6. Notes Payable and Long-Term Debt (continued)

Notes payable and long-term debt at June 30, 2017 is comprised of the following issues:

	Interest Rate	Fiscal Year <u>Issued</u>	Fiscal Year <u>Matures</u>
<u>Primary Government</u>			
Governmental Activities			
Bonds and Notes Payable			
Landfill Bond of 1997	4.50	1998	2030
Maryland Water Quality Financing Admin - Landfill Closure	2.00	2002	2021
USDA - Permanent Financing Cell 2	4.38	2004	2044
BB&T - Refinancing	4.17	2005	2020
USDA RDA - Smith Island Incinerator	4.25	2006	2020
M&T Bank - Board of Education - Phase I	4.19	2006	2021
M&T Bank - Board of Education - Phase II	3.91	2007	2017
Bank of America - Board of Education Capital 2009	3.89	2008	2025
Bank of America - Board of Education Capital 2008	3.44	2009	2019
USDA - Cell 3 Loan 1	4.25	2009	2049
MEA - County Complex HVAC	0.00	2010	2021
SunTrust - Board of Education Capital 2010	2.13	2014	2024
USDA - Cell 4	2.13	2014	2043
Hebron Savings Bank - Board of Education Capital 2015	0.99	2015	2017
Hebron Savings Bank - County Buildings	0.99	2015	2017
Hebron Savings Bank - Board of Education Capital 2017	0.99	2017	2019
Hebron Savings Bank - Board of Education/Library/Tax Collection	1.75	2017	2026
Hebron Savings Bank - Vehicle Loans	4.50	2017	2022
Other			
County Commissioners - capital lease obligation	5.45	2015	2019
County Commissioners - capital lease obligation	5.45	2016	2020
County Commissioners - capital lease obligation	3.11	2016	2020
County Commissioners - capital lease obligation	4.97	2017	2021
County Commissioners - landfill closure/post-closure care costs	-	-	-
Total Governmental Activities			
Business -type Activities			
Other			
County Commissioners - capital lease obligation	5.00	2013	2018
County Commissioners - capital lease obligation	5.00	2013	2018
County Commissioners - capital lease obligation	5.20	2015	2021
County Commissioners - capital lease obligation	3.32	2017	2023

NOTES TO FINANCIAL STATEMENTS

<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding June 30, 2017</u>	<u>Amount Due in One Year</u>
\$ 3,300,000	\$ 1,820,916	\$ -	\$ 98,005	\$ 1,722,911	\$ 102,534
2,151,215	646,425	-	124,216	522,209	157,680
1,765,000	1,505,548	-	28,276	1,477,272	29,337
1,783,654	520,329	-	141,039	379,290	147,013
100,000	36,858	-	7,606	29,252	7,934
2,000,000	809,428	-	148,673	660,755	155,071
1,700,000	201,240	-	201,240	-	-
2,300,000	1,466,106	-	148,499	1,317,607	154,165
4,000,000	1,022,930	-	444,948	577,982	460,450
2,200,000	2,014,078	-	29,525	1,984,553	30,802
300,000	150,000	-	30,000	120,000	30,000
4,075,000	3,039,083	-	391,956	2,647,127	400,360
3,799,000	3,541,657	-	97,216	3,444,441	99,115
2,000,000	2,000,000	-	2,000,000	-	-
1,000,000	1,000,000	-	1,000,000	-	-
4,000,000	-	1,588,890	-	1,588,890	1,588,890
3,000,000	-	3,000,000	69,835	2,930,165	278,390
55,585	-	55,585	4,178	51,407	10,333
69,497	41,620	-	13,144	28,476	13,860
62,019	48,265	-	11,124	37,141	11,730
44,700	35,204	-	8,401	26,803	8,662
115,335	-	115,335	25,357	89,978	20,885
-	2,020,610	64,400	-	2,085,010	-
\$ 21,920,297	\$ 4,824,210	\$ 5,023,238	\$ 21,721,269	\$ 3,707,211	
\$ 20,981	\$ 7,502	\$ -	\$ 4,435	\$ 3,067	\$ 3,067
20,500	4,500	-	4,500	-	-
20,106	16,705	-	3,314	13,391	3,490
79,792	-	79,792	-	79,792	12,221
\$ 28,707	\$ 79,792	\$ 12,249	\$ 96,250	\$ 18,778	

NOTES TO FINANCIAL STATEMENTS

Note 6. Notes Payable and Long-Term Debt (continued)

	<u>Interest Rate</u>	<u>Fiscal Year Issued</u>	<u>Fiscal Year Matures</u>
<u>Proprietary Fund Types</u>			
<u>Sanitary District</u>			
<u>Long-Term Debt</u>			
<u>General Bonded Debt</u>			
Rumbley-Frenchtown Subdistrict	5.00	1982	2021
Infrastructure Bond	2.00-4.63	1994	2024
Fairmount-Rumbley-Frenchtown District	4.50	1994	2035
Crisfield Peripheral Sewer Project	4.50	1996	2026
Princess Anne Subdistrict	4.50	2003	2042
Jacksonville Subdistrict	0.00	2005	2035
Princess Anne Subdistrict	4.13	2007	2047
Princess Anne Subdistrict	4.13	2007	2047
Princess Anne Subdistrict	3.88	2013	2023
Princess Anne Subdistrict	4.38	2010	2049
Princess Anne Subdistrict	3.50	2013	2053
Princess Anne Subdistrict	3.50	2013	2053
Princess Anne Subdistrict	3.13	2013	2053
Princess Anne Subdistrict	4.19	2013	2023
Princess Anne Subdistrict	4.00	2014	2035
Jacksonville Subdistrict	2.00	2014	2021
PASE Overrun Loan	3.20	2017	2026
<u>State Loans</u>			
Water tanks - Princess Anne	5.80	1994	2027
Total Sanitary District			

NOTES TO FINANCIAL STATEMENTS

<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding June 30, 2017</u>
\$ 10,000	\$ 2,373	\$	\$ 471	\$ 1,902
1,825,200	863,500	-	99,500	764,000
333,000	224,398	-	8,108	216,290
323,000	239,588	-	14,490	225,098
1,402,082	888,843	-	36,206	852,637
32,000	20,266	-	1,068	19,198
2,770,900	2,469,663	-	40,746	2,428,917
365,700	325,940	-	5,378	320,562
80,000	50,680	-	7,628	43,052
4,200,000	3,929,181	-	52,294	3,876,887
1,228,250	1,197,242	-	16,302	1,180,940
427,118	416,333	-	5,670	410,663
2,525,900	2,456,790	-	36,183	2,420,607
30,000	19,826	-	2,900	16,926
267,100	239,400	-	9,500	229,900
101,467	65,200	-	12,400	52,800
100,000	-	100,000	16,421	83,579
327,411	196,076	-	11,759	184,317
<u>\$ 13,605,299</u>	<u>\$ 100,000</u>	<u>\$</u>	<u>\$ 377,024</u>	<u>\$ 13,328,275</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Notes Payable and Long-Term Debt (continued)

A summary of debt service requirements to maturity by years for long-term debt is approximately as follows:

Primary Government

Years Ending June 30,	Principal	Interest	Total
2018	\$ 3,707,211	\$ 538,606	\$ 4,245,817
2019	1,823,173	462,285	2,285,458
2020	1,659,132	411,940	2,071,072
2021	1,595,557	367,011	1,962,568
2022	1,254,253	326,738	1,580,991
2023 - 2027	4,369,645	1,213,852	5,583,497
2028 - 2032	2,912,819	787,914	3,700,733
2033 - 2037	1,491,094	564,146	2,055,240
2038 - 2042	1,720,328	334,909	2,055,237
2043 - 2047	1,025,774	106,643	1,132,417
2048 - 2052	162,283	10,532	172,815
<hr/>			
Total governmental activities	\$ 21,721,269	\$ 5,124,576	\$ 26,845,845

Interest expense on all indebtedness totaled \$559,969 for the County.

NOTES TO FINANCIAL STATEMENTS

Note 6. Notes Payable and Long-Term Debt (continued)

Discretely Presented Component Units

Sanitary District

Years Ending June 30,	Principal	Interest	Total
2018	\$ 373,450	\$ 533,708	\$ 907,158
2019	386,135	520,391	906,526
2020	400,252	505,463	905,715
2021	415,455	489,342	904,797
2022	416,601	472,456	889,057
2023 - 2027	1,858,164	2,118,659	3,976,823
2028 - 2032	1,849,094	1,732,474	3,581,568
2033 - 2037	1,788,049	1,331,933	3,119,982
2038 - 2042	1,896,800	976,942	2,873,742
2043 - 2047	2,300,991	569,824	2,870,815
2048 - 2052	1,458,851	144,538	1,603,389
2052 - 2056	184,433	2,640	187,073
Total Sanitary District	\$ 13,328,275	\$ 9,398,370	\$ 22,726,645

Interest expense on all indebtedness totaled \$565,622 for the Sanitary District.

Note 7. Leases

Primary Government

Long-Term Debt

The County has entered into eight long-term capital leases for the purpose of acquiring equipment and vehicles. Since these leases are financing arrangements which transfer ownership at the end of the term, the County has recorded these lease obligations and the related assets in the appropriate fund. The original cost of assets acquired under these capital leases is \$20,981, \$20,500, \$20,106, \$79,792, \$69,497, \$62,019, \$44,700, and \$115,335 with accumulated depreciation of \$17,834, \$14,350, \$4,189, \$0, \$25,648, \$10,337, \$11,175, and \$10,984.

Liquor Control Board

The Liquor Control Board has entered into a five year lease for their Crisfield location from January 1, 2017 to December 31, 2021 at \$650 per month.

NOTES TO FINANCIAL STATEMENTS

Note 7. Leases (continued)

LMB

In December 2015, the LMB entered into an agreement with the County for the use of office space. Under the terms of the agreement the LMB uses the premises, paying \$1 for the entire term. Lease expense for the year ended June 30, 2017 was \$0.

Note 8. Net Position

Sanitary District

Restricted for debt service - This restriction was created to segregate a portion of net position for debt service, including both principal and interest payments. The reservation was established to satisfy legal restrictions imposed by various bond agreements.

Note 9. Retirement and Pension Plans

The County maintains or participates in certain retirement plans which provide benefits to its employees. The various plans and plan participants are outlined below:

Employees	Plan
Board of Education	Maryland State Retirement and Pension System
Library	Maryland State Retirement and Pension System
Somerset County:	
County employees and appointed officers	Maryland State Retirement and Pension System
Economic Development Commission	Maryland State Retirement and Pension System

Maryland State Retirement and Pension System

Organization

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, boards of education, community colleges, and libraries. The Municipal Pool consists of the 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.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems – which includes the Correctional Officers' Retirement System (“CORS”), State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System (“LEOPS”).

The employees participating in each plan are as follows:

<u>Employees</u>	<u>Plan</u>
Board of Education – teachers and regular employees	Teachers' and Employees' System
Library	Teachers' System
Somerset County:	
County employees and appointed officers	Employees' System
Economic Development Commission	Employees' System

The System is a cost-sharing multiple-employer defined benefit pension plan.

Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting in accordance with GAAP. 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 and 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.

Covered Members

Teachers' Retirement and Pension Systems

The Teachers' Retirement System was established on August 1, 1927, to provide retirement allowances and other benefits to teachers in the State. Effective January 1, 1980, the Teachers' Retirement System was closed to new members and the Teachers' Pension System was established. As a result, teachers hired after December 31, 1979, became members of the Teachers' Pension System as a condition of employment. On or after January 1, 2005, an individual who is a member of the Teachers' Retirement System may not transfer membership to the Teachers' Pension System.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

Employees' Retirement and Pension Systems

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. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the Employees' Pension System as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System.

The Law Enforcement Officers' Pension System (LEOPS)

The Law Enforcement Officers' Pension System (LEOPS) was established on July 2, 1990, to provide retirement allowances and other benefits for certain State and local law enforcement officers. This System includes both retirement plan and pension plan provisions which are applicable to separate portions of this System's membership. The retirement plan provisions are only applicable to those members who, on the date they elected to participate in LEOPS, were members of the Employees' Retirement System. This System's pension plan provisions are applicable to all other participating law enforcement officers.

Summary of Significant Plan Provisions

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. For all individuals who are members of the Employees', Teachers', Correctional Officers', or State Police Retirement System on or before June 30, 2011, retirement allowances are computed using both the highest three years' Average Final Compensation ("AFC") and the actual number of years of accumulated creditable service. For individuals who become members of the State Police Retirement System or the Correctional Officers' Retirement System on or after July 1, 2011, retirement allowances are computed using both the highest five years' AFC and the actual number of years of accumulated creditable service. For all individuals who are members of the pension systems of the State Retirement and Pension System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive year's AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

Beginning July 1, 2011, the member contribution rate was increased for members of the Teachers' Pension System and Employees' Pension Systems from 5% to 7% and from 4% to 6% respectively, in fiscal year 2013 and 7% in fiscal year 2014 and beyond for members of the Law Enforcement Officers' Pension System. Beginning July 1, 2013, the member contribution rate was increased for members of the Judges' Retirement System from 6% to 8%.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

In addition, the benefit attributable to service on or after July 1, 2011 in many of the pension systems now will be subject to different cost-of-living adjustments ("COLA") that is based on the increase in the Consumer Price Index ("CPI") and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation (currently 7.55%).

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems are as follows:

Service Retirement Allowances

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employee's Pension System.

Exceptions to these benefit formulas apply to members of the Employees' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for these members equals 0.8% of the member's AFC up to the social security integration level ("SSIL"), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

A member of the Law Enforcement Officers' Pension System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance for a member who is covered under the retirement plan provisions equals 1/50 (2.0%) of the member's AFC multiplied by the number of years of accumulated creditable service up to 30 years, plus 1/100 (1.0%) of the member's AFC multiplied by the number of years of accumulated creditable service in excess of 30 years. For members subject to the pension provisions, full service pension allowances equal 2.0% of AFC up to a maximum benefit of 60% (30 years of credit).

Vested Allowances

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

Early Service Retirement

A member of either the Teachers' or Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' or Employees' Retirement System member is 30%.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' or Employees' Pension System is 42%. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' or Employees' Pension System is 30%.

Members of the State Police, Judges', Law Enforcement Officers', and Local Fire and Police Systems are not eligible for early service benefits.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 2/3 (66.7%) of the member's AFC plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

Adjusted Retirement Allowances

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formula. Such adjustments for retirees are based on the annual change in the CPI. For the Teachers' and Employees' Retirement Systems ("TRS"/"ERS") the method by which the annual COLA's are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984) enabling the member to receive either an unlimited COLA, a COLA limited to 5%, or a two-part combination COLA depending upon the COLA election made by the member.

For Correctional Officers' Retirement System retirees, prior to July 1, 2011, unlimited compounded COLAs are effective July 1 and are applied to all benefits which have been in payment for one year. With certain exceptions, effective July 1, 1998, for Teachers', Employees', and LEOPS retirees, the adjustment is capped at a maximum 3% compounded and is applied to all benefits which have been in payment for one year. The annual increases to pension allowances for Employees' Pension System retirees who were employed by a participating governmental unit that does not provide enhanced pension benefits are limited to 3% of the initial allowance.

However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, in all of the systems except the judges' and legislators' systems, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year fair value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 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
Remaining Amortization Period	In the 2012 actuarial valuation: 8 years remaining as of June 30, 2012 for prior UAAL existing on June 30, 2000 and 25 years from each subsequent valuation date for each year's additional UAAL for the State systems and ECS Muni. 27 years for LEOPS Muni, and 34 years for CORS Muni. In the 2013 actuarial valuation: 24 years for the State Systems, 25 years for LEOPS Muni, and 31 years for CORS Muni. For ECS Muni: 6 years remaining for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL.
Asset Valuation Method	five-year smoothed market; 20% collar
Inflation	In the 2012 actuarial valuation, 3.00% general, 3.50% wage. In the 2013 actuarial valuation, 2.95% general, 3.45% wage. In the 2014 actuarial valuation, 2.90% general, 3.40% wage.
Salary Increases	In the 2012 actuarial valuation, 3.50% to 10.75% including inflation. In the 2013 actuarial valuation, 3.45% to 10.70% including inflation. In the 2014 actuarial valuation, 3.40% to 10.65% including inflation.
Investment Rate of Return	In the 2012 actuarial valuation, 7.75%. In the 2013 actuarial valuation, 7.70%. In the 2014 actuarial valuation, 7.65%.
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

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 weighting 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	37%	6.6%
Private Equity	10%	7.4%
Rate Sensitive	20%	1.3 %
Credit Opportunity	9%	4.2 %
Real Assets	15%	4.7 %
Absolute Return	9%	3.7%
<hr/>		
Total	<hr/> <u>100 %</u>	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2016.

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 1.10%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A single discount rate of 7.55% was used to measure the total pension liability. This 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.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

Sensitivity of the Net Pension Liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.55%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

System	1 % Decrease to 6.55 %	Current Discount	1 % Increase to 8.55 %
County	\$ 10,560,709	\$ 7,688,418	\$ 5,928,242
Board of Education	2,793,316	2,033,593	1,401,389
Sanitary District	1,078,423	785,111	541,038

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

Employer Contributions:

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board of Education is required to pay the 100% of the normal cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. As contractually required, for the fiscal year ending June 30, 2017, the BOE contributed \$925,708 to the Teachers' Retirement and Pension System. In addition, the State of Maryland contributed \$2,722,323 on behalf of the BOE. The BOE has recognized the State on-behalf payments as both a revenue and expense.

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 BOE and Library, and the BOE pays the normal cost for the Teachers' Systems, the BOE and Library are not required to record their respective shares of the unfunded pension liability for the Teachers' Systems – the State of Maryland is required to record that liability. The BOE is required to record a liability for the Employees' Systems.

At June 30, 2017, the BOE reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the BOE. The amount recognized by the BOE 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 BOE were as follows:

BOE's proportionate share of the net pension liability (Employees' Systems)	\$ 2,033,593
State's proportionate share of the net pension liability (Teachers' Systems)	30,644,320
Total	\$ 32,677,913

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The BOE's proportion of the net pension liability was calculated as follows by the System(s):

- 1) Calculate the net pension liability for the entire System. 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 (the "State") and one for the Participating Governmental Units ("PGUs"). These pools are kept on an actuarial basis and allow for the State to fund only State employees and PGUs to fund only PGU employees. For the accounting of the System, however, the assets of the System are accounted for in a single pool which is audited annually.
- 2) Determine the total contributions to the System by the State and PGUs, inclusive of any underfunding of contributions.
- 3) Based on the number of participants at each Board of Education, calculate the difference between what each BOE would have contributed if they funded at the rate of all other participating governments and what the BOE actually contributed. The difference between what the BOE 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) Calculate, for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each primary government contribution.
- 5) Provide each PGU its adjusted percentage of the contribution and the System's net pension liability and other related amounts.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

At June 30, 2017, the County reported the following related to pensions:

	<u>BOE</u>	<u>County</u>	<u>Sanitary</u>
Employer's proportion (percentage) of the collective net pension liability	0.0086191%	0.0325863%	0.0033276%
Employer's proportionate share of the collective net pension liability	\$ 2,033,593	\$ 7,688,418	\$ 785,111
Pension expense recognized by the employer for the year ended June 30, 2017	167,908	261,582	64,824
Deferred inflows of resources at June 30, 2016	126,860	641,755	65,584
Difference between expected and actual experience	22,281	84,238	8,602
Amortization of items allowed by GASB 68	(37,486)	(194,388)	(19,693)
Deferred inflows of resources at June 30, 2017	111,655	531,605	54,493
Deferred outflows of resources at June 30, 2016	422,752	1,728,766	185,561
Year ended June 30, 2016 contributions	(410,743)	(634,879)	(64,824)
Difference between expected and actual experience	325,589	762,637	77,877
Change in assumptions	118,964	-	-
Amortization of items allowed by GASB 68	(52,569)	(262,197)	(28,870)
Year ended June 30, 2017 contributions	167,734	631,705	67,596
Total deferred outflows of resources	571,727	2,226,032	237,340
Net pension liability June 30, 2016	1,757,925	7,450,863	827,507
Change in net pension liability factored for contributions	275,668	237,555	(42,396)
Net pension liability June 30, 2017	2,033,593	7,688,418	785,111

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

At June 30, 2017, the County and BOE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

County

Year Ended June 30,	2016 Balance Amortization			2015 Balance Amortization			2014 Balance Amortization		
	Deferred Outflows		Deferred Inflows	Deferred Outflows		Deferred Inflows	Deferred Outflows		Deferred Inflows
	Net Difference in Investment Earnings	Actual and Expected Experience		Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings	
2018	\$ 190,659	\$ (17,317)		\$ 164,067	\$ 76,587	\$ (31,332)	\$ 21,550	\$ (163,056)	
2019	190,659	(17,317)		164,067	76,587	(31,332)	21,548	(163,056)	
2020	190,659	(17,317)		164,067	76,587	(31,332)	-	-	
2021	190,660	(17,317)		-	66,630	(27,259)	-	-	
2022		(14,971)		-	-	-	-	-	
Total	\$ 762,637	\$ (84,239)		\$ 492,201	\$ 296,391	\$ (121,255)	\$ 43,098	\$ (326,112)	

Board of Education

Year Ended June 30,	2016 Balance Amortization			2015 Balance Amortization			2014 Balance Amortization		
	Deferred Outflows		Deferred Inflows	Deferred Outflows		Deferred Inflows	Deferred Outflows		Deferred Inflows
	Net Difference in Investment Earnings	Actual and Expected Experience		Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings	
2018	\$ 40,344	\$ (4,456)		\$ 30,967	17,600	\$ (7,200)	\$ 4,003	\$ (30,286)	
2019	40,344	(4,456)		30,968	17,600	(7,200)	4,003	(30,286)	
2020	40,344	(4,456)		30,968	17,599	(7,201)	-	-	
2021	40,344	(4,456)		30,968	17,599	(7,201)	-	-	
2022	40,344	(4,456)		-	-	-	-	-	
Total	\$ 201,720	\$ (22,280)		\$ 123,871	\$ 70,398	\$ (28,802)	\$ 8,006	\$ (60,572)	

The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.8647, 5.87 and 5 years for the years ended June 30, 2016, 2015, and 2014, respectively. The net difference in investment earnings for 2016, 2015, and 2014 is being amortized over a closed 5-year period.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement and Pension Plans (continued)

	Total Payroll	Covered Payroll	On-Behalf by State
County - MD Retirement and Pension System	\$ 9,380,082	\$ 7,752,541	\$ -
Board of Education	27,598,290	25,112,246	2,722,323
Library	483,057	316,646	70,071

Covered payroll refers to all compensation paid to active employees covered by the Systems.

Pension contributions made by the State of Maryland on behalf of the Board of Education and the Library are recognized as both revenue and expenditure.

The net pension liability of the Roads Board and Golf Course at June 30, 2017 has not been separately identified by the Maryland State Retirement and Pension System. However, this liability has been included in the net pension liability of \$7,688,418 for Governmental Activities on the County's Statement of Net Position at June 30, 2017.

Note 10. Deferred Compensation Plan

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 salary 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 Nationwide Retirement Solutions Incorporated (NRS).

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.

A summary of the activity in the plan for the year ended June 30, 2017, is as follows:

Balance, beginning of year	\$ 2,694,356
Employee contributions	179,933
Earnings on investments	323,224
Distributions	(95,618)
Balance, end of year	<u>\$ 3,101,895</u>

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits

The County and Board of Education administer a single-employer defined benefit healthcare plan ("the Plan"). The Plan provides healthcare insurance for eligible retirees and their spouses through the County's and Board of Education's group health insurance plan, which covers both active and retired members.

The County's employees are eligible to participate in the Plan upon retirement at the appropriate ages and years of service. As of July 2016, the date of the last actuarial valuation, approximately 55 retirees were receiving benefits and an estimated 152 active employees were potentially eligible to receive future benefits.

The Board of Education's benefit provisions are based on contractual agreements with employee groups. Employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teacher's pension system, which are 15 years of service up to age 55 or 10 years of service at age 60. As of June 30, 2016, the date of the last actuarial valuation, approximately 238 retirees were receiving benefits, and an estimated 447 active employees are potentially eligible to receive future benefits.

The Library's employees are eligible to participate in the Plan upon retirement at the appropriate ages and years of service. As of July 2016, the date of the last actuarial valuation, approximately 3 retirees were receiving benefits and an estimated 5 active employees were potentially eligible to receive future benefits.

The County and Library pay retiree healthcare premiums based on the plan selected. The County and Library pay 90% of the premium for individual plans and 75% of the premium for family plans. The retiree pays the remaining premium. For fiscal year 2017, the County and Library contributed \$279,766 and \$28,390 to the plans for 55 and 3 eligible retirees, respectively.

The Board of Education pays retiree healthcare premiums up to \$300 per month. For fiscal year 2017, the Board of Education contributed \$733,834 to the plan for 238 eligible retirees.

The County's and Board of Education's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The County and Board of Education pay post-retirement benefits (normal cost) from the General Fund.

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits (continued)

The following table shows the components of the County and its Component Units' annual OPEB cost for the year, the amounts actually contributed to the plan, and changes in the County and its Component Units' net OPEB obligation. The Liquor Control Board and the Sanitary District are not included as the employees of these Component Units pay 100% of their insurance costs.

	County	Board of Education	Library
Annual required contribution	\$ 1,449,683	\$ 1,341,544	\$ 88,375
Interest on net pension obligation	393,223	329,439	19,953
Adjustment to annual required contribution	(445,822)	(276,974)	(22,493)
Annual OPEB cost (expense)	<u>1,397,084</u>	<u>1,394,009</u>	<u>85,835</u>
Contribution made	(279,766)	(733,834)	(28,390)
Increase (decrease) in net OPEB obligation	<u>1,117,318</u>	<u>660,175</u>	<u>57,445</u>
Net OPEB obligations, beginning of year	8,738,298	5,490,647	443,407
Net OPEB obligations, end of year	<u>\$ 9,855,616</u>	<u>\$ 6,150,822</u>	<u>\$ 500,852</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Years Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB	
		Cost Contributed	Net OPEB Obligation
County			
2017	\$ 1,397,084	20.02 %	\$ 9,855,616
2016	1,639,866	16.23 %	8,738,298
2015	1,544,333	15.49 %	7,364,560

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits (continued)

The Board of Education's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Years Ended June 30,	Percentage of Annual OPEB		
	Annual OPEB Cost	Cost Contributed	Net OPEB Obligation
Board of Education			
2017	\$ 1,394,009	52.64 %	\$ 6,150,822
2016	1,700,562	46.23 %	5,490,647
2015	1,618,549	50.15 %	4,576,297

The Library's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Years Ended June 30,	Percentage of Annual OPEB		
	Annual OPEB Cost	Cost Contributed	Net OPEB Obligation
Library			
2017	\$ 85,835	33.08 %	\$ 500,852
2016	103,131	26.45 %	443,407
2015	98,540	30.48 %	367,552

As of July 2016, the most recent actuarial valuation date of the County, the plan was zero percent funded. The actuarial accrued liability for benefits was \$15,188,511 and the actuarial value of assets were \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$15,188,511. The covered payroll (annual payroll of active employees covered by the plan) was \$6,447,185, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 235.58%.

As of July 2016, the most recent actuarial valuation date of the Board of Education, the plan was zero percent funded. The actuarial accrued liability for benefits was \$16,694,388, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$21,242,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 79%.

As of July 2016, the most recent actuarial valuation date of the Library, the plan was zero percent funded. The actuarial accrued liability for benefits was \$931,046, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$931,046. The covered payroll (annual payroll of active employees covered by the plan) was \$220,210, and the ratio of the UAAL to the covered payroll was approximately 423%.

NOTES TO FINANCIAL STATEMENTS

Note 11. Other Post-Employment Benefits (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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the 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 to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 2016 actuarial valuation of the County and Library, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment return on plan assets and on the employers own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend of 8% initially, reduced by decrements to ultimate rate of 5% by 2022. The UAAL is being amortized as a level percentage of payroll on an open basis of 30 years.

In the July 2016 actuarial valuation of the Board of Education, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 6% investment rate of return (net of administrative expenses) based on the Board of Education's own investments; an annual healthcare cost trend of 8% percent initially, reduced by decrements to ultimate rate of 5% by 2022. The UAAL is being amortized on a level of percentage of payroll basis over a 30 year period. The remaining amortization period at July 1, 2016 was 23 years.

Note 12. Risk Management

Primary Government

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County'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 became 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 will be affected by the loss experience of the various insurance pools in which it participates. The County may be required to make additional assessments from time to time. These amounts would be recorded as an expenditure when they are probable and can be reasonably estimated. Conversely, favorable performance of certain insurance pools may result in reduced premiums.

NOTES TO FINANCIAL STATEMENTS

Note 12. Risk Management (continued)

The County is fully insured for workers' 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. 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.

Board of Education

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 is a member of the Maryland Association of Boards' of Education Group Insurance Pool ("the Pool"), a public entity risk pool currently operating as a common risk management and insurance program for fourteen of the twenty-four Boards of Education in the State of Maryland. The Pool was formed in 1986 when several of the boards of education through Maryland joined together to pool their casualty risks. Property insurance coverage was added in 1988 and workers compensation in 2000. The Board pays an annual premium to the Pool for its property and casualty insurance coverage. It is intended for the Pool to be self-sustaining through member premiums. Reinsurance is carried through commercial companies for claims which exceed coverage limits as specified in the agreement. Should the Pool encounter deficits in its casualty and/or property funds, the deficit(s) may be made up from additional assessments of boards participating in the deficit pool in an amount equal to the ratio of each board's annual premium to the total annual premium contributed by all boards in the year in which the deficit occurred. The Board continues to carry commercial insurance for all other risks of loss, employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in the last three years.

The Board is a member of the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self-sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 16% as recommended conservative reserve. As of December 31, 2016 the Board's funds held by ESMEC exceeded the recommended conservative reserve by \$857,661. All funds held by ESMEC are restricted to being used only for health care expenses.

Note 13. On-Behalf Payments

Board of Education

The State of Maryland contributed \$2,722,323 into the State Retirement System on behalf of the Board's teachers during the year ended June 30, 2017, and the amount is reported as both revenues and expenditures on the statement of activities.

Library

The State of Maryland contributed \$70,071 into the State Retirement System on behalf of the Library's employees during the year ended June 30, 2017, and the amount is reported as both revenues and expenditures on the statement of activities.

NOTES TO FINANCIAL STATEMENTS

Note 14. Commitments and Contingencies

Primary Government

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

The County is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the financial position of the County.

The County Commissioners have guaranteed certain obligations of the Sanitary District.

Sanitary District

The Sanitary District participates in a number of Federal and State assisted programs. These programs primarily consist of grants and loans from the U.S. Departments of Agriculture and Environmental Protection and the Maryland Department of the Environment. These programs are subject to program compliance audits by the grantors or their representatives. The audit for open programs has not yet been concluded.

Accordingly, the Sanitary District's compliance with the applicable grant requirements will be established at some future date. The amount, if any, of expenditures for projects which may be disallowed by the granting agencies cannot be determined at this time although the Sanitary District expects such amount, if any, to be immaterial.

Princess Anne Subdistrict

The Princess Anne area was experiencing significant growth. However, it has virtually stopped recently. Additional water supplies are still necessary. Legal proceedings resulted in an agreement, "thus" obtaining the necessary permits and the construction has now started. Adequate water allocation will be available upon completion.

The Princess Anne sewer system has adequate sewer allocation at this time. The Maryland Department of the Environment may require the wastewater plant be upgraded for additional nitrogen and phosphorus removal as a result of the Chesapeake Bay TMDL. The nitrogen and phosphorus amounts removed by the plant are generally at the limits of technology. The permit limit is currently a pounds limit of nitrogen and phosphorus. The wastewater plant currently meets the discharge permit. The Maryland Department of the Environment imposes fines for exceeding the discharge permit.

To further insure that permit limits will not be exceeded, and that the water and sewer system is not overburdened, all new Princess Anne construction is approved on a project-by-project basis. The District has entered into an agreement with the Town of Princess Anne not to issue building or occupancy permits until the District approves all plans within town limits.

The Somerset County Technical and Community Services Office, in conjunction with the District, approves out-of-town building and occupancy permits and compliance with state created propriety funding areas (PFA's).

NOTES TO FINANCIAL STATEMENTS

Note 14. Commitments and Contingencies (continued)

The Maryland Department of the Environment has approved an \$800,000 grant for solar cells for the Princess Anne Waste Water Treatment Plan for fiscal year 2018. This could produce significant electrical savings for the plant.

Fairmount Subdistrict

The Maryland Department of Environment reviewed and approved the study proposing the decommissioning of the Fairmount plant. The project will begin and funding will be received in fiscal year 2018.

Smith Island

The preliminary planning and engineering study for the Smith Island sewage facilities has been completed and is being reviewed by the Maryland Department of the Environment. The study has recommended closing the Tylerton wastewater plant and pumping to a rebuilt facility at Ewell.

The Maryland Department of the Environment has approved a grant/loan funding for the upgrade and improvement projects at Smith Island and Deal Island

Note 15. Landfill Closure and Post-Closure Care Costs

State and Federal laws and regulations require the County to perform certain maintenance and monitoring functions at its landfill sites following closure.

The County's Westover Landfill was at full capacity as of June 30, 1998 and capping and closure of that project was completed in 2005. The estimated post-closure care costs for a thirty year period of \$929,410 have been included in long-term debt at June 30, 2017. Post-closure care costs will be paid from General Fund revenues.

The Fairmount Road Landfill was opened in January 1998. Closure costs and post-closure care costs are estimated at \$1,080,894 and \$929,410, respectively. At June 30, 2017 approximately 57% of the landfill capacity had been used. Under the prescribed allocation method determined annually based on the landfill capacity used to date, \$1,155,600 has been included in long-term debt.

The County has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2016. The County expects to satisfy these requirements as of June 30, 2017 using the same criteria.

Due to inflation and changes in technology, laws or regulations, estimated closure and post-closure care costs may change in the future.

REQUIRED SUPPLEMENTARY INFORMATION

SOMERSET COUNTY, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2017**

	Original/ Final <u>Budget</u>	Variance Positive <u>Actual</u>	(Negative)
REVENUE			
Taxes	\$ 23,319,379	\$ 23,623,072	\$ 303,693
Licenses and permits	156,000	208,342	52,342
Intergovernmental	8,311,104	7,678,756	(632,348)
Charges for services	1,514,950	2,396,005	881,055
Miscellaneous	146,400	1,001,769	855,369
Total revenue	33,447,833	34,907,944	1,460,111
EXPENDITURES			
General government	6,823,613	6,329,780	493,833
Public safety	7,649,540	7,620,741	28,799
Public works	3,509,316	2,512,843	996,473
Health	970,981	904,358	66,623
Social services	47,600	46,040	1,560
Education	12,072,544	11,595,556	476,988
Recreation and culture	929,589	1,229,681	(300,092)
Conservation of natural resources	62,242	102,045	(39,803)
Intergovernmental	169,816	165,875	3,941
Debt service	2,667,993	5,583,235	(2,915,242)
Total expenditures	34,903,234	36,090,154	(1,186,920)
Excess of revenue (under) over expenditures	(1,455,401)	(1,182,210)	273,191
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term financing	1,924,000	4,759,810	2,835,810
Operating transfers, net	(2,281,240)	(2,130,000)	151,240
Fund balance appropriated	1,812,641	-	(1,812,641)
Total other financing sources (uses)	1,455,401	2,629,810	1,174,409
Net change in fund balance	\$ -	\$ 1,447,600	\$ 1,447,600
Fund balance - beginning		12,247,975	
Fund balance - ending		\$ 13,695,575	

SOMERSET COUNTY, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
BUDGETARY BASIS
ROADS BOARD
Year Ended June 30, 2017**

	Original/ Final <u>Budget</u>	Variance Positive <u>Actual</u> (Negative)
REVENUE		
Taxes	\$ 282,263	\$ 279,798 \$ (2,465)
State of Maryland funding	-	40,729 40,729
Charges for services	515,026	431,952 (83,074)
Interest	2,500	1,973 (527)
Miscellaneous	107,500	154,214 46,714
Total revenue	907,289	908,666 1,377
EXPENDITURES		
Current	1,992,326	2,564,060 (571,734)
Capital outlay	615,026	183,021 432,005
Total expenditures	2,607,352	2,747,081 (139,729)
(Deficiency) excess of revenue over expenditures	(1,700,063)	(1,838,415) (138,352)
OTHER FINANCING SOURCES		
Operating transfers, net	1,700,063	1,400,000 (300,063)
Total other financing sources	1,700,063	1,400,000 (300,063)
Excess (deficiency) of revenue and other financing sources over expenditures	\$ - \$ (438,415)	\$ (438,415)

SOMERSET COUNTY, MARYLAND

**MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2017

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Employer's Proportion (Percentage)	Employer's Proportionate Share of the Collective NPL	Employer's Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll (B / C)	Plan's Total Fiduciary Net Position (in \$000's)	Plan's Total Pension Liability (in \$000's)	Plan's Net Position as a Percentage of Total Pension Liability (D / E)
		A	B	C	D	E		
2017	June 30, 2016	0.0325863%	\$ 7,688,418	\$ 7,752,541	99.17%	\$ 45,365,927	\$ 68,959,954	65.79%
2016	June 30, 2015	0.0358530%	\$ 7,450,863	\$ 7,468,424	99.76%	\$ 45,789,840	\$ 66,571,552	68.78%
2015	June 30, 2014	0.0335765%	\$ 5,958,734	\$ 7,859,269	75.82%	\$ 45,339,988	\$ 63,086,719	71.87%

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 the information is available.

SOMERSET COUNTY, MARYLAND

**MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2017

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Measurement Date	Contractually Required Contribution		Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Employee Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
		A	B				
2017	June 30, 2016	\$ 634,808	\$ 634,808	\$ -	\$ 7,752,541		8.19%
2016	June 30, 2015	\$ 755,684	\$ 755,684	\$ -	\$ 7,468,424		10.12%
2016	June 30, 2014	\$ 782,454	\$ 782,454	\$ -	\$ 7,859,269		9.96%

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 the information is

SOMERSET COUNTY, MARYLAND

MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

ACTUARIAL ASSUMPTIONS - PENSION PLAN

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	In the 2012 actuarial valuation: 8 years remaining as of June 30, 2012 for prior UAAL existing on June 30, 2000 and 25 years from each subsequent valuation date for each year's additional UAAL for the State systems and ECS Muni. 27 years for LEOPS Muni, and 34 years for CORS Muni. In the 2013 actuarial valuation: 24 years for the State Systems, 25 years for LEOPS Muni, and 31 years for CORS Muni. For ECS Muni: 6 years remaining for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL.
Asset Valuation Method	five-year smoothed market; 20% collar
Inflation	In the 2012 actuarial valuation, 3.00% general, 3.50% wage. In the 2013 actuarial valuation, 2.95% general, 3.45% wage. In the 2014 actuarial valuation, 2.90% general, 3.40% wage.
Salary Increases	In the 2012 actuarial valuation, 3.50% to 10.75% including inflation. In the 2013 actuarial valuation, 3.45% to 10.70% including inflation. In the 2014 actuarial valuation, 3.40% to 10.65% including inflation.
Investment Rate of Return	In the 2012 actuarial valuation, 7.75%. In the 2013 actuarial valuation, 7.70%. In the 2014 actuarial valuation, 7.65%.
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

SOMERSET COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS-OTHER POST EMPLOYMENT BENEFITS

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability				UAAL as a Percentage of Covered Payroll ((b - a)/c)	
			Frozen Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)		
County								
2017	July 2016	\$ -	\$ 15,188,511	\$ 15,188,511	0.00%	\$ 6,447,185	235.58%	
2016	July 2015	-	15,827,370	15,827,370	0.00%	6,110,806	259.01%	
2015	July 2014	-	14,540,834	14,540,834	0.00%	6,136,736	236.95%	
Board of Education								
2017	July 2017	-	16,694,385	16,694,385	0.00%	25,112,246	66.48%	
2016	July 2016	-	20,595,199	20,595,199	0.00%	24,019,259	85.74%	
2015	July 2015	-	19,634,899	19,634,899	0.00%	23,159,421	84.78%	
Library								
2017	July 2016	-	931,046	931,046	0.00%	220,210	422.80%	
2016	July 2014	-	1,074,355	1,074,355	0.00%	214,314	501.30%	
2015	July 2014	-	1,015,061	1,015,061	0.00%	214,314	473.63%	

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Years Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB	
		Cost Contributed	Net OPEB Obligation
County			
2017	\$ 1,397,084	20.02%	\$ 9,855,616
2016	1,639,866	16.23%	8,738,298
2015	1,544,333	15.49%	7,364,560
Board of Education			
2017	\$ 1,394,009	52.64%	\$ 6,150,822
2016	1,700,562	46.23%	5,490,647
2015	1,618,549	50.15%	4,576,297
Library			
2017	\$ 85,835	33.08%	\$ 500,852
2016	103,131	26.45%	443,407
2015	98,540	30.48%	367,552

ADDITIONAL SUPPLEMENTARY INFORMATION

SOMERSET COUNTY, MARYLAND

**REVENUE DETAIL
BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2017**

	Original/ Final Budget	Actual	Variance Positive (Negative)
TAXES			
Property	\$ 15,721,379	\$ 15,741,744	\$ 20,365
Penalties and interest	300,000	281,945	(18,055)
	<u>16,021,379</u>	<u>16,023,689</u>	<u>2,310</u>
Income tax	6,800,000	6,908,675	108,675
Other			
Admissions and amusements	16,000	15,052	(948)
Recordation	410,000	598,417	188,417
Bay Restoration fund fee	17,000	15,766	(1,234)
Assessments - room tax	55,000	61,473	6,473
	<u>498,000</u>	<u>690,708</u>	<u>192,708</u>
	<u>23,319,379</u>	<u>23,623,072</u>	<u>303,693</u>
LICENSES AND PERMITS			
Cable franchise fees	106,000	158,762	52,762
Alcoholic beverages	30,000	28,951	(1,049)
Traders	16,000	17,789	1,789
Other	4,000	2,840	(1,160)
	<u>156,000</u>	<u>208,342</u>	<u>52,342</u>
INTERGOVERNMENTAL			
Federal			
Transportation Program	200,000	200,000	-
Airport Program	520,188	173,718	(346,470)
DNR-Smith Island Drainage Study	-	33,997	33,997
BJAG grant - St. Attorney CAGES grant	-	7,000	7,000
BJAG grant - Sheriff - courtroom security training	-	1,589	1,589
BJAG grant - Sheriff - equipment upgrade	-	13,939	13,939
BJAG-LMB	20,000	14,985	(5,015)
School Resource Officer Training	-	3,197	3,197
Civil defense/emergency services	160,341	155,604	(4,737)
Sheriff Non-Support	8,000	5,152	(2,848)
Substance Abuse & Synar - Sheriff	-	3,200	3,200
Highway Safety - DOT	7,800	1,250	(6,550)
State's Attorney	146,970	185,218	38,248
Soil conservation planner	-	40,556	40,556
CDBG Disaster Recovery Grant Admininstation fee	20,000	40,394	20,394
DHHS - Bike Trail Prevent Obesity	-	14,000	14,000
State of Maryland			
Fire, rescue and ambulance	313,590	311,952	(1,638)
Disparity Grant	5,290,166	5,290,166	-
Police protection	111,000	135,600	24,600
Waterways	593,465	59,226	(534,239)
Program Open Space	82,421	120,861	38,440
Technical and Community Services	44,000	31,450	(12,550)
Family Services	386,438	217,884	(168,554)
Airport	28,899	15,783	(13,116)
Tourism	26,203	20,689	(5,514)
Juror / Circuit Court Cost	30,000	19,620	(10,380)

SOMERSET COUNTY, MARYLAND

**REVENUE DETAIL
BUDGET AND ACTUAL
GENERAL FUND
(Continued)**

Year Ended June 30, 2017

	Original/ Final Budget	Actual	Variance Positive (Negative)
INTERGOVERNMENTAL (continued)			
State of Maryland (continued)			
Library Capital grant	\$ -	\$ 158,149	\$ 158,149
Civil defense/emergency services	125,548	110,320	(15,228)
Sex Offender Program	9,125	5,274	(3,851)
City of Crisfield - airport grant	14,450	5,713	(8,737)
Health Department Cleaning grant	40,000	50,000	10,000
Child Obesity Prevention grant	-	10,000	10,000
LMB-Field Day	-	3,450	3,450
LMB-Sheriff Safeguarding	-	8,219	8,219
Forest and Parks	-	46,924	46,924
Local			
Payments in lieu of taxes	12,500	54,742	42,242
Crisfield Housing Authority	10,000	10,000	-
Somerset County Dispensary	110,000	98,935	(11,065)
	8,311,104	7,678,756	(632,348)
CHARGES FOR SERVICES			
General Government	265,250	944,035	678,785
Mosquito control	45,000	43,880	(1,120)
Landfill tipping and permit fees	1,204,700	1,408,090	203,390
	1,514,950	2,396,005	881,055
MISCELLANEOUS			
Rents and concessions	58,000	67,015	9,015
Telephone concessions	24,000	24,209	209
Interest	17,000	19,961	2,961
Proceeds from sale of capital assets	3,000	305,691	302,691
Other	44,400	584,893	540,493
	146,400	1,001,769	855,369
OTHER FINANCING SOURCES			
Proceeds from debt financing	1,924,000	4,759,810	2,835,810
Fund balance appropriated	1,812,641	-	(1,812,641)
	3,736,641	4,759,810	1,023,169
TOTAL REVENUE AND OTHER FINANCING SOURCES			
	\$ 37,184,474	\$ 39,667,754	\$ 2,483,280

SOMERSET COUNTY, MARYLAND

**EXPENDITURE DETAIL
BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2017**

	Original/ Final <u>Budget</u>	Variance Positive (Negative)
	<u>Actual</u>	
GENERAL GOVERNMENT		
LEGISLATIVE		
County Commissioners	\$ 61,510	\$ 60,289
Clerk to County Commissioners	239,992	218,085
	301,502	278,374
	301,502	23,128
JUDICIAL		
Truancy Court	259,770	87,771
Circuit Court	212,835	187,372
Family Services	126,668	128,258
Orphans' Court	18,242	16,878
State's Attorney	1,000,320	1,035,644
Law Library	10,000	5,755
	1,627,835	1,461,678
	1,627,835	166,157
ELECTION		
Board of Supervision of Elections	14,974	12,371
Registration and election	499,077	486,231
	514,051	498,602
	514,051	15,449
FINANCIAL ADMINISTRATION		
Supervision	287,066	298,166
Tax collection and disbursement of funds	296,996	270,021
Internal auditing	125,419	119,698
Auditing and accounting	48,000	47,500
Licensing	20,231	22,152
	777,712	757,537
	777,712	20,175
LEGAL		
	102,463	106,332
	102,463	(3,869)
PERSONNEL		
	215,798	199,914
	215,798	15,884
PLANNING AND ZONING		
	847,832	866,175
	847,832	(18,343)

Salaries and Other Operating <u>Expenses</u>	Capital <u>Outlay</u>
---	----------------------------------

\$ 60,289	\$ -
218,085	-
<hr/>	
278,374	-

87,771	-
187,372	-
128,258	-
16,878	-
993,449	42,195
5,755	-
<hr/>	
1,419,483	42,195

12,371	-
428,753	57,478
<hr/>	
441,124	57,478

298,166	-
270,021	-
119,698	-
47,500	-
22,152	-
<hr/>	
757,537	-
<hr/>	
106,332	-
<hr/>	
199,914	-
<hr/>	
798,645	67,530

SOMERSET COUNTY, MARYLAND

**EXPENDITURE DETAIL
BUDGET AND ACTUAL
GENERAL FUND**

(Continued)

Year Ended June 30, 2017

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GENERAL SERVICES			
County building	\$ 1,036,603	\$ 973,649	\$ 62,954
Finance and Accounting	14,800	14,737	63
Tourism	289,021	254,644	34,377
	1,340,424	1,243,030	97,394
MISCELLANEOUS			
Information Technology	296,328	273,930	22,398
Financial ERP software	42,875	29,549	13,326
Community promotions	170,200	123,700	46,500
Public Officers Association	23,500	22,559	941
Health benefits retirees	212,872	216,164	(3,292)
Other general government	350,221	252,236	97,985
	1,095,996	918,138	177,858
Total General Government	6,823,613	6,329,780	493,833
PUBLIC SAFETY			
Sheriff	2,398,740	2,537,101	(138,361)
Ambulance and fire	1,149,840	1,139,361	10,479
Correction	2,595,321	2,511,925	83,396
Other protection			
911 communication	1,316,545	1,254,707	61,838
Animal protection	189,094	177,647	11,447
	7,649,540	7,620,741	28,799
PUBLIC WORKS			
Waste collection and disposal	1,763,907	1,718,140	45,767
Highway, streets and waterways	733,966	167,274	566,692
Transportation	1,011,443	627,429	384,014
	3,509,316	2,512,843	996,473
HEALTH	970,981	904,358	66,623
SOCIAL SERVICES	47,600	46,040	1,560
EDUCATION	12,072,544	11,595,556	476,988

<u>Salaries and Other Operating Expenses</u>	<u>Capital Outlay</u>
\$ 937,160	\$ 36,489
14,737	-
<u>254,644</u>	<u>-</u>
<u>1,206,541</u>	<u>36,489</u>
234,966	38,964
29,549	-
123,700	-
22,559	-
216,164	-
<u>196,744</u>	<u>55,492</u>
<u>823,682</u>	<u>94,456</u>
<u>6,031,632</u>	<u>298,148</u>
2,409,137	127,964
1,139,361	-
<u>2,511,925</u>	<u>-</u>
1,230,231	24,476
<u>177,647</u>	<u>-</u>
<u>7,468,301</u>	<u>152,440</u>
1,718,140	-
119,243	48,031
<u>284,280</u>	<u>343,149</u>
<u>2,121,663</u>	<u>391,180</u>
<u>904,358</u>	<u>-</u>
<u>46,040</u>	<u>-</u>
<u>9,912,497</u>	<u>1,683,059</u>

SOMERSET COUNTY, MARYLAND

EXPENDITURE DETAIL
BUDGET AND ACTUAL
GENERAL FUND
(Continued)
Year Ended June 30, 2017

	Original/ Final <u>Budget</u>	Variance Positive (Negative)
	<u>Actual</u>	
RECREATION AND CULTURE	\$ 929,589	\$ 1,229,681 \$ (300,092)
CONSERVATION OF NATURAL RESOURCES	62,242	102,045 (39,803)
INTERGOVERNMENTAL	169,816	165,875 3,941
DEBT SERVICE	2,667,993	5,583,235 (2,915,242)
OTHER FINANCING USES		
Operating transfers		
County Roads Department	1,700,063	1,400,000 300,063
Economic Development Commission	175,000	175,000 -
Golf Course - transfers	406,177	555,000 (148,823)
	2,281,240	2,130,000 151,240
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$37,184,474	\$38,220,154 \$ (1,035,680)

<u>Salaries and Other Operating Expenses</u>	<u>Capital Outlay</u>
\$ 882,026	347,655
102,045	-
165,875	-
5,583,235	-
1,400,000	-
175,000	-
555,000	-
2,130,000	-
<u>\$ 35,347,672</u>	<u>\$ 2,872,482</u>

SOMERSET COUNTY, MARYLAND

**BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

June 30, 2017

	<u>CDBG Programs</u>	Rental Allowance <u>Program</u>	Special Loan <u>Program</u>	Commission on Aging - <u>SSTAP</u>	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ -	\$ 42,093	\$ 92,985	\$ -	\$ 135,078
Receivables					
Due from other funds	28,170	-	-	-	28,170
Due from other governmental units	3,190	-	10,468	19,338	32,996
Total assets	\$ 31,360	\$ 42,093	\$ 103,453	\$ 19,338	\$ 196,244
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable and accrued expenses	\$ 3,190	\$ -	\$ 37,070	\$ -	\$ 40,260
Due to other governmental units	-	-	-	19,338	19,338
Due to other funds	7,821	-	-	-	7,821
Unearned revenue	20,349	41,493	66,338	-	128,180
Total liabilities	31,360	41,493	103,408	19,338	195,599
FUND BALANCE					
Assigned	-	600	45	-	645
Total fund balance	-	600	45	-	645
Total liabilities and fund balance	\$ 31,360	\$ 42,093	\$ 103,453	\$ 19,338	\$ 196,244

SOMERSET COUNTY, MARYLAND

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
Year Ended June 30, 2017**

	<u>CDBG Programs</u>	<u>Rental Allowance Program</u>	<u>Special Loan Program</u>	<u>Commission on Aging - SSTAP</u>	Total Nonmajor Governmental Funds
REVENUE					
Intergovernmental					
Federal	\$ 152,882	\$ -	\$ -	\$ -	\$ 152,882
State	-	34,380	896,275	117,447	1,048,102
Local	-	-	-	65,807	65,807
Miscellaneous	-	-	-	3,319	3,319
Total revenue	152,882	34,380	896,275	186,573	1,270,110
EXPENDITURES					
Current					
Social services	-	34,380	-	186,573	220,953
Economic and community development	152,882	-	896,275	-	1,049,157
Total expenditures	152,882	34,380	896,275	186,573	1,270,110
Excess (deficiency) of revenue over expenditures					
Fund balances, beginning	-	600	45	-	645
Fund balances, ending	\$ -	\$ 600	\$ 45	\$ -	\$ 645

SOMERSET COUNTY, MARYLAND

GENERAL FUND - TAXES RECEIVABLE

June 30, 2017

(Unaudited)

Tax Rate	Total Assessed Value of Taxable Property	Tax Levy	Collected		Balance June 30, 2017
			Amount	Percent	
REAL AND PERSONAL PROPERTY TAXES					
2000-2001 Levy	2.45	\$ 263,158,345	\$ 6,427,148	\$ 6,426,976	100.00 \$ 172
2001-2002 Levy	A	666,425,523	6,581,234	6,581,011	100.00 223
2002-2003 Levy	B	692,852,746	7,070,691	7,070,154	99.99 537
2003-2004 Levy	B	734,197,905	7,413,853	7,413,192	99.99 661
2004-2005 Levy	B	787,036,208	7,922,359	7,922,265	100.00 94
2005-2006 Levy	C	903,657,773	8,963,959	8,964,108	100.00 (149)
2006-2007 Levy	D	1,106,824,697	10,493,110	10,492,713	100.00 397
2007-2008 Levy	D	1,337,327,950	12,581,499	12,576,026	99.96 5,473
2008-2009 Levy	E	1,568,418,115	14,464,986	14,461,113	99.97 3,873
2009-2010 Levy	F	1,683,987,794	15,188,742	15,185,319	99.98 3,423
2010-2011 Levy	G	1,699,240,830	15,036,863	15,029,595	99.95 7,268
2011-2012 Levy	G	1,616,536,797	14,297,806	14,282,825	99.90 14,981
2012-2013 Levy	G	1,457,734,602	12,897,185	12,883,304	99.89 13,881
2013-2014 Levy	H	1,416,724,050	12,976,836	12,948,084	99.78 28,752
2014-2015 Levy	H	1,361,394,961	12,472,949	12,429,333	99.65 43,616
2015-2016 Levy	I	1,371,604,952	13,762,802	13,671,088	99.33 91,714
2016-2017 Levy	I	1,365,856,317	13,717,857	12,462,483	90.85 1,255,374
					1,470,290
CORPORATE TAXES					
1999-2000 Levy	2.15	64,262,260	1,383,620	1,383,500	99.99 120
2000-2001 Levy	2.45	66,651,000	1,609,994	1,609,243	99.95 751
2001-2002 Levy	A	67,000,140	1,618,012	1,617,329	99.96 683
2002-2003 Levy	B	68,632,290	1,586,645	1,585,490	99.93 1,155
2003-2004 Levy	B	66,109,090	1,501,437	1,498,283	99.79 3,154
2004-2005 Levy	B	58,704,930	1,490,057	1,487,724	99.84 2,333
2005-2006 Levy	C	59,295,350	1,486,284	1,479,772	99.56 6,512
2006-2007 Levy	D	64,167,890	1,520,906	1,491,607	98.07 29,299
2007-2008 Levy	D	65,157,950	1,511,292	1,470,422	97.30 40,870
2008-2009 Levy	E	67,770,460	1,538,019	1,506,791	97.97 31,228
2009-2010 Levy	F	59,364,950	1,541,422	1,525,573	98.97 15,849
2010-2011 Levy	G	67,314,350	1,486,601	1,469,118	98.82 17,483
2011-2012 Levy	G	68,712,250	1,518,309	1,491,071	98.21 27,238
2012-2013 Levy	G	66,886,140	1,478,987	1,476,428	99.83 2,559
2013-2014 Levy	H	67,554,650	1,547,526	1,530,456	98.90 17,070
2014-2015 Levy	H	72,477,610	1,652,506	1,585,591	95.95 66,915
2015-2016 Levy	I	76,183,980	1,897,227	1,825,846	96.24 71,381
2016-2017 Levy	I	78,783,510	1,969,588	1,842,183	93.53 127,405
					462,005
					1,932,295
Less: Allowance for doubtful accounts					
					(146,065)
					\$ 1,786,230

- | | | |
|--|--|--|
| A Real property-tax rate \$.98
Personal property-tax rate \$2.45 | E Real property-tax rate \$.92
Personal property-tax rate \$2.30 | I Real property-tax rate \$1.00
Personal property-tax rate \$2.50 |
| B Real property-tax rate \$1.010
Personal property-tax rate \$2.525 | F Real property-tax rate \$.90
Personal property-tax rate \$2.25 | |
| C Real property-tax rate \$.99
Personal property-tax rate \$2.475 | G Real property-tax rate \$.8837
Personal property-tax rate \$2.20925 | |
| D Real property-tax rate \$.94
Personal property-tax rate \$2.35 | H Real property-tax rate \$.9150
Personal property-tax rate \$2.28750 | |

SOMERSET COUNTY, MARYLAND

GENERAL FUND - PROPERTY TAX LEVIES AND COLLECTIONS
Years Ended June 30, 2017
(Unaudited)

Fiscal Year Ended <u>June 30.</u>	County Tax Rate	Assessable Base	County Tax Levy	Collections	% of Levy Collected in Year of Levy	Delinquent Tax Collections
2017	I	\$ 1,444,639,827	\$ 15,687,444	\$ 14,304,667	91.19	\$ 1,353,166
2016	I	1,447,788,932	15,675,025	14,291,127	91.17	1,354,589
2015	H	1,433,872,571	14,149,738	12,795,819	90.43	1,339,380
2014	H	1,484,278,700	14,547,130	13,078,987	89.91	1,405,754
2013	G	1,527,554,512	14,424,497	12,945,537	89.75	1,470,348
2012	G	1,685,249,047	15,843,761	14,008,327	88.42	781,885
2011	G	1,766,555,180	16,543,705	14,755,506	89.19	1,956,859
2010	F	1,743,352,744	16,533,458	14,463,621	87.48	1,672,784
2009	E	1,636,188,575	16,035,577	14,406,126	89.84	1,088,535
2008	D	1,402,485,900	14,124,631	12,880,576	91.19	1,164,433

D Real property - tax rate \$.94
 Personal property - tax rate \$2.35

G Real property - tax rate \$.8837
 Personal property - tax rate \$2.209

E Real property - tax rate \$.92
 Personal property - tax rate \$2.30

H Real property - tax rate \$.9150
 Personal property - tax rate \$2.28750

F Real property - tax rate \$.90
 Personal property - tax rate \$2.25

I Real property - tax rate \$1.00
 Personal property - tax rate \$2.50

<u>Total Tax Collections</u>	Total Collections as a % of Current Levy	Outstanding Delinquent Taxes as a % of Current Levy
\$ 15,657,833	99.81	\$1,932,294 12.32
15,645,716	99.81	1,906,233 12.16
14,135,199	99.90	1,834,072 12.96
14,484,741	99.57	1,909,253 13.12
14,415,885	99.94	1,897,512 13.15
14,790,212	93.35	2,243,129 14.16
16,712,365	101.02	2,046,377 12.37
16,136,405	97.60	2,308,088 13.96
15,494,661	96.63	1,839,329 11.47
14,045,009	99.44	1,368,815 9.69

SOMERSET COUNTY, MARYLAND

GENERAL FUND - PROPERTY ASSESSED VALUES
June 30, 2017
(Unaudited)

Fiscal Year <u>Ended June 30.</u>	Assessed Values						<u>Total</u>	
	Real Property		Personal Property					
	<u>Full Year</u>	<u>Partial Year</u>	<u>Locally Assessed</u>	<u>Ordinary Business Corporations</u>	<u>Railroads & Public Utilities</u>			
2017	\$ 1,358,564,567	\$ 3,338,850	\$ 3,952,900	\$ 34,590,320	\$ 44,193,190	\$ 1,444,639,827		
2016	1,365,432,377	2,547,495	3,625,080	33,396,010	42,787,970	1,447,788,932		
2015	1,356,452,671	2,388,610	2,553,680	31,130,030	41,347,580	1,433,872,571		
2014	1,411,596,700	2,300,950	2,826,400	29,509,350	38,045,300	1,484,278,700		
2013	1,452,719,887	5,014,715	2,933,770	29,600,550	37,285,590	1,527,554,512		
2012	1,611,332,127	2,156,870	3,047,800	32,754,490	35,957,760	1,685,249,047		
2011	1,690,889,068	5,306,102	3,045,660	32,693,140	34,621,210	1,766,555,180		
2010	1,678,787,893	2,099,401	3,100,500	32,393,030	26,971,920	1,743,352,744		
2009	1,557,641,238	7,341,367	3,435,510	32,331,310	35,439,150	1,636,188,575		
2008	1,328,129,762	7,599,868	1,598,320	29,997,770	35,160,180	1,402,485,900		

SOMERSET COUNTY, MARYLAND

GOVERNMENTAL FUND TYPES (REPORTING ENTITY)

EXPENDITURES BY FUNCTION

Ten Years Ended June 30, 2017

(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General government	\$ 6,329,780	\$ 6,035,270	\$ 6,538,792	\$ 6,757,059	\$ 6,224,871
Public safety	7,620,741	7,469,144	7,213,198	7,520,291	7,180,372
Public works	5,259,924	5,226,400	6,127,456	6,395,927	5,679,510
Health	904,358	871,610	886,985	828,186	856,234
Social services	266,993	245,110	252,823	243,418	247,748
Education	37,698,097	36,808,025	35,129,242	32,460,744	30,610,825
Recreation and culture	1,903,212	4,372,667	3,603,710	1,593,380	1,455,405
Conservation of natural resources	102,045	112,980	109,575	98,730	101,609
Economic and community development	7,830,421	5,682,392	3,445,175	1,550,771	1,009,956
Intergovernmental	165,875	172,444	152,212	154,783	260,444
Debt service	5,583,235	2,476,675	2,436,591	10,179,576	2,000,765
Miscellaneous	-	-	-	-	-
	\$ 73,664,681	\$ 69,472,717	\$ 65,895,759	\$ 67,782,865	\$ 55,627,739

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 6,196,467	\$ 7,703,494	\$ 7,254,288	\$ 6,934,514	\$ 5,645,971
7,345,080	6,860,081	6,450,898	7,163,067	7,480,440
5,884,871	6,787,158	5,506,532	8,286,294	8,442,044
936,925	787,669	867,709	910,734	866,672
262,132	263,668	266,251	297,273	288,348
34,765,635	38,224,555	38,775,560	33,055,052	35,844,134
1,712,502	1,213,025	1,414,972	1,405,340	2,370,891
103,822	92,616	98,986	120,435	69,450
605,428	1,111,777	613,964	558,026	583,845
261,513	16,425	16,425	16,425	16,425
1,996,979	2,030,275	3,402,683	9,150,200	5,390,376
-	-	-	268,657	8,659
<u>\$ 60,071,354</u>	<u>\$ 65,090,743</u>	<u>\$ 64,668,268</u>	<u>\$ 68,166,017</u>	<u>\$ 67,007,255</u>

SOMERSET COUNTY, MARYLAND

**STATEMENT OF REVENUE AND EXPENSES
PROPRIETARY FUND TYPE
Years Ended June 30, 2017 and 2016**

	Primary Government	Enterprise Fund	<u>Golf Course</u>
	<u>2017</u>	<u>2016</u>	
OPERATING REVENUE			
Charges for services:			
Green fees	\$ 93,225	\$ 93,517	
Cart fees	148,534	171,792	
Driving range	7,093	9,501	
Membership dues	89,564	85,403	
Concessions	78,747	91,074	
Miscellaneous	770	364	
Total operating revenue	417,933	451,651	
OPERATING EXPENSES			
Salaries and related taxes	516,170	457,228	
Repairs and maintenance	72,137	68,541	
Supplies	178,550	135,254	
Utilities	51,368	43,600	
Insurance	63,099	61,374	
Depreciation and amortization	123,345	120,966	
Other operating	86,574	95,438	
Total operating expenses	1,091,243	982,401	
Net operating loss	(673,310)	(530,750)	
NON-OPERATING REVENUE (EXPENSES)			
Financial expense, net	(1,279)	(1,769)	
Operating transfers, net	555,000	470,000	
Net non-operating revenue	553,721	468,231	
Net loss	\$ (119,589)	\$ (62,519)	

THE UNIFORM GUIDANCE SUPPLEMENTARY FINANCIAL INFORMATION

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

The Board of County Commissioners
Somerset County, Maryland
Princess Anne, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Somerset County, Maryland as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Somerset County, Maryland's basic financial statements and have issued our report thereon dated December 26, 2017. Our report was modified to include a reference to other auditors who audited the financial statements of the Somerset County Sanitary District and the Liquor Control Board of Somerset County, as described in our report on Somerset County, Maryland's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Jim Grapp LKC".

Salisbury, Maryland
December 26, 2017

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 ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of County Commissioners
Somerset County, Maryland
Princess Anne, Maryland

Report on Compliance for Each Major Federal Program

We have audited Somerset County, Maryland's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Somerset County, Maryland's major federal programs for the year ended June 30, 2017. Somerset County, Maryland's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Somerset County, Maryland's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with audit standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Somerset County, Maryland's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Somerset County, Maryland, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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



Salisbury, Maryland
December 26, 2017

SOMERSET COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

<u>Description</u>	<u>Catalog of Federal Domestic Assistance Numbers</u>	<u>Passthrough Grantor's Numbers</u>	<u>Expenditures to Subrecipients</u>	
<u>Department of Housing and Urban Development</u>				
Passed through Maryland Department of Housing and Community Development:				
Housing Rehabilitation	14.218	MD-17-CD-23	\$ 152,882	\$ -
Hurricane Sandy 14	14.269	MD-14-DR	842,816	-
Hurricane Sandy 15	14.269	MD-15-DR-1	5,893,913	-
			6,889,611	-
<u>Department of Homeland Security</u>				
Passed through State of Maryland Department of Emergency Management:				
Emergency Services - Homeland Security Grant	97.067	17 SHSP 857	-	85,702
Emergency Management Performance Grant	97.042	17 EMPG 857	155,604	69,902
			155,604	155,604
<u>Department of Justice</u>				
Passed through the State of Maryland Governor's Office of Crime Control and Prevention:				
Byrne Grant (BJAG)-Sheriff-Courtroom Security Training	16.738	BJAG-2013-0045	1,589	-
Byrne Grant (BJAG)-Sheriff-Equipment Upgrade	16.738	BJAG-2013-0051	13,939	-
LETS Grant - School Resource Officer Training (Sheriff)	16.738	BJNT-2012-0016	3,197	-
			18,725	-
<u>Passed through the Local Management Board (LMB):</u>				
LMB CAGES Grant - State's Attorney	16.738	BJAG-2014-0008	7,000	-
LMB CAGES Grant - Sheriff's Office	16.738	BJAG-2014-0008	14,985	-
			21,985	-
<u>Department of Health and Human Services</u>				
Passed through State of Maryland Department of Human Resources:				
Sheriff Non-Support Grant	93.563	CSEA/CRA-17-039	5,152	-
Sheriff Substance Abuse & Synar	93.959		3,200	-
States Attorney Child Support	93.563	CSEA/CRA-17-023	185,218	-
Bike Trail-Prevent Obesity Grant - Recreation	93.757	1422	14,000	-
			207,570	-
<u>Department of Agriculture, Natural Resources</u>				
Passed through the Maryland Department of Agriculture:				
Soil Conservation Planner Grant	10.917	MDA-1821H	40,556	-
			40,556	-

SOMERSET COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

(continued)

<u>Description</u>	<u>Catalog of Federal Domestic Assistance Numbers</u>	<u>Passthrough Grantor's Numbers</u>	<u>Expenditures to Subrecipients</u>	
<u>U.S. Environmental Protection Agency</u>				
Passed through the Maryland Department of Natural Resources				
Smith Island Drainage Study	66.466	14-16-2157 CBG 6601	33,997	-
			33,997	-
<u>Department of Transportation</u>				
Airport Improvement Program	20.106	3-24-0012-010	14,191	-
Airport Improvement Program	20.106	3-24-0012-012	159,527	-
			173,718	-
Passed through the State Highway Administration:				
State and Community Highway Safety	20.616	LE 17-035	1,250	-
			1,250	-
Passed through the Maryland Department of Human Resources:				
Federal Transit - Formula Grants	20.507		200,000	-
			374,968	-
Total Expenditures of Federal Awards			\$ 7,743,016	\$ -

SOMERSET COUNTY, MARYLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Note 1. Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Somerset County, Maryland and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. Somerset County, Maryland has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

SOMERSET COUNTY, MARYLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of Somerset County, Maryland.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Somerset County, Maryland, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Somerset County, Maryland expresses an unmodified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for Somerset County, Maryland were disclosed during the audit.
7. The program tested as major programs include:

Hurricane Sandy – CFDA #14.269

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Somerset County, Maryland qualified as a low-risk auditee.

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None