

TALBOT COUNTY, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2018

Report Prepared By:
Talbot County, Maryland Finance Office



TALBOT COUNTY, MARYLAND
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page(s)</u>
INTRODUCTORY SECTION (UNAUDITED)	
Letter of Transmittal	2 - 5
GFOA Certificate of Achievement	6
Organization Chart	7
List of Elected and Appointed Officials	8
 FINANCIAL SECTION	
Report of Independent Public Accountants	10 - 11
Management's Discussion and Analysis	14 - 26
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	28 - 29
Statement of Activities	30 - 31
Fund Financial Statements:	
Balance Sheet - Governmental Funds	34
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	35
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	36
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	37
Statement of Fund Net Position - Business-type Activities	38
Statement of Revenues, Expenses and Changes in Fund Net Position - Business-type Activities	39
Statement of Cash Flows - Business-type Activities	40 - 41
Statement of Fiduciary Net Position – Fiduciary Fund	42
Statement of Changes in Fiduciary Net Position – Fiduciary Fund	43
Notes to Financial Statements	45 - 98
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	100 - 107
Schedule of Changes in Net OPEB Liability and Related Ratios	108
Maryland State Retirement and Pension Systems - Schedule of the Proportionate Share of the Net Pension Liability	109
Maryland State Retirement and Pension Systems - Schedule of Contributions	110
Notes to Required Supplementary Information	111 - 112

TALBOT COUNTY, MARYLAND
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page(s)</u>
FINANCIAL SECTION (CONTINUED)	
Other Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Capital Projects Fund	114
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Developmental Impact Fund	115
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Grants Fund	116
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Talbot Family Network	117
Schedule of Revenues and Expenses - Budget and Actual - Enterprise Fund - Recreation Facilities	118
Schedule of Revenues and Expenses - Budget and Actual - Enterprise Fund - Sanitary District	119 - 121
Schedule of Revenues and Expenses - Budget and Actual - Enterprise Fund - Easton Airport	122
Combining Balance Sheet - Other Governmental Funds	123
Combining Schedule of Revenues and Expenditures - Other Governmental Funds	124
Schedule of Revenues and Expenditures - As Required by the GOC for LMB Offices on Behalf of the Children's Cabinet	125
Notes to Other Supplementary Information	126
 STATISCAL SECTION (UNAUDITED)	
Net Position by Component, Last Ten Fiscal Years	128
Changes in Net Position, Last Ten Fiscal Years	129 - 130
Fund Balances, Governmental Funds, Last Ten Fiscal Years	131
Changes in Fund Balances, Governmental Funds, Last Ten Fiscal Years	132
Debt Service as a Percentage of Non Capital Expenditures Last Ten Fiscal Years	133
Assessed Value and Actual Value of Taxable Property, Last Ten Fiscal Years	134
Direct and Overlapping Property Tax Rates, Last Ten Years	135
Principal Property Tax Payers, Current Year and Nine Years Ago	136
Property Tax Levies and Collections, Last Ten Fiscal Years	137

TALBOT COUNTY, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS (continued)

	<u>Page(s)</u>
STATISTICAL SECTION (UNAUDITED) (CONTINUED)	
Income Tax Rates, Last Ten Tax Years	138
Income Tax Filers Summary Information, Last Ten Tax Years	139
Income Tax Filers, Net Taxable Income, and Liability by Adjusted Gross Income Level, Current Year and Nine Years Ago	140
Ratios of Outstanding Debt by Type, Last Ten Fiscal Years	141
Ratios of General Bonded Debt Outstanding, Last Ten Fiscal Years	142
Direct and Overlapping Governmental Activities Debt	143
Legal Debt Margin Information, Last Ten Fiscal Years	144
Demographic and Economic Statistics, Last Ten Fiscal Years	145
Principal Private Employers, Current Year and Nine Years Ago	146
Full-time Equivalent County Government Employees by Function, Last Ten Fiscal Years	147
Operating Indicators by Function, Last Ten Fiscal Years	148
Capital Asset Statistics by Function, Last Ten Fiscal Years	149

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

GFOA CERTIFICATE OF ACHIEVEMENT

ORGANIZATIONAL CHART

LIST OF ELECTED AND APPOINTED OFFICIALS



TALBOT COUNTY, MARYLAND
COURT HOUSE
11 N. WASHINGTON STREET, SUITE 9
EASTON, MARYLAND 21601

FINANCE OFFICE
PHONE: 410-770-8020

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

December 28, 2018

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

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for Talbot County, Maryland for the fiscal year ended June 30, 2018 as required by both local and state statutes. These statutes require that Talbot County, Maryland annually issue financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America and audited in accordance with generally accepted auditing standards in the United States of America by a firm of licensed certified public accountants.

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

The County's financial statements have been audited by SB and Company, LLC, Independent Certified Public Accountants. SB and Company, LLC issued an unmodified opinion on the County's financial statements for the year ended June 30, 2018. The goal of the independent audit is to provide reasonable assurance that the financial statements of Talbot County, Maryland for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the Government

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

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

Form of Government

Both the executive and legislative functions of the County are vested in the elected, five-member County Council. Council members are elected on a countywide basis and serve four-year terms. The terms of the current members of the Council run to December 2022. The Council annually elects one Council member to serve as its President and one to serve as its Vice President.

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

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

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

Component Units

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

Budget Process

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

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

Factors Affecting Financial Condition

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

Local Economy. Like state and local governments across the country, Talbot County is concerned about the National economy and the far reaching effects it has had on Maryland's and Talbot County's overall economy. Of greatest concern are the impacts of continued reductions in state funding and additional costs that may be passed on to local governments, and the potential reduction of income tax revenues. Income tax revenue is the second largest revenue source in the County, accounting for 30.7 % of the FY 2018 General Fund revenues. The County received \$25.8 million in Income Tax revenues in FY 2018; \$1.1 million less than budgeted and \$2.2 million less than amount received in FY 2017. The County's housing market continues to be strong as noted by actual Recordation and Transfer tax revenues that were above the amount budgeted for FY 2018. However, both Recordation and Transfer tax revenues collected in FY 2018 were less than the amounts collected in FY 2017. For FY 2019 the County is optimistic that the housing market will remain consistent. The County continues to have a healthy mix of service related businesses, agriculture, and light manufacturing. Employment is expected to remain stable and the unemployment rate should continue to emulate both the State (4.3%) and National (4.0%) rates as evidenced by the June 2018 County rate of 4.1 percent. In addition, the County has maintained favorable tax rates, including the lowest property tax rate and the second lowest income tax rate in the State.

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

Long Term Financial Planning. The economic outlook for the County is favorable. Many years of conservative budgeting and prudent financial management have created a solid foundation for economic stability for the future of County. In addition, Talbot County has the lowest county real property tax rate and the second lowest county income tax rate in the State. These favorable tax rates along with miles of waterfront continue to attract residents and businesses to the County.

Talbot County has a policy to allot a portion of the General Fund unassigned fund balance equal to 15% of actual General Fund expenditures, before other financing uses, to be used in case of fiscal emergencies. As of June 30, 2018 Talbot County's unassigned fund balance was 27.0% of actual expenditures, before other financing uses.

The FY 2019 General Fund Budget increased by \$8.6 million or 10.28%. \$4.2 million of this increase is a transfer to the Capital Projects Fund to pay a portion of the County's share of the Easton Elementary School project. This project consists of building a new elementary school that will replace two (2) existing elementary schools. The total cost of this project is approximately \$50 million; the County's portion is estimated to be \$30 million. The County plans to issue bonds in FY 2020 for the remaining balance (approximately \$25 million) of its share of the project. In FY 2019 and beyond, the focus will be on providing for various County and school building maintenance projects, the infrastructure requirements associated with the construction of a new hospital facility, and maintaining the current level of services to the citizens and visitors of Talbot County.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Talbot County, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2017. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Talbot County, Maryland has received a Certificate of Achievement for the last seventeen (17) consecutive years. We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully Submitted,



Angela Lane
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Talbot County
Maryland**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

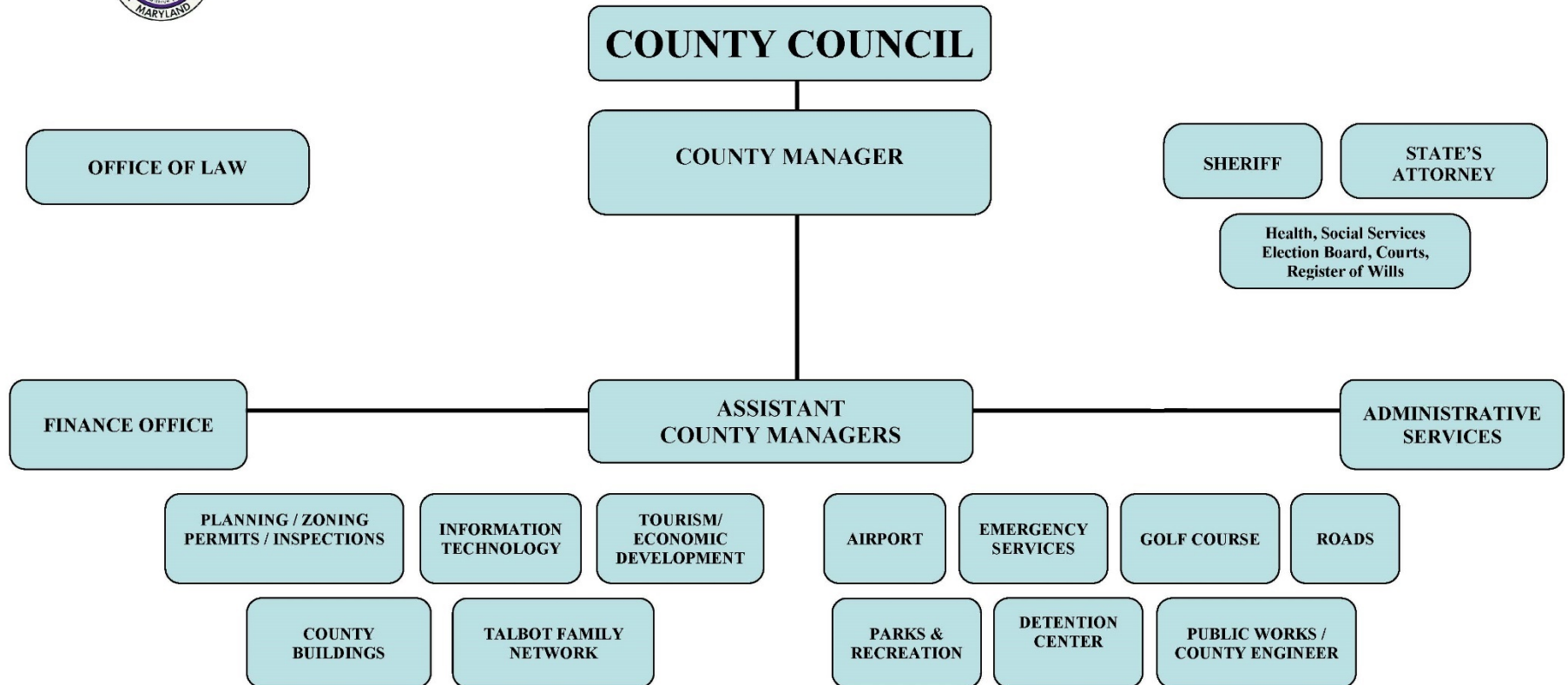
June 30, 2017

Christopher P. Morill

Executive Director/CEO



TALBOT COUNTY GOVERNMENT ORGANIZATIONAL CHART



Talbot County, Maryland
List of Elected and Appointed Officials
June 30, 2018

Elected Officials

County Council

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

Sheriff
State's Attorney

Joseph J. Gamble
Scott G. Patterson

Appointed Officials

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

R. Andrew Hollis
Anthony P. Kupersmith
Jessica K. Morris
Cheril S. Thomas
Michael L. Henry
Douglas C. Devenyns
Brian K. LeCates
Brian Moore
Angela Lane
Richard A. Setter
Parker J. Durham
Preston P. Peper
Mary Kay Verdery
Raymond P. Clarke
Warren W. Edwards, Jr.
Cassandra M. Vanhooser

FINANCIAL SECTION



S B & C O M P A N Y, L L C
KNOWLEDGE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

County Council of Talbot County, Maryland
Easton, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Talbot County, Maryland (the County), as of and for the year ended June 30, 2018, 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of Talbot County, Maryland or the Talbot County Free Library Association, Inc. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, are based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinions

In our opinion, based on our audit and the reports of the 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, 2018, 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.



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

Other Matters

Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2018, the County adopted new accounting guidance from Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of net OPEB liability and related ratios, Maryland State Retirement and Pension System- Schedule of the Proportionate Share of the Net Pension Liability, and Maryland State Retirement and Pension Systems-Schedule of Contributions 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, statistical tables and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Hunt Valley, Maryland
December 27, 2018

SB & Company, LLC

This Page is Intentionally Left Blank.

MANAGEMENT'S DISCUSSION & ANALYSIS

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the Comprehensive Annual Financial Report of Talbot County, Maryland (the County) presents a narrative overview and analysis of the financial activities of Talbot County Government for the fiscal year ended June 30, 2018. We encourage readers to use the information presented here in conjunction with the accompanying letter of transmittal, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

Government-wide

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended June 30, 2018 by \$ 127.5 million (total net position), compared to \$139.3 million at June 30, 2017. For fiscal year ended June 2018, the unrestricted portion of net position is \$715 thousand and is comprised of an unrestricted net position of \$4.2 million in the governmental activities and a deficit of \$3.4 million in the business type activities. The County implemented GASB Statement 75, *Accounting and Financial reporting for Post-Employment Benefits Other than Pensions*, which restated beginning total net position by \$9 million for the net OPEB liability. Additional detail explaining the prior period adjustment can be found in Note 15. In addition to the prior period adjustment, unrestricted net position is a relatively small amount because the County issues debt to fund the construction projects for the Board of Education of Talbot County, a component unit, and Chesapeake College, a five county regional community college. The school buildings that are constructed through the County's financial support are assets of the Board of Education of Talbot County and Chesapeake College, and the related debt is recorded on the County's books. At June 30, 2018, the County included \$19.2 million of bonds payable in liabilities for school construction projects and no corresponding capital assets.
- The total net position decreased by \$2.8 million or 2.1%.

Fund Level

- The General Fund had an increase in fund balance of \$882 thousand.
- At June 30, 2018, the County's governmental funds reported combined fund balances of \$37.8 million, a decrease of \$522 thousand from the prior year. Approximately 58.3% of the combined governmental fund balance, of \$22.0 million, is available to meet the County's current and future needs (unassigned), 24.6% is assigned, indicating that it is not available for new spending because it has already been assigned for items such as subsequent years expenditures, 15.8% is committed or restricted for future use and 1.3% is nonspendable meaning that it is in the form of prepaid items.

- The unassigned fund balance for the General Fund of \$22.0 million is 26.3 percent of general fund revenues, before Other Financing Sources, which is more than the Government Finance Officers Association’s Best Practices recommendation that, at minimum, regardless of size, all governments maintain reserves equal to about 16 percent of revenues. The County has a policy of allotting a portion of the unassigned fund balance as a “rainy day fund”. The amount allotted at June 30, 2018 for the “rainy day fund” is \$12.2 million (15 percent of the actual general fund expenditures before Other Financing Uses).
- The business-type activities operating revenue fell short of operating expenses resulting in an operating loss of \$5.5 million in these funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Talbot County Government’s finances, in a manner similar to that of a private sector business. The Statement of Net Position and the Statement of Activities are prepared using the accrual basis of accounting.

The Statement of Net Position presents information on all of the County’s assets, liabilities, and deferred inflows/outflows of resources with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses for some items reported in this statement will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Of particular interest is the format of this statement. The reader will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is Net (Expense) Revenue. The purpose of this type of format is to highlight the relative financial burden of each of the functions on the County’s taxpayers. It also identifies how much each function draws from the general fund revenues, or if the functions are self-supporting through fees and grants. It is important to note that all taxes are classified as general fund revenue even if restricted for a specific purpose.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public safety, public works, health, social services, education, recreation, libraries, and conservation of natural resources, judicial and economic development. The business-type activities of the County include recreation facilities, wastewater and septage treatment services, and an airport facility.

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

The government-wide financial statements can be found on pages 28-31 of this report.

Fund Financial Statements

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

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

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

Talbot County, Maryland maintains three types of governmental funds: general, capital projects and special revenue. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for all three types of governmental funds.

Talbot County adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for all governmental funds in the Required Supplementary Information section of this report.

The basic governmental fund financial statements can be found on pages 34-37 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 38-41 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for the proprietary funds. The County has one trust fund which is the Talbot County OPEB Trust.

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

Notes to Financial Statements

The notes to the financial statements are part of the basic financial statements and provide additional information that is essential to creating a full understanding of the data provided in the government-wide and fund financial statements.

The Notes to the Financial Statements can be found on pages 45-98 of this report.

Other Information

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's overall financial position. In the case of Talbot County, Total net position was \$127.5 million at the close of the most recent fiscal year, as shown in the schedule of net position below. Components for Talbot County's net position is divided into three categories, Net investment in capital assets, restricted net position and unrestricted net position. The largest portion of the County's net position reflects its investment in capital assets net of depreciation (e.g., land, buildings, infrastructure, machinery and equipment) less any related outstanding debt used to acquire those assets. The County uses capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

It is important to note that although counties in the State of Maryland issue debt for the construction of schools, school buildings are owned by each County's Public School System. Ownership reverts to the County if the local board determines that a building is no longer needed. Therefore, while the County's financial statements include this outstanding debt; they do not include the capital assets funded by the debt. The small amount of unrestricted net position in governmental activities of \$4.2 million reflects the imbalance of liabilities without corresponding assets and the net OPEB liability pertaining to the implementation of GASB Statement 75, *Accounting and Financial reporting for Post-Employment Benefits Other than Pensions*.

Restricted net position of \$98 thousand represents 0.077 percent of total net position. Restricted net position is resources that are subject to external restrictions on how they may be used. Unrestricted net position of the total government is \$715 thousand. See Note 14 for additional information on the County's unrestricted net position.

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

Talbot County Government's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 9,735,907	\$ 9,735,907	\$ 2,956,046	\$ 2,956,047	\$ 12,691,953	\$ 12,691,954
Construction in progress	887,560	1,334,249	6,905,404	5,533,458	7,792,964	6,867,707
Buildings and improvements	31,815,115	33,623,999	51,631,615	55,339,338	83,446,730	88,963,337
Non-deprec. infrastructure	25,449,891	25,449,891	-	-	25,449,891	25,449,891
Infrastructure	9,767,764	10,167,407	-	-	9,767,764	10,167,407
Furniture and equipment	5,891,818	6,043,895	3,654,600	3,921,847	9,546,418	9,965,742
Total	\$ 83,548,055	\$ 86,355,348	\$ 65,147,665	\$ 67,750,690	\$ 148,695,720	\$ 154,106,038

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

Talbot County's net position decreased by \$11.8 during the current fiscal year as the result of a \$8.4 million decrease in governmental activities (primarily due to the implementation of GASB Statement 75, *Accounting and Financial reporting for Post-Employment Benefits Other than Pensions*) and a \$3.4 million decrease in business-type activities. The business-type activities decrease is the result of expenditures (primarily depreciation) being more than revenues received through charges for services.

Talbot County Government's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017*	2018	2017	2018	2017*
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,049,894	\$ 4,277,686	\$ 7,650,124	\$ 8,047,362	\$ 11,700,018	\$ 12,325,048
Operating Grants and Contributions	3,836,314	5,293,139	1,496,336	1,109,944	5,332,650	6,403,083
Capital Grants and Contributions	986,407	-	-	1,190,732	986,407	1,190,732
General Revenues:						
Property Taxes	38,574,339	36,531,210	-	-	38,574,339	36,531,210
Local Income Tax	25,767,710	28,007,970	-	-	25,767,710	28,007,970
Other Local Taxes	12,354,244	12,859,841	-	-	12,354,244	12,859,841
Investment Income	604,834	231,807	26,359	18,815	631,193	250,622
Miscellaneous	1,309,428	1,206,986	-	20,000	1,309,428	1,226,986
Total Revenues	87,483,170	88,408,639	9,172,819	10,386,853	96,655,989	98,795,492
Expenses:						
General Government	12,144,928	11,325,690	-	-	12,144,928	11,325,690
Public Safety	18,723,695	17,276,097	-	-	18,723,695	17,276,097
Public Works	6,543,225	6,427,502	-	-	6,543,225	6,427,502
Health	2,522,380	2,520,926	-	-	2,522,380	2,520,926
Social Services	1,360,507	1,640,895	-	-	1,360,507	1,640,895
Education	43,745,918	42,249,348	-	-	43,745,918	42,249,348
Recreation	576,070	959,049	-	-	576,070	959,049
Conservation of Natural Resources	282,789	250,848	-	-	282,789	250,848
Interest Charges	158,714	185,145	-	-	158,714	185,145
Recreation Facilities	-	-	3,080,314	2,888,465	3,080,314	2,888,465
Sanitary District	-	-	4,511,793	4,366,586	4,511,793	4,366,586
Airport	-	-	5,805,247	4,525,433	5,805,247	4,525,433
Pools	-	-	-	-	-	-
Total Expenses	86,058,226	82,835,500	13,397,354	11,780,484	99,455,580	94,615,984
Increase (Decrease) in Net Position before transfers	1,424,944	5,573,139	(4,224,535)	(1,393,631)	(2,799,591)	4,179,508
Transfers In (Out)	(842,250)	(536,460)	842,250	536,460	-	-
Increase (Decrease) in Net Position	582,694	5,036,679	(3,382,285)	(857,171)	(2,799,591)	4,179,508
Net Position – Beginning	82,342,538	86,329,245	47,939,289	48,796,460	130,281,827	135,125,705
Net Position - Ending	\$ 82,925,232	\$ 91,365,924	\$ 44,557,004	\$ 47,939,289	\$127,482,236	\$ 139,305,213

* The County implemented GASB Statement No 75 effective July 1, 2017. The 2017 amounts presented have not been restated to reflect the implementation of GASB 75. Refer to Note 15.

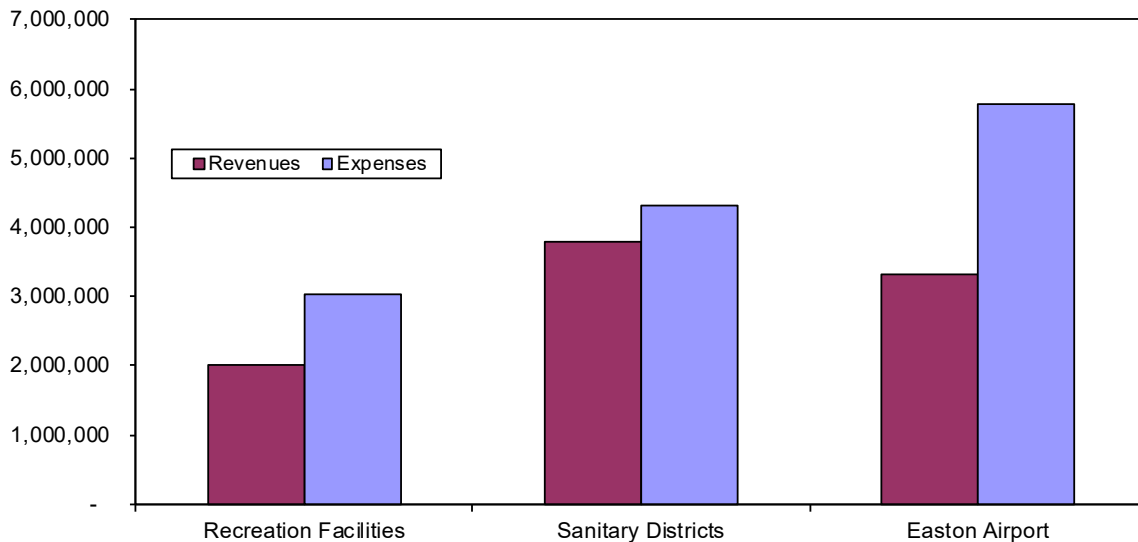
Governmental Activities. Governmental Activities decreased the County’s net position after transfers by \$0.8 million. Key elements of the increase in the net position of governmental activities are as follows:

- Implementation of GASB Statement 75, *Accounting and Financial reporting for Post-Employment Benefits Other than Pensions* resulted in a restatement of beginning total net position by \$9 million for the net OPEB liability
- Income Tax revenues decreased by \$2.2 million, an 8.0 percent decrease from the prior year actual and were \$1.1 million less than originally budgeted for FY 2018.
- Property tax revenues increased by \$2.0 million, a 5.6 percent increase from the prior fiscal year and were \$168 thousand more than originally budgeted.
- Transfer and recordation taxes decreased by \$662 thousand, a 5.8 percent decrease from the prior fiscal year; actual collections and were \$2.2 more than originally budgeted for FY 2018. These revenues indicate a stabilization of the local housing market, but the housing market is not expanding.

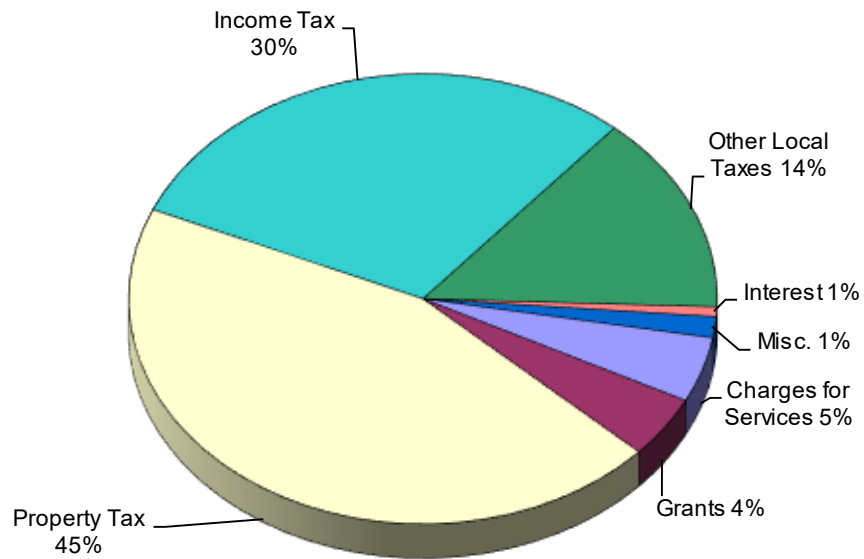
Business-type Activities. Business-type activities decreased Talbot County’s net position after transfers by \$3.4 million. The decrease is primarily attributable to expenditures (primarily depreciation) being more than revenues received through charges for services.

Fiscal year 2018 revenues and expenses for both the business-type and governmental activities are summarized in the charts on the following pages.

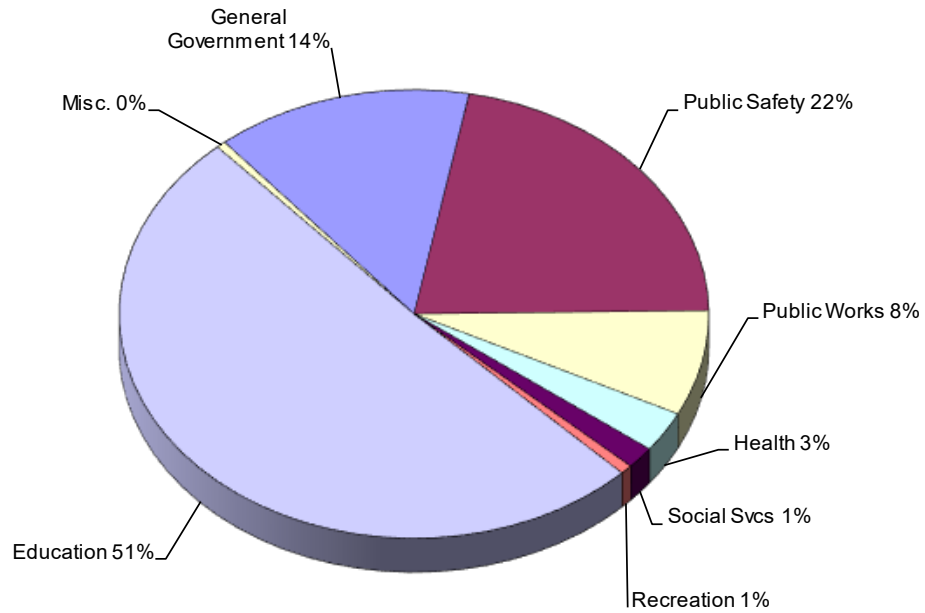
***Expenses and Program Revenues - Business-Type Activities
For the Year Ended June 30, 2018***



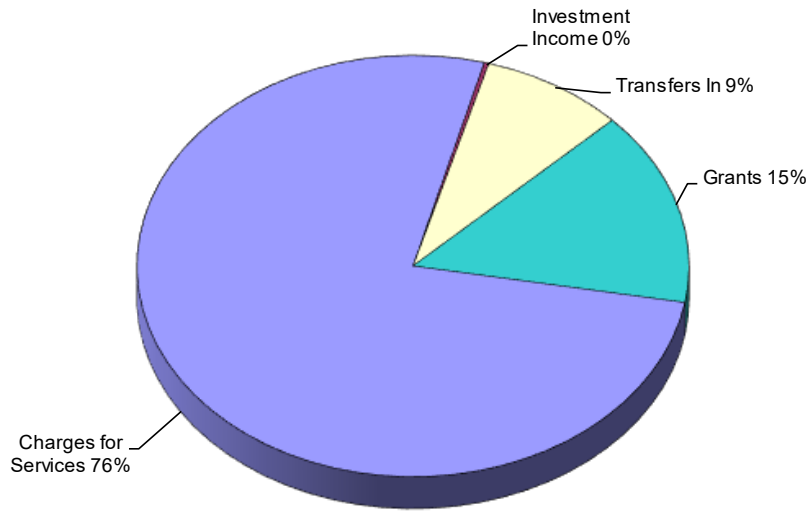
**Revenues by Source - Governmental Activities
For the Year Ended June 30, 2018**



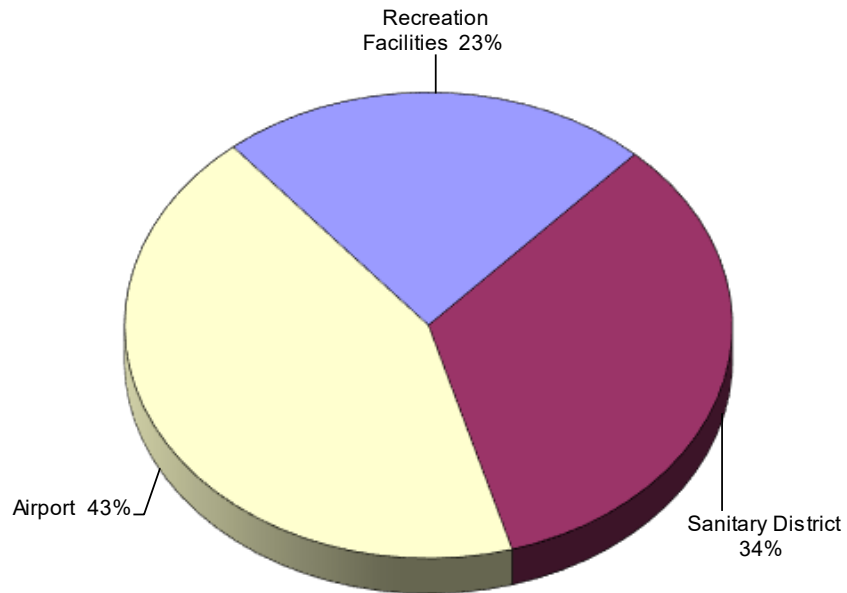
**Expenses - Governmental Activities
For the Year Ended June 30, 2018**



**Revenues by Source - Business-Type Activities
For the Year Ended June 30, 2018**



**Expenses - Business-Type Activities
For the Year Ended June 30, 2018**



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$37.8 million. Approximately 58.3 percent of this total (\$22.0 million) constitutes unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is either nonspendable, restricted, committed or assigned to indicate that it is not available for new spending because it has already been classified to fund other purposes. Capital projects account for the vast majority of committed funds.

The General Fund is the primary operating fund of the Talbot County Government. At the end of the current fiscal year, the total fund balance was \$30.3 million, and the unassigned fund balance was \$22.0 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 26.5 percent of total general fund expenditures before Other Financing Uses, while total fund balance represents 36.5 percent of total general fund expenditures before Other Financing Uses.

The fund balance of Talbot County's General Fund increased by \$882 thousand during FY 2018. This increase is due primarily to fluctuations in local (property, income, recordation and transfer) tax revenues discussed earlier.

The fund balance of the County's Capital Projects Fund decreased by \$1.7 million in FY 2018. This decrease was due to the completion of several projects.

Proprietary Funds. Talbot County's proprietary fund statements provide the same type of information found in the government-wide financial statements, only in more detail. The total net position of the proprietary funds at the end of the year totaled \$44.6 million. There is a deficit balance of \$3.4 million in unrestricted net position.

Fiduciary Funds. Talbot County's fiduciary fund statements provide information regarding the County's Other Post- Employment Benefits (OPEB) Trust. Total assets held in trust for the OPEB plan totaled \$11.8 million at June 30, 2018.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the final budget and the final actual results for the County totaled \$882 thousand. Revenues received were \$2.3 million more than final budgeted estimates and the County did not use \$2.5 million of prior years' funds to fund FY 2018 expenditures, resulting in a negative variance of \$200 thousand in revenues. Expenditures were \$1.1 million less than final budgeted estimates. The major variances can be summarized as follows:

- **Revenues.** Revenues were \$2.3 million more than originally budgeted for the year. As discussed earlier, the major differences between the budgeted amounts and the actual revenues are as follows:
 - Local Tax revenues received were \$1.6 million more than budgeted. This total includes \$1.1 million less in income tax revenues, \$2.5 million in recordation and transfer taxes, \$0.2 million in property tax revenues. Service charges received were \$.3 million more than the amount budgeted and Interest earnings were \$.5 million more than budgeted.
 - The County had budgeted to use \$2.5 million of prior years' funds to balance the FY 2018 budget. The County did not need to use any prior years' funds in FY 2018.
- **Expenditures.** Expenditures were \$1.1 million less than budgeted for the year. The County departments spent less than actually budgeted in all major expenditure areas.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Talbot County's investment in capital assets for its governmental and business-type activities as of June 30, 2018 totals \$148.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure. The total decrease in the County's investment in capital assets for the current fiscal year is \$5.4 million or 3.5 percent.

Capital assets are summarized as follows:

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 9,735,907	\$ 9,735,907	\$ 2,956,046	\$ 2,956,047	\$ 12,691,953	\$ 12,691,954
Construction in progress	887,560	1,334,249	6,905,404	5,533,458	7,792,964	6,867,707
Buildings and improvements	31,815,115	33,623,999	51,631,615	55,339,338	83,446,730	88,963,337
Non-deprec. infrastructure	25,449,891	25,449,891	-	-	25,449,891	25,449,891
Infrastructure	9,767,764	10,167,407	-	-	9,767,764	10,167,407
Furniture and equipment	5,891,818	6,043,895	3,654,600	3,921,847	9,546,418	9,965,742
Total	\$ 83,548,055	\$ 86,355,348	\$ 65,147,665	\$ 67,750,690	\$148,695,720	\$ 154,106,038

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

- Additional equipment costing \$177 thousand was added to the Emergency Radio/911 system project.
- A new Salt building costing \$168 thousand was constructed for the Roads Department.
- Purchases of new equipment costing \$836 thousand for the Sheriff and Roads Departments.
- Upgrades and renovations to the Bio-solids facility totaling \$702 thousand and upgrades to the St. Michaels Wastewater Collection System totaling \$631 thousand resulting in an increase in the CIP of Business-Type Activities. Reconstruction of the bunkers totaling \$369 thousand at the Hog Neck Golf Course increased Buildings and Improvements of the Business Type Activities.

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

Long-term Debt. At the end of the current fiscal year, Talbot County had total long-term debt outstanding of \$42.4 million, a decrease of approximately \$3.3 million. The full faith and credit and unlimited taxing power of the County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the bonds. Of this amount, \$17.1 million is considered self-supporting bonds, funded through various charges and assessments related to the enterprise operations of the County.

Talbot County Government’s Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Bonds, Notes and Premiums	\$ 25,216,355	\$ 29,043,335	\$ 17,167,299	\$ 16,646,068	\$ 42,383,654	\$ 45,689,403

The County’s most recent bond ratings from Moody’s Investors Service and Fitch Ratings are Aa2 (May 2018) and AAA (February 2017), respectively.

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

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

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

- The FY 2019 approved budget for the General Fund is \$92,038,750 representing an increase of \$8.6 million or 10.3 percent from the FY 2018 original approved budget.
- Real Property tax revenue is expected to generate \$2.6 million more than the FY 2018 actual collections and is \$2.8 million more than the FY 2018 budget. This increase is due to the adoption of an Education Supplement to the County real property tax rate. All of the funds generated by the Educational supplement must be appropriated to the Talbot County Public Schools.
- Income tax revenue in FY 2019 is budgeted to be \$168 thousand less than the FY 2018 actual collections and is \$1.3 million less than the FY 2018 budget.
- Fund balance of \$7.8 million is used to balance the FY 2019 General Fund budget.

- \$4.2 million of the \$7.8 million of Fund Balance is to be transferred to the Capital Projects fund. This is to fund a portion of the Easton elementary school project. This project will combine two existing elementary schools into one new elementary school. The FY 2019 Capital Budget includes \$16.3 million for this project. The total County portion of this project is estimated to be approximately \$30 million. The County is planning to issue long-term debt of approximately \$25 million for this project in FY 2020.
- The Operating Appropriation for Talbot County Public Schools increased by \$2.7 million from FY 2018.
- The FY 2019 Budget included a Step increase for eligible full time employees. In addition, adjustments were made to the salary scales of the Sheriff deputies, paramedics and EMT's and 911 dispatchers to address recruitment and retention issues.

All of these factors were considered in preparing the County's budget for FY 2019. The County is cognizant of the economic struggles of the past several years and will continue to carefully monitor expenditures.

REQUESTS FOR INFORMATION

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TALBOT COUNTY, MARYLAND

Statement of Net Position As of June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and short-term investments	\$ 32,995,064	\$ 8,227,077	\$ 41,222,141
Investments	-	-	-
Receivables:			
Accounts receivable	721,370	541,375	1,262,745
Other	-	-	-
Intergovernmental:			
State	3,433,746	392,681	3,826,427
Federal	250,210	29,906	280,116
Local	-	-	-
Prepaid items	492,383	-	492,383
Internal balances	11,178,565	(11,178,565)	-
Inventories	-	221,764	221,764
Advances to (from) other funds	225,986	(225,986)	-
Nondepreciable capital assets	36,073,358	9,861,450	45,934,808
Depreciable capital assets, net	47,474,697	55,286,215	102,760,912
TOTAL ASSETS	132,845,379	63,155,917	196,001,296
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	2,926,876	-	2,926,876
OPEB	205,678	-	205,678
Deferred charge on refunding	842,230	24,770	867,000
TOTAL DEFERRED OUTFLOWS	3,974,784	24,770	3,999,554
LIABILITIES			
Accounts payable and accrued liabilities	5,920,829	1,242,014	7,162,843
Other payables	-	-	-
Unearned revenue	5,560,880	117,756	5,678,636
Long-term liabilities, due within one year:			
Compensated absences	387,686	37,954	425,640
Bonds and notes payable	3,151,738	1,311,354	4,463,092
Obligations under state retirement system	-	-	-
Long-term liabilities, due in more than one year:			
Compensated absences	662,511	58,662	721,173
Bonds and notes payable	22,064,617	15,855,943	37,920,560
Obligations under state retirement system	-	-	-
Pension liability	10,657,934	-	10,657,934
Net other post-employment benefit liability	4,064,276	-	4,064,276
TOTAL LIABILITIES	52,470,471	18,623,683	71,094,154
DEFERRED INFLOWS OF RESOURCES			
Pensions	1,406,843	-	1,406,843
OPEB	17,617	-	17,617
TOTAL DEFERRED INFLOWS	1,424,460	-	1,424,460
NET POSITION			
Net investment in capital assets	78,664,492	48,005,138	126,669,630
Restricted for:			
Social Services (Talbot Family Network)	97,869	-	97,869
Food services	-	-	-
Programs	-	-	-
Unrestricted (deficit)	4,162,871	(3,448,134)	714,737
TOTAL NET POSITION	\$ 82,925,232	\$ 44,557,004	\$ 127,482,236

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

**Statement of Net Position
As of June 30, 2018**

Component Units	
Board of Education	Library
\$ 6,462,488	\$ 143,488
-	2,450,355
-	27,464
9,120	-
59,849	-
520,304	-
40,780	-
-	-
-	-
-	-
-	-
2,274,961	10,649
53,926,953	523,919
<u>63,294,455</u>	<u>3,155,875</u>
1,189,962	-
-	89,622
-	-
<u>1,189,962</u>	<u>89,622</u>
4,149,451	44,801
517,741	-
754,394	3,204
204,093	-
268,987	-
41,270	-
133,153	-
709,234	-
133,153	-
4,011,041	-
90,210,000	1,241,121
<u>101,132,517</u>	<u>1,289,126</u>
569,780	-
11,943,000	187,390
<u>12,512,780</u>	<u>187,390</u>
55,223,693	534,568
-	-
666,622	-
-	1,376,624
(105,051,195)	(142,211)
<u>\$ (49,160,880)</u>	<u>\$ 1,768,981</u>

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

Statement of Activities For the Year Ended June 30, 2018

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
GOVERNMENTAL ACTIVITIES				
Current:				
General government	\$ 12,144,928	\$ 571,155	\$ 582,362	\$ 184,388
Public safety	18,723,695	2,442,331	863,433	104,714
Public works	6,543,225	474,198	1,611,129	697,305
Health and hospitals	2,522,380	98,104	-	-
Social services	1,360,507	-	779,390	-
Education	43,745,918	224,423	-	-
Recreation	576,070	167,724	-	-
Conservation of natural resources	282,789	71,959	-	-
Interest on long-term debt	158,714	-	-	-
Total Governmental Activities	86,058,226	4,049,894	3,836,314	986,407
BUSINESS-TYPE ACTIVITIES				
Recreation facilities	3,080,314	2,021,416	-	-
Sanitary district	4,511,793	2,528,753	1,273,116	-
Easton airport	5,805,247	3,099,955	223,220	-
Total Business-Type Activities	13,397,354	7,650,124	1,496,336	-
Total Primary Government	\$ 99,455,580	\$ 11,700,018	\$ 5,332,650	\$ 986,407
COMPONENT UNITS				
Board of Education	71,106,852	766,457	66,365,555	-
Talbot County Free Library	1,976,027	-	2,239,774	-
Total Component Units	\$ 73,082,879	\$ 766,457	\$ 68,605,329	\$ -

General Revenues

Taxes:
Property
Local income
Other:
Admissions and amusements
Recordation
Transfer
Public accommodations
Mobile manufactured homes
Interest
Miscellaneous
Total general revenues
Transfers
Total general revenues and transfers
Change in net position
Net position, beginning of year, as restated
Net position, end of year

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

**Statement of Activities
For the Year Ended June 30, 2018**

Net (Expense) Revenue and Changes in Net Position					
Primary Government			Component Units		
Governmental Activities	Business-Type Activities	Total	Board of Education	Library	
\$ (10,807,023)	\$ -	\$ (10,807,023)	\$ -	\$ -	
(15,313,217)	-	(15,313,217)	-	-	
(3,760,593)	-	(3,760,593)	-	-	
(2,424,276)	-	(2,424,276)	-	-	
(581,117)	-	(581,117)	-	-	
(43,521,495)	-	(43,521,495)	-	-	
(408,346)	-	(408,346)	-	-	
(210,830)	-	(210,830)	-	-	
(158,714)	-	(158,714)	-	-	
<u>(77,185,611)</u>	<u>-</u>	<u>(77,185,611)</u>	<u>-</u>	<u>-</u>	
-	(1,058,898)	(1,058,898)	-	-	
-	(709,924)	(709,924)	-	-	
<u>-</u>	<u>(2,482,072)</u>	<u>(2,482,072)</u>	<u>-</u>	<u>-</u>	
-	(4,250,894)	(4,250,894)	-	-	
<u>(77,185,611)</u>	<u>(4,250,894)</u>	<u>(81,436,505)</u>	<u>-</u>	<u>-</u>	
-	-	-	(3,974,840)	-	
-	-	-	-	263,747	
-	-	-	<u>(3,974,840)</u>	<u>263,747</u>	
38,574,339	-	38,574,339	-	-	
25,767,710	-	25,767,710	-	-	
20,713	-	20,713	-	-	
6,648,370	-	6,648,370	-	-	
4,130,941	-	4,130,941	-	-	
1,498,913	-	1,498,913	-	-	
55,307	-	55,307	-	-	
604,834	26,359	631,193	54,106	125,030	
1,309,428	-	1,309,428	14,131	-	
<u>78,610,555</u>	<u>26,359</u>	<u>78,636,914</u>	<u>68,237</u>	<u>125,030</u>	
(842,250)	842,250	-	-	-	
<u>77,768,305</u>	<u>868,609</u>	<u>78,636,914</u>	<u>68,237</u>	<u>125,030</u>	
582,694	(3,382,285)	(2,799,591)	(3,906,603)	388,777	
82,342,538	47,939,289	130,281,827	(45,254,277)	1,380,204	
<u>\$ 82,925,232</u>	<u>\$ 44,557,004</u>	<u>\$ 127,482,236</u>	<u>\$ (49,160,880)</u>	<u>\$ 1,768,981</u>	

The notes to financial statements are an integral part of this statement.

This page is intentionally left blank.

FUND FINANCIAL STATEMENTS

TALBOT COUNTY, MARYLAND

**Balance Sheet – Governmental Funds
June 30, 2018**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 24,955,117	\$ 5,535,148	\$ 2,504,799	\$ 32,995,064
Receivables:				
Accounts receivable	557,335	72,192	91,843	721,370
Intergovernmental:				
State	2,908,698	-	525,048	3,433,746
Federal	40,173	-	210,037	250,210
Prepaid items	492,383	-	-	492,383
Due from other funds	11,178,565	-	-	11,178,565
Advances to other funds	225,986	-	-	225,986
TOTAL ASSETS	<u>\$ 40,358,257</u>	<u>\$ 5,607,340</u>	<u>\$ 3,331,727</u>	<u>\$ 49,297,324</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 5,210,743	\$ 158,591	\$ 551,495	\$ 5,920,829
Unearned revenue	4,849,339	-	711,541	5,560,880
TOTAL LIABILITIES	<u>10,060,082</u>	<u>158,591</u>	<u>1,263,036</u>	<u>11,481,709</u>
FUND BALANCES				
Nonspendable	492,383	-	-	492,383
Restricted for:				
Social Services	-	-	97,869	97,869
Committed for:				
Capital projects	-	5,448,749	417,822	5,866,571
Assigned for:				
Future budget	7,775,000	-	1,553,000	9,328,000
Unassigned	22,030,792	-	-	22,030,792
TOTAL FUND BALANCES	<u>30,298,175</u>	<u>5,448,749</u>	<u>2,068,691</u>	<u>37,815,615</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 40,358,257</u>	<u>\$ 5,607,340</u>	<u>\$ 3,331,727</u>	<u>\$ 49,297,324</u>

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

**Reconciliation of Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2018**

Total Governmental Funds Balances		\$	37,815,615
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 governmental funds			83,548,055
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the governmental funds			
Bonds, notes payable and bond premiums	(25,216,355)		
Net pension liability	(10,657,934)		
Net OPEB liability	(4,064,276)		
Compensated absences	<u>(1,050,197)</u>		
			(40,988,762)
Deferred outflows - Maryland State Pension			2,926,876
Deferred inflows - Maryland State Pension			(1,406,843)
Deferred outflows - OPEB			205,678
Deferred inflows - OPEB			(17,617)
Deferred charge on refunding			<u>842,230</u>
Net Position of Governmental Activities		\$	<u>82,925,232</u>

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

**Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2018**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUE				
Real property taxes	\$ 38,574,339	\$ -	\$ -	\$ 38,574,339
Local income taxes	25,767,710	-	-	25,767,710
Other local taxes	12,354,244	-	-	12,354,244
Licenses and permits	655,276	-	587,400	1,242,676
Intergovernmental:				
Federal	154,669	63,600	689,969	908,238
State	1,802,159	174,830	1,937,493	3,914,482
Service charges	2,778,123	-	-	2,778,123
Fines and forfeitures	29,094	-	-	29,094
Miscellaneous	1,113,775	-	195,655	1,309,430
Interest	575,450	5,458	23,926	604,834
Total Revenue	<u>83,804,839</u>	<u>243,888</u>	<u>3,434,443</u>	<u>87,483,170</u>
EXPENDITURES				
Current:				
General government	8,430,809	417,156	452,774	9,300,739
Public safety	16,793,056	165,948	2,682	16,961,686
Public works	4,496,998	150,012	1,556,398	6,203,408
Health and hospitals	2,515,712	-	6,668	2,522,380
Social services	555,911	-	804,596	1,360,507
Education	44,537,382	1,998,351	-	46,535,733
Recreation	527,453	89,868	-	617,321
Conservation of natural resources	266,938	-	-	266,938
Employee benefits	1,037,594	-	-	1,037,594
Miscellaneous	110,226	-	-	110,226
Intergovernmental	1,203,193	-	-	1,203,193
Debt service interest	158,714	-	-	158,714
Debt service principal	861,726	-	-	861,726
Contingencies	22,990	-	-	22,990
Total Expenditures	<u>81,518,702</u>	<u>2,821,335</u>	<u>2,823,118</u>	<u>87,163,155</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>2,286,137</u>	<u>(2,577,447)</u>	<u>611,325</u>	<u>320,015</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	166,000	869,500	-	1,035,500
Transfers out	(1,570,000)	-	(307,750)	(1,877,750)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,404,000)</u>	<u>869,500</u>	<u>(307,750)</u>	<u>(842,250)</u>
NET CHANGES IN FUND BALANCE	<u>882,137</u>	<u>(1,707,947)</u>	<u>303,575</u>	<u>(522,235)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>29,416,038</u>	<u>7,156,696</u>	<u>1,765,116</u>	<u>38,337,850</u>
FUND BALANCES - END OF YEAR	<u>\$ 30,298,175</u>	<u>\$ 5,448,749</u>	<u>\$ 2,068,691</u>	<u>\$ 37,815,615</u>

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2018

Net change in fund balances - total Governmental Funds \$ (522,235)

Amounts reported for governmental activities in the statement of net position 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 as depreciation expense.

Capital outlays	2,200,857	
Current year depreciation	(4,977,083)	
Disposals	(31,067)	
Total		(2,807,293)

Repayment of debt obligations is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.

3,651,541

Principal payments and retirements of long-term debt

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.

Change in unamortized bond premium	175,439
Change in deferred debt refunding costs	(94,548)
Change in net other post-employment benefits	(299,437)
Change in pension expense	561,698
Change in compensated absences	(82,471)

Change in net position of Governmental Activities \$ 582,694

TALBOT COUNTY, MARYLAND

Statement of Fund Net Position – Business-Type Activities
June 30, 2018

	Major Funds			
	Recreation Facilities	Sanitary District	Easton Airport	Total
ASSETS				
Current Assets:				
Cash and short-term investments	\$ 6,604	\$ 2,053,958	\$ 457,901	\$ 2,518,463
Cash and short-term investments - capital projects	5,708,614	-	-	5,708,614
Accounts receivable:				
Accounts receivable, customers	-	480,865	60,510	541,375
Intergovernmental:				
State	-	380,883	11,798	392,681
Federal	-	-	29,906	29,906
Inventories	59,976	-	161,788	221,764
Total current assets	<u>5,775,194</u>	<u>2,915,706</u>	<u>721,903</u>	<u>9,412,803</u>
Noncurrent Assets:				
Land	450,000	2,463,800	42,246	2,956,046
Construction in progress	404,540	5,991,990	508,874	6,905,404
Buildings and improvements	16,359,478	44,476,080	49,587,725	110,423,283
Furniture and equipment	2,339,584	4,219,711	1,646,548	8,205,843
Less: accumulate depreciation	(12,274,199)	(21,982,366)	(29,086,346)	(63,342,911)
Total Noncurrent Assets	<u>7,279,403</u>	<u>35,169,215</u>	<u>22,699,047</u>	<u>65,147,665</u>
TOTAL ASSETS	<u>13,054,597</u>	<u>38,084,921</u>	<u>23,420,950</u>	<u>74,560,468</u>
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refundings	<u>23,471</u>	<u>503</u>	<u>796</u>	<u>24,770</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	134,178	806,757	301,079	1,242,014
Compensated absences	10,930	15,653	11,371	37,954
Due to other funds	4,233,591	1,526,652	5,418,322	11,178,565
Unearned revenue	33,743	19,000	65,013	117,756
Advances from other funds	-	-	225,986	225,986
Current maturities of long-term debt	309,110	860,483	141,761	1,311,354
Total current liabilities	<u>4,721,552</u>	<u>3,228,545</u>	<u>6,163,532</u>	<u>14,113,629</u>
Noncurrent Liabilities:				
Compensated absences	13,469	28,360	16,833	58,662
Long-term debt, less current maturities	1,497,325	13,860,527	498,091	15,855,943
Total noncurrent liabilities	<u>1,510,794</u>	<u>13,888,887</u>	<u>514,924</u>	<u>15,914,605</u>
TOTAL LIABILITIES	<u>6,232,346</u>	<u>17,117,432</u>	<u>6,678,456</u>	<u>30,028,234</u>
NET POSITION				
Net investment in capital assets	5,496,439	20,448,708	22,059,991	48,005,138
Unrestricted (deficit)	1,349,283	519,284	(5,316,701)	(3,448,134)
TOTAL NET POSITION	<u>\$ 6,845,722</u>	<u>\$ 20,967,992</u>	<u>\$ 16,743,290</u>	<u>\$ 44,557,004</u>

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

**Statement of Revenue, Expenses and Changes in Fund Net Position –
Business-type Activities
For the Year Ended June 30, 2018**

	<u>Major Funds</u>			<u>Total</u>
	<u>Recreation Facilities</u>	<u>Sanitary District</u>	<u>Easton Airport</u>	
OPERATING REVENUE				
Airport - operations	\$ -	\$ -	\$ 408,669	\$ 408,669
Airport - fuel facility	-	-	2,131,002	2,131,002
Airport - hangars	-	-	560,284	560,284
Sewer service charges	-	2,232,672	-	2,232,672
Sewer connection charges	-	260,293	-	260,293
Residential benefit charges	-	20,784	-	20,784
Wind/solar renewable energy	-	2,747	-	2,747
Admissions	227,820	-	-	227,820
Room rents	54,906	-	-	54,906
Ice revenue	298,764	-	-	298,764
Pro shop and concessions	327,401	-	-	327,401
Cart rentals	35,178	-	-	35,178
Green fees	918,971	-	-	918,971
Other operating	158,376	12,257	-	170,633
TOTAL OPERATING REVENUE	<u>2,021,416</u>	<u>2,528,753</u>	<u>3,099,955</u>	<u>7,650,124</u>
OPERATING EXPENSES				
Salaries and related expenses	1,147,631	945,475	367,515	2,460,621
Cost of sales - fuel	-	-	1,874,802	1,874,802
Professional fees	29,040	388	548,111	577,539
Office	60,956	33,052	29,016	123,024
Insurance	15,239	20,428	18,890	54,557
Contracted services	-	1,132,023	-	1,132,023
Repairs and maintenance	204,593	300,674	107,298	612,565
Utilities	221,401	295,424	46,892	563,717
Supplies and equipment	108,748	224,363	10,241	343,352
Lessons and programs	94,803	-	-	94,803
Concessions	225,742	-	-	225,742
Depreciation	798,038	1,354,937	2,750,264	4,903,239
Other operating	118,108	16,348	17,175	151,631
TOTAL OPERATING EXPENSES	<u>3,024,299</u>	<u>4,323,112</u>	<u>5,770,204</u>	<u>13,117,615</u>
OPERATING LOSS	<u>(1,002,883)</u>	<u>(1,794,359)</u>	<u>(2,670,249)</u>	<u>(5,467,491)</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental revenues	-	1,273,116	223,220	1,496,336
Interest income	-	26,359	-	26,359
Interest expense	(56,015)	(188,681)	(35,043)	(279,739)
TOTAL NON -OPERATING REVENUES (EXPENSES)	<u>(56,015)</u>	<u>1,110,794</u>	<u>188,177</u>	<u>1,242,956</u>
Loss Before Transfers	<u>(1,058,898)</u>	<u>(683,565)</u>	<u>(2,482,072)</u>	<u>(4,224,535)</u>
Transfers In	<u>842,250</u>	<u>-</u>	<u>-</u>	<u>842,250</u>
Change in Net Position	<u>(216,648)</u>	<u>(683,565)</u>	<u>(2,482,072)</u>	<u>(3,382,285)</u>
NET POSITION - BEGINNING OF YEAR	<u>7,062,370</u>	<u>21,651,557</u>	<u>19,225,362</u>	<u>47,939,289</u>
NET POSITION - END OF YEAR	<u>\$ 6,845,722</u>	<u>\$ 20,967,992</u>	<u>\$ 16,743,290</u>	<u>\$ 44,557,004</u>

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

Statement of Cash Flows – Business-Type Activities For the Year Ended June 30, 2018

	Major Funds			Total
	Recreation Facilities	Sanitary District	Easton Airport	
Cash flows from operating activities:				
Cash received from customers	\$ 2,050,022	\$ 2,954,190	\$ 3,077,928	\$ 8,082,140
Cash received from other revenues	-	-	-	-
Cash payments for salaries and related expenses	(1,152,426)	(944,585)	(367,514)	(2,464,525)
Cash payments to suppliers	(1,109,170)	(895,502)	(2,495,398)	(4,500,070)
Cash payments for contracted services	-	(1,132,023)	-	(1,132,023)
Other receipts	198,495	-	(167,400)	31,095
Other payments	-	(446,341)	-	(446,341)
Net Cash (used) provided by operating activities	<u>(13,079)</u>	<u>(464,261)</u>	<u>47,616</u>	<u>(429,724)</u>
Cash flows from noncapital financing activities:				
Transfers from other funds	842,250	-	-	842,250
Intergovernmental revenues	-	1,199,715	663,221	1,862,936
Net cash provided by noncapital financing activities	<u>842,250</u>	<u>1,199,715</u>	<u>663,221</u>	<u>2,705,186</u>
Cash flows from capital and related financing activities:				
Issuance of long-term debt	-	1,786,000	-	1,786,000
Principal paid on long-term notes and bonds	(286,800)	(832,904)	(145,067)	(1,264,771)
Deferred refunding costs on sale of bonds	2,933	505	796	4,234
Interest paid on long-term notes and bonds	(56,016)	(188,681)	(35,041)	(279,738)
Proceeds from sale of capital assets	-	-	-	-
Acquisition and construction of capital assets	(489,289)	(1,559,145)	(251,781)	(2,300,215)
Net cash (used) provided by capital and related financing activities	<u>(829,172)</u>	<u>(794,225)</u>	<u>(431,093)</u>	<u>(2,054,490)</u>
Cash flows from investing activities:				
Interest income on investments	-	26,359	-	26,359
Repayment of advances from other funds	-	-	(69,443)	(69,443)
Net cash provided (used) by investing activities	<u>-</u>	<u>26,359</u>	<u>(69,443)</u>	<u>(43,084)</u>
Increase (Decrease) in Cash and Cash Equivalents	(1)	(32,412)	210,301	177,888
Cash and Cash Equivalents at Beginning of Year	<u>5,715,219</u>	<u>2,086,370</u>	<u>247,600</u>	<u>8,049,189</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,715,218</u>	<u>\$ 2,053,958</u>	<u>\$ 457,901</u>	<u>\$ 8,227,077</u>

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

**Statement of Cash Flows – Business-Type Activities
For the Year Ended June 30, 2018**

	<u>Major Funds</u>			<u>Total</u>
	<u>Recreation Facilities</u>	<u>Sanitary District</u>	<u>Easton Airport</u>	
Reconciliation of operating loss to net cash (used)				
Provided by operating activities:				
Operating loss	\$ (1,002,883)	\$ (1,794,359)	\$ (2,670,249)	\$ (5,467,491)
Adjustments to reconcile operating loss to net cash (used) provided by operating activities				
Depreciation	798,038	1,354,937	2,750,264	4,903,239
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable, customers	29,844	434,437	(36,424)	427,857
(Increase) decrease in prepaid	3,033	2,158	2,479	7,670
(Increase) decrease in inventories	(4,023)	-	(44,500)	(48,523)
Increase (decrease) in accounts payable	(29,550)	(6,983)	199,048	162,515
(Decrease) increase in compensated absences	(4,795)	890	1	(3,904)
(Decrease) increase in due to other funds	198,495	(446,341)	(167,400)	(415,246)
Increase (Decrease) in unearned revenue	(1,238)	(9,000)	14,397	4,159
Net cash (used) provided by operating activities	<u>\$ (13,079)</u>	<u>\$ (464,261)</u>	<u>\$ 47,616</u>	<u>\$ (429,724)</u>

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

**Statement of Fiduciary Net Position – Fiduciary Fund
June 30, 2018**

	Other Post-Employment Benefits Trust Fund
ASSETS	
Cash and equivalents	\$ 1,393,694
Investments	10,382,519
TOTAL ASSETS	<u>11,776,213</u>
LIABILITIES	
Accrued expenses	<u>15,754</u>
NET POSITION	
Net Position Restricted for OPEB	<u>\$ 11,760,459</u>

The notes to financial statements are an integral part of this statement.

TALBOT COUNTY, MARYLAND

**Statement of Changes in Fiduciary Net Position – Fiduciary Fund
For the Year Ended June 30, 2018**

	<u>Other Post - Employment Benefits Trust Fund</u>
ADDITIONS:	
Investment earnings	
Interest	\$ 380,704
Net appreciation in the fair value of investments	416,121
Less: investment expenses	<u>6,431</u>
Net investment income	<u>790,394</u>
Total additions	<u>790,394</u>
DEDUCTIONS:	
Administrative expenses	<u>55,961</u>
Total deductions	<u>55,961</u>
Change in net position	734,433
Net position restricted for OPEB - beginning of year	<u>11,026,026</u>
Net position restricted for OPEB - end of year	<u><u>\$ 11,760,459</u></u>

The notes to financial statements are an integral part of this statement.

NOTES TO FINANIAL STATEMENTS

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

1. REPORTING ENTITY

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

Board of Education of Talbot County Association, Inc. 12 Magnolia Street Easton, MD 21601	Talbot County Free Library 100 W. Dover Street Easton, MD 21601
---	---

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

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation

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

Government-Wide and Fund Financial Statements

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

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

Fund Financial Statements

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fund Accounting

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

Governmental Fund Types

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

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

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

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

Proprietary Fund Types

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

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

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

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

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fund Accounting (continued)

Fiduciary Fund Types

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

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

D. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Basis of Accounting

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

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

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

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

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

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgetary Process

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

The County Manager and the Board of Education submit a proposed operating budget for their respective general and capital projects funds annually to the County Council.

A minimum of two public hearings are conducted to obtain taxpayer comments.

On or before June 1, the County's budget is legally enacted through passage of an ordinance by the County Council. The budget is required to be balanced as to proposed revenues and expenditures.

The County's legal level of budgetary control is at the general classification of expenditure level (personnel, operating, capital outlay, debt service, etc.). The County Manager is authorized to make transfers between general classifications of expenditures within the same department and fund. Transfers between departments can be made only with the approval of the County Council. All unexpended and unencumbered appropriations in the general fund lapse at the end of the fiscal year. However, no appropriation for a capital project may lapse until the purpose for which the appropriation was made is accomplished or abandoned. A capital project is abandoned if three fiscal years elapse without any expenditure.

Formal budgets are employed as a management control device during the year for the general, capital projects, special revenue, and enterprise funds. Annual budgets are legally adopted and presented in the combined statement of revenues and expenditures - budget and actual for the general fund, capital projects fund and special revenue funds of the Primary Government.

Budgets are prepared and adopted on a basis consistent with generally accepted accounting principles.

The general fund, capital projects fund, and special revenue fund budgeted amounts reflect the originally adopted and approved budget and the revised budget by the County Council. The budgeted amounts for the Board of Education and Library are not presented in these financial statements.

There were no supplemental appropriations for the County.

G. Cash and Short-Term Investments

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Property Tax

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

I. Inventory and Prepaid Items

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

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

J. Capital Assets

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

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

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

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Compensated Absences

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Position

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Net Position (continued)

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

N. Deferred Outflows and Inflows of Resources

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

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

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

O. Fund Balance Reserves

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

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

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

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fund Balance Reserves (continued)

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

Unassigned – Amounts in the General Fund not included in other spendable classifications. Nonspendable fund balances consist of prepaid amounts.

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

P. Operating Revenues and Expenses

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

Q. Use of Estimates

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

R. Interfund Receivables/Payables

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

3. DEPOSITS AND INVESTMENTS

A. Deposits

Primary Government

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

At June 30, 2018, the County Primary Government had deposits of \$23,610,906 with local banks (carrying value \$23,222,141). Of those deposits, \$250,000 was insured by federal depository insurance (FDIC). As required by law, a depository is required to pledge securities, in addition to FDIC insurance, at least equal to the amount on deposit at all times. At June 30, 2018, all deposits were fully insured or collateralized with securities pledged in the County's name. Petty cash totaled \$13,667 as of June 30, 2018.

Board of Education

At June 30, 2018, the reported amount of the Board's bank deposits (carrying value) was \$7,222,839 and the bank balance was \$8,645,858. These balances include \$760,351 of trust and agency cash and MLGIP of \$3,984,933. The cash in the bank was covered by federal depository insurance or by collateral held by the pledging bank's trust department in the Board's name with the exception of \$113,911 in funds held by the Retiree Health Plan (OPEB) trust fund.

Library

At June 30, 2018, the Library had deposits totaling \$145,622 (carrying value \$143,488), which were fully insured by federal depository insurance issued by the Federal Depository Insurance Corporation (FDIC).

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

3. DEPOSITS AND INVESTMENTS (continued)

B. Investments

Primary Government

The County is a participant in the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State of Maryland a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 §22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Capital Advisors, LLC and custodied by PNC Bank, N.A., which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a semi-annual basis and provide suggestions to enhance the pool. The MLGIP portfolio is managed in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. The MLGIP is rated AAAM by Standard and Poor's. The fair value of the pool is the same as the value of the pool shares. At June 30, 2018, the County had investments in MLGIP of \$18,000,000, which are recorded at cost, which approximates fair value.

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

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

At June 30, 2018, the County had the following investments:

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

The Post-Employment Benefits Trust Fund investments are invested in the Maryland Association of Counties Pooled OPEB Trust (MACO Trust). The MACO Trust is administered by Davenport & Company LLC, and is a wholly-owned instrumentality of its members. The nine members who are sole contributors to the Trust consist of the following: Allegany, St. Mary's, Queen Anne's, and Talbot Counties, City of Annapolis, College of Southern Maryland, Town of Bel Air, Talbot County Board of Education, and St. Mary's County Metropolitan Commission.

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

3. DEPOSITS AND INVESTMENTS (continued)

B. Investments (continued)

The assets of the Trust are managed by a Board of Trustees and consist of U.S. Treasury obligations, U.S. government agencies, corporate and foreign bonds, municipal obligations, taxable fixed income securities, mutual funds, global funds, and international equity securities.

Cash and cash equivalents for the MACO Trust include an investment in a money market mutual fund. At June 30, 2018, the weighted average maturity (WAM) for the Trust's money market mutual fund was 34 days. At June 30, 2018, the short-term rating of the money market mutual fund was AAAM by Standard & Poor's.

The main objectives of the Trust's investment policy are the protection of investment principal and maximizing investment income through diversification while assuring financial liquidity. The policy allows for investment in U.S. and Non-U.S. equities, corporate, government, or government agency bonds, non U.S. bonds, real estate and limited partnerships.

The Trust categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transaction.

Transactions are recorded on the trade date. Realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis. Following is a description of the valuation methodologies used for assets measured at fair value.

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

3. DEPOSITS AND INVESTMENTS (continued)

B. Investments (continued)

Equity securities classified in Level 2 are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Trust has the following recurring fair value measurements as of June 30, 2018, of which Talbot County's portion was 32% of the total:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments by fair value level:				
Debt Securities				
U.S. Treasury Obligations	\$ -	\$ 2,769,749	\$ -	\$ 2,769,749
U.S. Governmental Agencies	-	1,469,591	-	1,469,591
Corporate & Foreign Bonds	-	4,353,332	-	4,353,332
Municipal Obligations	-	518,371	-	518,371
Equity and Mutual Fund Investments				
Taxable Fixed Income Securities	-	1,821,322	-	1,821,322
Domestic Equity Mutual Funds	13,729,053	-	-	13,729,053
Global Funds	1,936,289	-	-	1,936,289
International Funds	5,850,724	-	-	5,850,724
Total	<u>\$ 21,516,066</u>	<u>\$ 10,932,365</u>	<u>\$ -</u>	<u>\$ 32,448,431</u>

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Trust's investment policy states that the duration of the portfolio should be within 6 months of Barclays Capital Aggregate Bond Index. The Trusts' weighted average years to maturity as of June 30, 2018 was 2.3 years.

Information about the sensitivity of the fair values of the Trust's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Trust's investments by maturity as of June 30, 2018:

	<u>Investment Maturities (in Years)</u>				<u>Total</u>
	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>	
Investments with maturities					
U.S. Treasury Obligations	\$ -	\$ 1,454,308	\$ 823,384	\$ 492,057	\$ 2,769,749
U.S. Governmental Agencies	-	120,533	194,390	1,154,668	1,469,591
Corporate & Foreign Bonds	280,987	2,557,167	492,844	1,022,334	4,353,332
Municipal Obligations	-	383,470	134,901	-	518,371
Total	<u>\$ 280,987</u>	<u>\$ 4,515,478</u>	<u>\$ 1,645,519</u>	<u>\$ 2,669,059</u>	<u>\$ 9,111,043</u>

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

3. DEPOSITS AND INVESTMENTS (continued)

B. Investments (continued)

Credit Risk. The Trust is exposed to both market risk, the risk arising from changes in fair value, and credit risk, the risk of failure by another party to perform according to the terms of a contract. The Trust bears the risk of loss only to the extent of the fair value of the respective investments. At June 30, 2018 the ratings of the underlying investments of the Trust's investments were as follows:

Type	Rating					Not Rated	Total
	Aaa	Aa1/Aa2/Aa3	A1/A2/A3	Baa1/Baa2/Baa3	Ba1		
U.S. Treasury Obligations	\$2,591,339	\$ -	\$ -	\$ -	\$ -	\$ 178,410	\$2,769,749
U.S. Governmental Agencies	-	-	-	-	-	1,469,591	1,469,591
Corporate & Foreign Bonds	241,640	1,059,610	1,637,890	790,692	67,527	555,973	4,353,332
Municipal Obligations	98,671	326,093	-	-	-	93,607	518,371
Total	<u>\$2,931,650</u>	<u>\$ 1,385,703</u>	<u>\$1,637,890</u>	<u>\$ 790,692</u>	<u>\$67,527</u>	<u>\$2,297,581</u>	<u>\$9,111,043</u>

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Trust will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Trust's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

The Trust has all of its assets on deposit with Wilmington Trust Company in connection with its investing and cash management activities. In the event of a financial institution's insolvency, recovery of Trust assets on deposit may be limited to account insurance or other protection afforded such deposits.

The following summarizes custodial credit risk related to investments held by the custodian as of June 30, 2018, which are uninsured and unregistered:

	Fair Value
	June 30, 2018
U.S. Treasury Obligations	\$ 2,769,749
U.S. Governmental Agencies	1,469,591
Corporate & Foreign Bonds	4,353,332
Municipal Obligations	518,371
Taxable Fixed Income Securities	1,821,322
Domestic Equity Mutual Funds	13,729,053
Global Funds	1,936,289
International Funds	5,850,724
Total	<u>\$ 32,448,431</u>

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

3. DEPOSITS AND INVESTMENTS (continued)

B. Investments (continued)

Concentration of credit risk. The following general asset allocation guidelines have been established through the Trust's investment policy.

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>
Equities	50%	70%	65%
Fixed Income	30%	50%	35%
Cash and Equivalents	0%	10%	0%

The Trust held the following investments as of June 30, 2018 that exceeded 5% of the total investment balances as of June 30, 2018:

<u>Name</u>	<u>Amount</u>
DFA US Small-Cap Value Fund	\$ 2,523,065
Lazard International Strategic Equity Funds	2,942,998
Transamerica TS&W International Equity Funds	2,907,726
Vanguard 500 Index Fund	7,155,233
Vanguard Mid-Cap Index Fund - Admiral Shares	2,327,507
New World Fund	1,936,289

Foreign Currency Risk is the risk that changes in the exchange rate of investments will adversely affect the fair value of an investment. The Trust was not exposed to foreign currency risk as of June 30, 2018 as the Trust did not have any investments denominated in foreign currencies.

Capital Accounts

The Trust accounts for contributions, allocations and redemptions on a per member capital account basis. The revenues, consulting and management fees, and administrative service fee are allocated pro rata to capital accounts of each member based on committed capital.

Board of Education

The Board is also authorized to invest in the MLGIP, where deposits are recorded at cost. Due to the nature of the MLGIP investment it is considered a cash equivalent. MLGIP is not covered by FDIC, but it is collateralized by United States Treasury instruments. The Maryland State Treasurer oversees the MLGIP. At June 30, 2018, the Board had investments in MLGIP of \$3,984,933.

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

3. DEPOSITS AND INVESTMENTS (continued)

Investments (continued)

Library

The library follows the adopted investment policy of the County. The Foundation does not have restrictions placed on the type of investments it owns.

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

As of June 30, 2018, the Foundation's investments consisted of the following:

Investment Type	Fair Value	% of Total	Rating	Investment Maturities (in Years)		
				Less than 1	1-5	Total
Cash and bank sweep	\$ 46,923	2%	N/A	\$ 46,923	\$ -	\$ 46,923
Fixed income - CDs & BAs	419,718	17%	N/A	280,211	139,507	419,718
Equities:						
Mutual funds	1,783,019	73%	2-5 star	1,783,019	-	1,783,019
Exchange traded funds	200,695	8%	N/A	200,695	-	200,695
Total	<u>\$2,450,355</u>	<u>100%</u>		<u>\$2,310,848</u>	<u>\$139,507</u>	<u>\$2,450,355</u>

For all investment types other than cash, the asset allocation is comprised of 50% to 70% equities.

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

Level 1 – Investments reflect prices quoted in active markets.

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

Level 3 – Investments reflect prices based upon unobservable sources.

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

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

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, 2018, appropriate due from/to other funds have been established.

Interfund transactions are classified as follows:

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

Loans and advances are netted as part of the reconciliation of the Government-wide financial statements.

During 2018, to support operations, the general fund transferred \$750,000 and \$820,000 to the capital projects fund and recreation fund, respectively. In addition, to support operations, the developmental impact fund transferred \$166,000, \$119,500 and \$22,250 to the general fund, capital projects fund and recreation fund, respectively.

Due from/to other funds balances as of June 30, 2018 were as follows:

<u>Primary Government</u>	<u>Purpose</u>	Due from Other Funds	Due to Other Funds
General Fund	Transfers	\$ 11,178,565	\$ -
Enterprise Fund - Recreation Facilities	Transfers	-	4,233,591
Enterprise Fund - Sanitary District	Transfers	-	1,526,652
Enterprise Fund - Airport	Transfers	-	5,418,322
		<u>\$ 11,178,565</u>	<u>\$ 11,178,565</u>

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

Advances to/from other funds balances as of June 30, 2018 were as follows:

<u>Primary Government</u>	<u>Purpose</u>	Advances to Other Funds	Advances from Other Funds
General Fund	Construction projects	\$ 225,986	\$ -
Enterprise Fund - Airport	Construction projects	-	225,986
		<u>\$ 225,986</u>	<u>\$ 225,986</u>

During fiscal year 2007, the County transferred approximately \$2.5 million to the Airport from the General Fund for construction of an airport control tower. The outstanding balance at June 30, 2018 was \$225,986.

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

5. CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Additions	Transfers and Reductions	Balance June 30, 2018
<u>Primary Government:</u>				
Governmental Activities				
Nondepreciable Capital Assets:				
Land	\$ 9,735,907	\$ -	\$ -	\$ 9,735,907
Infrastructure - road base	25,449,891	-	-	25,449,891
Construction in progress	1,334,249	34,869	(481,558)	887,560
Total Nondepreciable Capital Assets	36,520,047	34,869	(481,558)	36,073,358
Depreciable Capital Assets:				
Buildings and improvements	53,702,065	890,518	-	54,592,583
Infrastructure	18,546,100	266,875	-	18,812,975
Furniture and equipment	26,915,038	1,490,153	(316,825)	28,088,366
Total capital assets being depreciated	99,163,203	2,647,546	(316,825)	101,493,924
Less accumulated depreciation for:				
Buildings and improvements	20,078,066	2,699,402	-	22,777,468
Infrastructure	8,378,693	666,518	-	9,045,211
Furniture and equipment	20,871,143	1,611,163	(285,758)	22,196,548
Total accumulated depreciation	49,327,902	4,977,083	(285,758)	54,019,227
Total depreciable Capital Assets, Net	49,835,301	(2,329,537)	(31,067)	47,474,697
Total Governmental Activities, Net	\$ 86,355,348	\$ (2,294,668)	\$ (512,625)	\$ 83,548,055
	Balance June 30, 2017	Additions	Transfers and Reductions	Balance June 30, 2018
Business-Type Activities				
Nondepreciable Capital Assets:				
Land	\$ 2,956,046	\$ -	\$ -	\$ 2,956,046
Construction in progress	5,533,458	1,463,751	(91,805)	6,905,404
Total Nondepreciable Capital Assets	8,489,504	1,463,751	(91,805)	9,861,450
Depreciable Capital Assets:				
Buildings and improvements	109,660,519	768,727	(5,963)	110,423,283
Furniture and equipment	8,042,339	159,545	3,959	8,205,843
Total capital assets being depreciated	117,702,858	928,272	(2,004)	118,629,126
Less accumulated depreciation for:				
Buildings and improvements	54,321,180	4,470,488	-	58,791,668
Furniture and equipment	4,120,492	432,751	(2,000)	4,551,243
Total accumulated depreciation	58,441,672	4,903,239	(2,000)	63,342,911
Total depreciable Capital Assets, Net	59,261,186	(3,974,967)	(4)	55,286,215
Total Business-Type Activities, Net	\$ 67,750,690	\$ (2,511,216)	\$ (91,809)	\$ 65,147,665

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

5. CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 1,019,487
Public Safety	2,376,981
Public Works	1,409,139
Recreation	171,476
Total Depreciation Expense - Governmental Activities	<u>\$ 4,977,083</u>

A summary of changes in capital assets for the component units at June 30, 2018 is as follows:

<u>Component Units</u>	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Transfers and Reductions</u>	<u>Balance June 30, 2018</u>
Board of Education				
Nondepreciable Capital Assets:				
Land	\$ 624,446	\$ -	\$ -	\$ 624,446
Construction in progress	-	1,650,515	-	1,650,515
Total Nondepreciable Capital Assets	<u>624,446</u>	<u>1,650,515</u>	<u>-</u>	<u>2,274,961</u>
Depreciable Capital Assets:				
Buildings and improvements	95,337,504	45,300	-	95,382,804
Furniture and equipment	26,357,974	1,658,432	(1,432,128)	26,584,278
Total capital assets being depreciated	<u>121,695,478</u>	<u>1,703,732</u>	<u>(1,432,128)</u>	<u>121,967,082</u>
Less accumulated depreciation for:				
Buildings and improvements	43,344,436	2,171,028	-	45,515,464
Furniture and equipment	22,601,746	1,354,195	(1,431,276)	22,524,665
Total accumulated depreciation	<u>65,946,182</u>	<u>3,525,223</u>	<u>(1,431,276)</u>	<u>68,040,129</u>
Total depreciable Capital Assets, Net	<u>\$ 55,749,296</u>	<u>\$ (1,821,491)</u>	<u>\$ (852)</u>	<u>\$ 53,926,953</u>
<u>Library</u>	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Transfers and Reductions</u>	<u>Balance June 30, 2018</u>
Nondepreciable Capital Assets:				
Construction in progress	\$ 1,880	\$ 8,769	\$ -	\$ 10,649
Total Nondepreciable Capital Assets	<u>1,880</u>	<u>8,769</u>	<u>-</u>	<u>10,649</u>
Depreciable Capital Assets:				
Buildings and improvements	559,721	-	(93,823)	465,898
Furniture and equipment	1,414,010	97,228	(156,262)	1,354,976
Total capital assets being depreciated	<u>1,973,731</u>	<u>97,228</u>	<u>(250,085)</u>	<u>1,820,874</u>
Less accumulated depreciation for:				
	1,363,268	168,153	(234,466)	1,296,955
Total depreciable Capital Assets, Net	<u>\$ 610,463</u>	<u>\$ (70,925)</u>	<u>\$ (15,619)</u>	<u>\$ 523,919</u>

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

6. LONG-TERM DEBT

The following is a summary of long-term debt at June 30, 2018:

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2018</u>	<u>Amount Due in One Year</u>
Primary Government					
Governmental Activities:					
Public Improvement Bonds of 2008; original issue \$25,020,000, payable annually in principal payments ranging from \$810,000 to \$1,820,000 through December 15, 2027; interest payable semi-annually at rates from 3.5% to 4.0%.	\$ 1,190,000	\$ -	\$1,190,000	\$ -	\$ -
Shore Erosion (Black Walnut Point); total authorized borrowing \$160,000, to be repaid in 15 annual payments of \$9,100, no interest, beginning July 1, 2011.	81,900	-	9,100	72,800	9,100
Chesapeake College Bond of 2003; original issue \$180,000, a contractual liability payable to Queen Anne's County, the registered owner, payable in annual principal installments from \$5,559 to \$13,434; interest payable annually at rates from 4.83% to 5.4%	71,537	-	10,522	61,015	11,051
Chesapeake College Bond of 2000; original issue \$620,000, a contractual liability payable to Queen Anne's County, the registered owner, payable in annual principal installments from \$20,000 to \$50,000; interest payable annually at rates from 5.10% to 5.75%	133,311	-	42,850	90,461	42,850
Public Improvement and Refunding Bonds of 2010; original issue \$12,157,711, payable annually in principal payments ranging from \$587,000 to \$1,318,000 through May 2022; interest payable semi-annually at rates from 2% to 5%.	4,356,389	-	1,315,683	3,040,706	727,125
Excavation equipment financing agreement; original amount of \$287,000, payable in monthly payments of \$4,338 which include principal and interest at a rate of 1.98% with one final payment of \$43,050 through August 15, 2018.	97,811	-	50,572	47,239	47,239
Shore Erosion control Loan (Neavitt Landing); total borrowing of \$82,032, to be repaid in 10 equal annual payments, no interest, beginning in 2015 after completion of the project.	77,571	-	8,619	68,952	8,619
Chesapeake College Bonds of 2014; original issue \$1,760,000, a contractual liability payable to Queen Anne's County, the registered owner; payable in annual principal installments from \$61,313 to \$124,198 through April 1, 2034; interest payable semi-annually.	1,573,310	-	66,423	1,506,887	69,174
Emergency radio system equipment financing agreement; original amount of \$6,716,277, to be repaid in eight annual payments of \$967,815 which include principal and interest at a rate of 3.273% through October 1, 2022.	5,195,777	-	797,772	4,398,005	823,880

TALBOT COUNTY, MARYLAND

Notes to Financial Statements
June 30, 2018

6. LONG-TERM DEBT (continued)

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2018</u>	<u>Amount Due in One Year</u>
Primary Government (continued)					
Governmental Activities (continued):					
Public Improvement Refunding Bonds of 2015; original issue \$15,206,400, payable annually in principal payments ranging from \$150,000 to \$1,645,000 through December 15, 2027; interest payable semi-annually at rates from 2% to 5%.	\$14,886,400	\$ -	\$ 160,000	\$14,726,400	\$1,412,700
	27,664,006	-	3,651,541	24,012,465	3,151,738
Unamortized bond premium	1,379,329	-	175,439	1,203,890	-
Compensated absences	967,726	847,515	765,044	1,050,197	387,686
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$30,011,061</u>	<u>\$ 847,515</u>	<u>\$4,592,024</u>	<u>\$26,266,552</u>	<u>\$3,539,424</u>
	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2018</u>	<u>Amount Due in One Year</u>
Business-type Activities:					
Recreation Facilities					
Public Improvement and Refunding Bonds of 2010; original issue \$630,945, payable annually in principal payments ranging from \$5,590 to \$72,300 through May 2022; interest payable semi-annually at rates from 2% to 5%.	\$ 339,033	\$ -	\$ 63,495	\$ 275,538	\$ 65,890
Golf Course equipment capital lease; original issue of \$230,800, payable in monthly payments of \$4,222 which include principal and interest at a rate of 5.104% with one final payment of \$57,710 through August 30, 2018.	107,657	-	46,241	61,416	61,416
Public Improvement Refunding Bonds of 2015; original issue \$1,441,300, payable annually in principal payments ranging from \$90,000 to \$180,000 through December 15, 2025; interest payable semi-annually at rates from 2% to 5%.	1,326,300	-	130,000	1,196,300	145,000
Golf Course equipment capital lease; original issue of \$251,935, payable in monthly payments of \$3,555 which include principal and interest at a rate of 3.5% with one final payment of \$107,500 through August 1, 2020.	216,409	-	35,526	180,883	36,804
Unamortized bond premium	103,836	-	11,537	92,299	-
Total Recreation Facilities	<u>\$ 2,093,235</u>	<u>\$ -</u>	<u>\$ 286,799</u>	<u>\$ 1,806,436</u>	<u>\$ 309,110</u>

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

6. LONG-TERM DEBT (continued)

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2018</u>	<u>Amount Due in One Year</u>
Business-type Activities (continued):					
Sanitary District					
Water Quality Bonds of 2006; Total authorized borrowing of \$10,212,981; \$9,975,333 borrowed to date, loan to be repaid in level principal and interest payments over 20 years beginning February 2008; interest at 0.4%.	\$ 4,970,756	\$ -	\$ 511,534	\$ 4,459,222	\$ 513,580
Farmers Home Administration Bond; Royal Oak, Newcomb Wastewater System; original issue \$571,000, payable quarterly in payments of \$9,479 through March 2024, including interest at 5.25%.	199,962	-	27,000	172,962	28,417
Farmers Home Administration Bond; Unionville/Tunis Mills/Coperville Wastewater System Bond of 2001; original issue \$186,000, payable quarterly in payments of \$2,833 through May 2030, including interest at 4.5%.	111,011	-	6,440	104,571	6,735
Public Improvement Refunding Bonds of 2015; original issue \$90,000, payable annually in principal payments ranging from \$20,000 to \$35,000 through December 15, 2019; interest payable semi-annually at 5% per year.	60,000	-	30,000	30,000	30,000
Martingham Pump Station and Force Main Consolidated Public Improvement Bonds of 2016; original issue \$2,575,000, payable quarterly in payments of \$26,240 through December 15, 2046, including interest at 1.375%.	2,540,114	-	70,395	2,469,719	71,368
Bio-Solids Facility Consolidated Public Improvement Bonds of 2016; original issue \$5,975,000, payable quarterly in payments of \$60,886 through December 15, 2046, including interest at 1.375%.	5,882,105	-	163,339	5,718,766	165,597
Bio-Solids Facility Consolidated Public Improvement Bonds of 2018; original issue \$1,786,000, payable quarterly in payments of \$80,598 through November 16, 2047, including interest at 1.375% to 2.215%.	-	1,786,000	22,213	1,763,787	44,786
Unamortized bond premium	3,966	-	1,983	1,983	-
Total Sanitary District	<u>\$ 13,767,914</u>	<u>\$ 1,786,000</u>	<u>\$ 832,904</u>	<u>\$ 14,721,010</u>	<u>\$ 860,483</u>

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

6. LONG-TERM DEBT (continued)

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2018</u>	<u>Amount Due in One Year</u>
Business-type Activities (continued):					
Easton Airport					
Public Facilities Bonds of 2002; original issue \$1,055,000, payable annually in principal payments ranging from \$30,000 to \$77,000 through March 15, 2022; interest payable semi-annually at rates from 3.0% to 5.37%.	\$ 200,001	\$ -	\$ 35,000	\$ 165,001	\$ 40,000
Public Improvement and Refunding Bonds of 2010; original issue \$306,284, payable annually in principal payments ranging from \$13,000 to \$35,000 through May 2022; interest payable semi-annually at rates from 2% to 5%.	164,578	-	30,822	133,756	31,985
Department of Natural Resources Hangar; original issue \$300,000, payable monthly in principal and interest payments of \$2,030 through October 10, 2020; interest is payable of 5.3% per annum.	73,313	-	20,928	52,385	22,066
Consolidated Public Improvement Bonds, Series 2013; original issue \$265,000, payable monthly in principal and interest payments of \$1,304 through December 4, 2042; interest is payable at 4.25% per annum.	248,465	-	5,185	243,280	5,410
Public Improvement Refunding Bonds of 2015; original issue \$142,300, payable annually in principal payments ranging from \$35,000 to \$50,000 through December 15, 2019; interest payable semi-annually at 5% per year.	92,300	-	50,000	42,300	42,300
Unamortized bond premium	6,262	-	3,131	3,131	
Total Easton Airport	<u>784,919</u>	<u>-</u>	<u>145,066</u>	<u>639,853</u>	<u>141,761</u>
Compensated absences	100,520	71,883	75,787	96,616	37,954
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$16,746,588</u>	<u>\$1,857,883</u>	<u>\$1,340,556</u>	<u>\$17,263,915</u>	<u>\$1,349,308</u>

The bonds outstanding at June 30, 2018 for the primary government's governmental activities and business-type activities are general obligation bonds.

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

6. LONG-TERM DEBT (continued)

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

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

The assets acquired through capital leases are as follows:

Business-Type Activities

Equipment	\$ 482,735
Less: accumulated depreciation	<u>(161,792)</u>
Total	<u>\$ 320,943</u>

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

Business-Type Activities

Year Ending June 30

2019	\$ 103,562
2020	42,658
2021	107,500
Less: amounts representing interest	<u>(11,421)</u>
Present value of future minimum lease payments	<u>\$ 242,299</u>

Funds Used For Debt Service and Liquidation of Compensated Absences

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

Other Obligations

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

6. LONG-TERM DEBT (continued)

Other Obligations (continued)

The County, on behalf of the Edge Creek Waterway Improvement District, entered into a loan agreement with the State of Maryland, Department of Natural Resources for a 20 year interest-free Waterway Improvement Loan in the amount of \$304,699. The proceeds of this loan were used to dredge Edge Creek and pay the expenses associated with the dredging. This loan is payable from the proceeds of a special assessment levied on parcels within the district and is not backed by the County's full faith and credit. This loan does not appear on the balance sheet of the County. The County acts only as a fiduciary in collecting the assessments and servicing the debt. The balance outstanding as of June 30, 2018 is \$167,584.

<u>Component Units</u>	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2018</u>
<u>Board of Education</u>				
Note payable to Signature Bank; principal and interest payments of \$2,207 are payable monthly through August 26, 2021; interest is payable at 2.09% per annum; collateralized by a school bus.	\$ 105,590	\$ -	\$ 24,509	\$ 81,081
Note payable to SunTrust Equipment Finance & Leasing Corp; principal and interest payments of \$8,638 are payable monthly through September 1, 2018; interest is payable at 1.597% per annum; collateralized by school buses.	119,739	-	102,497	17,242
Note payable to Branch Banking & Trust Co. (BB&T); principal and interest payments of \$2,042 are payable monthly through June 11, 2020; interest is payable at 1.98% per annum; collateralized by school buses.	77,071	-	23,189	53,882
Note payable to Branch Bank & Trust Co. principal and interest payments of \$2,009 are payable monthly through September 5, 2017; interest payable at 2.11% per annum; collateralized by a school bus.	4,007	-	4,007	-
Note payable to SunTrust Equipment Finance & Leasing Corp; principal and interest payments of \$56,321 are payable annually through September 1, 2018; interest payable at 1.58% per annum; collateralized by school buses.	55,445	-	55,445	-
Note payable to American Capital Financial Services, Inc.; principal and interest payments of \$51,594 are payable annually through September 1, 2021; interest is payable at 3.18% per annum; collateralized by servers.	-	190,949	-	190,949
Note payable to City National Capital Finance; principal and interest payments of \$156,529 are payable annually through September 1, 2021; interest is payable at 1.8% per annum; collateralized by school buses.	-	597,905	-	597,905
Note payable to City National Capital Finance; principal and interest payments of \$12,838 are payable annually through September 1, 2021; interest is payable at 1.9% per annum; collateralized by school buses.	-	37,162	-	37,162
TOTAL BOARD OF EDUCATION	\$ 361,852	\$ 826,016	\$ 209,647	\$ 978,221

TALBOT COUNTY, MARYLAND

**Notes to Financial Statements
June 30, 2018**

6. Long-Term Debt (continued)

Other Obligations (continued)

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

Primary Government

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Governmental Activities			
Fiscal year Ending June 30,			
2019	\$ 3,151,738	\$ 754,409	\$ 3,906,147
2020	3,229,435	633,358	3,862,793
2021	3,293,152	518,573	3,811,725
2022	3,388,393	432,259	3,820,652
2023	2,659,264	342,534	3,001,798
2024-2028	7,612,896	690,291	8,303,187
2029-2033	553,390	92,991	646,381
2034	124,197	4,968	129,165
Total Governmental Activities	<u>\$ 24,012,465</u>	<u>\$ 3,469,383</u>	<u>\$ 27,481,848</u>

Enterprise Fund - Recreation Facilities (excluding capital leases)

Fiscal year Ending June 30,			
2019	\$ 210,890	\$ 48,800	\$ 259,690
2020	207,485	33,387	240,872
2021	221,185	25,262	246,447
2022	227,278	19,866	247,144
2023	155,000	14,300	169,300
2024-2028	450,000	20,800	470,800
Total Recreation Facilities	<u>\$ 1,471,838</u>	<u>\$ 162,415</u>	<u>\$ 1,634,253</u>

Enterprise Fund - Sanitary District

Fiscal year Ending June 30,			
2019	\$ 857,251	\$ 181,362	\$ 1,038,613
2020	838,101	169,913	1,008,014
2021	846,649	160,402	1,007,051
2022	854,987	152,461	1,007,448
2023	861,759	146,652	1,008,411
2024-2028	3,495,044	617,599	4,112,643
2029-2033	1,691,571	458,240	2,149,811
2034-2038	1,807,776	328,984	2,136,760
2039-2043	1,945,981	190,779	2,136,760
2044-2048	1,519,908	46,493	1,566,401
Total Sanitary District	<u>\$ 14,719,027</u>	<u>\$ 2,452,885</u>	<u>\$ 17,171,912</u>

TALBOT COUNTY, MARYLAND

**Notes to Financial Statements
June 30, 2018**

6. LONG-TERM DEBT (continued)

Other Obligations (continued)

Primary Government (continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Enterprise Fund - Easton Airport			
Fiscal year Ending June 30,			
2019	\$ 141,761	\$ 26,836	\$ 168,597
2020	101,668	21,517	123,185
2021	87,569	16,711	104,280
2022	86,230	13,109	99,339
2023	6,411	9,235	15,646
2024-2028	35,288	41,762	77,050
2029-2033	45,083	33,145	78,228
2034-2038	56,180	22,049	78,229
2039-2043	68,903	9,322	78,225
2044	7,628	94	7,722
Total Easton Airport	<u>\$ 636,721</u>	<u>\$ 193,780</u>	<u>\$ 830,501</u>

Component Units

Board of Education

Fiscal year Ending June 30,			
2019	\$ 268,987	\$ 20,239	\$ 289,226
2020	257,077	14,872	271,949
2021	244,096	9,475	253,571
2022	208,061	4,476	212,537
Total Board of Education	<u>\$ 978,221</u>	<u>\$ 49,062</u>	<u>\$ 1,027,283</u>

Obligations Under State Retirement System

Component Unit - Board of Education

State Retirement and Pension System of Maryland Payable annually through December 2035.	<u>\$ 589,670</u>
--	-------------------

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

6. LONG-TERM DEBT (continued)

Other Obligations (continued)

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

<u>Fiscal Year Ending June 30,</u>	
2019	\$ 41,270
2020	43,334
2021	45,501
2022	47,776
2023	50,165
2024-2028	291,050
2029-2033	371,463
2034-2036	270,479
Total principal and interest	1,161,038
Less amounts representing interest	(571,368)
Liability as of June 30, 2018	<u>\$ 589,670</u>

The Board of Education obligation to the State Retirement System was \$582,189 at June 30, 2017. There was an increase of \$46,786 and payments of \$39,305 during fiscal year 2018. The increase is related to an actuarial valuation that produced updated principal balances and was communicated to the Board of Education on December 9, 2016.

7. PENSION PLANS

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

7. PENSION PLANS (continued)

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

The following groups of employees participate in:

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

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

Basis of Accounting

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

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

General Plan Policies:

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

7. PENSION PLANS (continued)

Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems (continued)

General Plan Policies: (continued)

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

Significant Plan Benefits and Policies:

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

Teachers' and Employees' Retirement Systems

Retirement Benefits:

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

Vested Allowance:

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

7. PENSION PLANS (continued)

Teachers' and Employees' Retirement Systems (continued)

Vested Allowance: (continued)

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

Pension Benefits:

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

Vested Allowance:

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

Employee Contributions:

Effective July 1, 2011, members of the Teachers' and Employees' Pension Systems are required to contribute to the systems 7% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2017. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

7. PENSION PLANS (continued)

Teachers' and Employees' Retirement Systems (continued)

Employer Contributions:

For the year ended June 30, 2018 total payroll, covered payroll and State on-behalf payments were as follows:

	Total Payroll	Covered Payroll	On-Behalf By State
Talbot County	\$ 15,804,556	\$ 13,376,509	\$ -
Board of Education	34,762,588	32,813,417	3,328,815
Library	1,030,026	965,570	153,420

Covered payroll refers to all compensation paid to active employees covered by either the Teachers' Systems or Employees' Systems. State on-behalf payments are recognized as both a revenue and expense.

During fiscal year 2018, the County reported expense of \$1,105,945 and the Board of Education reported expense of \$1,781,797 related to the Employees' Systems in the fund financial statements.

Board of Education – Special Funding

As a result of a first-time actuarial study of the State Retirement and Pension System of Maryland, the Talbot County Board of Education was identified as one of 23 municipal corporations not having enough assets available to fund the present value of accrued benefits for participants in the retirement system. Under the rules of House Bill 1338, the original deficit amount was determined to be \$925,482 as of June 30, 1996, to be repaid over a period of 40 years. The Board was granted relief of \$210,003 (as of June 30, 1996) by HB1348 enacted in 1997 and further relief of \$210,003 (as of June 30, 1996) by HB430 which was enacted in 1998. The fiscal year 2018 payment was \$39,305. The payments reflect a pattern which increases by 5% per year for the next 20 years. (See also Note 6.)

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

7. PENSION PLANS (continued)

Board of Education – Special Funding (continued)

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

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

At June 30, 2018, the Board reported a liability for its proportionate share of the net pension liability. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

Board's proportionate share of the net pension liability (Employees' Systems)	\$ 4,011,041
State's proportionate share of the net pension liability associated with the Board (Teachers' System)	39,578,331
Total	<u>\$ 43,589,372</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was calculated as follows by the System(s):

1. Net pension liability for the entire System was calculated. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland and one for primary government employees.
2. Determined the total contributions to the System by the State and by the primary governments, inclusive of any underfunding of contributions.
3. Based on the number of participants at each Board of Education, calculate the difference between what each Board would have contributed if they funded at the rate of all other participating governments and what the Board actually contributed. The difference between what the Board contributed and what they would have contributed if they funded at the rate of the other participating governments, is then added to the total contribution to the System, to calculate the System's adjusted contribution.
4. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each primary government contribution. At June 30, 2018, the Board's proportion was approximately .0185493%.

TALBOT COUNTY, MARYLAND

**Notes to Financial Statements
June 30, 2018**

7. PENSION PLANS (continued)

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

At June 30, 2018, the County reported the following related to pensions:

	<u>Board</u>	<u>Total County</u>
Employer's proportion of the net pension liability	0.0185493%	0.0492882%
Employer's proportionate share of the net pension liability	\$ 4,011,041	\$ 10,657,934
Deferred inflows of resources:		
Net difference between projected and actual investment earnings on pension plan investments	\$ (269,106)	\$ (649,260)
Differences between expected and actual results	<u>(300,674)</u>	<u>(757,583)</u>
Total deferred inflows of resources	<u>\$ (569,780)</u>	<u>\$ (1,406,843)</u>
Deferred outflows of resources:		
Change in assumptions	\$ 183,462	\$ 424,703
Net difference between projected and actual investment earnings on pension plan investments	609,986	1,396,228
Contributions subsequent to the measurement date	<u>396,514</u>	<u>1,105,945</u>
Total deferred outflows of resources	<u>\$ 1,189,962</u>	<u>\$ 2,926,876</u>

<u>Fiscal Year Ending June 30,</u>	<u>Board</u>	<u>Total County</u>
2019	\$ 88,379	\$ 182,518
2020	182,846	405,967
2021	67,556	144,513
2022	(86,694)	(226,238)
2023	(28,419)	(92,671)

TALBOT COUNTY, MARYLAND

**Notes to Financial Statements
June 30, 2018**

7. PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15%, including inflation
Discount rate	7.50%
Investment rate of return	7.50%
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

Investments:

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	36%	5.30%
Private Equity	11%	7.00%
Rate Sensitive	21%	1.20%
Credit Opportunity	9%	3.60%
Real Assets	15%	5.70%
Absolute Return	8%	3.10%
Total	<u>100%</u>	

TALBOT COUNTY, MARYLAND

Notes to Financial Statements
June 30, 2018

7. PENSION PLANS (continued)

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

Discount rate:

A single discount rate of 7.5% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.5%. 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.

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

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

<u>System</u>	<u>1% Decrease to 6.50%</u>	<u>Current Discount</u>	<u>1% Increase to 8.50%</u>
County	\$ 15,104,403	\$ 10,657,934	\$ 6,968,622
Board	5,684,445	4,011,041	2,622,596

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description and Eligibility

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

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

Membership in the plan consisted of 279 active employees, no inactive employees entitled to but not yet receiving benefits, and 91 inactive employees currently receiving benefits.

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

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

TALBOT COUNTY, MARYLAND

Notes to the Financial Statements June 30, 2018

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Funding Policy

The County pays for the cost of post-retirement health care benefits under the Plan for eligible retirees and their dependents/family members on a pay-as-you-go basis from the general fund. Eligible retirees must pay for 10% of the cost for individual plans and 15% of the cost for family coverage. For fiscal year 2018, the County paid for coverage of 91 eligible retirees at a total cost to the County of \$1,077,515 and eligible retirees contributed \$121,842. The County has the authority to establish and amend the funding policy of the Plan.

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

The Library pays for 66.67% of the cost of eligible retiree healthcare premiums with the retiree paying the remaining portion of the cost. For fiscal year 2018, the Library contributed \$15,506 to the plan for 4 eligible retirees.

Net OPEB Liability of the County

The components of the net OPEB liability of the County at June 30, 2018, were as follows:

Total OPEB liability	\$ 15,824,735
Plan fiduciary net position	<u>11,760,459</u>
County's net OPEB liability	<u>\$ 4,064,276</u>

Plan fiduciary net position as a percentage of the total OPEB liability	74.32%
--	--------

Annual OPEB Costs

During fiscal year ending June 30, 2018, contributions were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation as of July 1, 2017. The County recognized OPEB expense of \$1,617,310 for the year ended June 30, 2018.

TALBOT COUNTY, MARYLAND

**Notes to Financial Statements
June 30, 2018**

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Actuarial Assumptions

Inflation Rate	3.00%
Salary Increases	4.0% Annually
Investment Rate of Return	7.00%
Discount Rate	7.00%
Healthcare Cost Trend Rate	Initial trend rate 6%; ultimate trend rate 4.5%
Actuarial Cost Method	Entry Age Normal

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of future real rates of return 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. The target allocation and best estimates of arithmetic real rates for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income Investments	35%	5.5%
Equities	65%	7.8%
	100%	

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of expense was 6.6%.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the County's net OPEB liability if calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher.

	1% Decrease 6%	Current Discount Rate 7%	1% Increase 8%
County's net OPEB liability	\$ 6,307,557	\$ 4,064,276	\$ 2,194,613

TALBOT COUNTY, MARYLAND

**Notes to Financial Statements
June 30, 2018**

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following table presents the County's net OPEB liability if calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher.

	<u>1% Decrease</u>	<u>5%</u>	<u>Trend Rate</u>	<u>6%</u>	<u>1% Increase</u>	<u>7%</u>
County's net OPEB liability	\$	1,916,786	\$	4,064,276	\$	6,721,500

Changes in the Net OPEB Liability

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance as of June 30, 2017	\$ 14,602,804	\$ 11,026,026	\$ 3,576,778
Changes for the year			-
Service cost	506,402	-	506,402
Interest	1,086,825	-	1,086,825
Net investment income	-	790,394	(790,394)
Benefit payments	(597,317)	-	(597,317)
Administrative expenses	-	(55,961)	55,961
Other changes	226,021	-	226,021
Net changes	<u>1,221,931</u>	<u>734,433</u>	<u>487,498</u>
Balance as of June 30, 2018	<u>\$ 15,824,735</u>	<u>\$ 11,760,459</u>	<u>\$ 4,064,276</u>

Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ 205,678	\$ -
Difference between projected and actual earnings	-	17,617
	<u>\$ 205,678</u>	<u>\$ 17,617</u>

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in the expense as follows:

<u>Year Ending</u>	<u>Total</u>
2019	\$ 24,083
2020	24,083
2021	24,083
2022	24,083
2023	28,487
Thereafter	63,242

Component Units – Board of Education

General Information about the OPEB Plan

Plan description – The Talbot County Public Schools Retiree Health Plan (TCPSRHP) is a single-employer defined benefit healthcare plan that is administered by the Talbot County Public Schools (Board) and covers retired employees of the Board and their dependents. This plan does not include the pension benefits discussed in Note 7. The Plan does not issue a separate, publicly available report.

Benefits provided – The Plan provides for the payment of a portion of all of the health insurance premiums for eligible retired employees depending on their position with Talbot County Public Schools and length of service. The Board has the authority to establish and amend benefit provisions of the Plan.

Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Talbot County Public Schools Retiree Health Plan pays 66% of the individual premium for each insured retiree who has at least 8 years of service. Retirees with less than 8 years of service are allowed access, but must pay 100% of the published rates.

Employees covered by benefit terms – At July 1, 2016, the following employees were covered by the benefit terms:

Active plan members	491
Inactive employees or beneficiaries currently receiving benefit payments	242
Total	<u>733</u>

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Component Units – Board of Education (continued)

Contributions – Premiums and other contributions for the Boards share of the net cost of the group programs may be paid, as determined by the Board, from the assets of the Board. Premium payments for some programs may require contributions by the participant as well as the Board. The frequency and amount of such contributions shall be established from time to time by the County.

Net OPEB Liability

The Board's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2%
Salary Increases	4%
Investment Rate of Return	3.58%
Healthcare Cost Trend Rates	5.8% initially, reduced by decrements to an ultimate rate of 3.8%

Mortality rates were based on the RP 2014 Employee White Collar Mortality Table, Fully Generational, Projected using Scale MP-2014 for pre-retirement healthy participants, RP 2014 Healthy Annuitant White Collar Mortality Table, Fully Generational, (Projected from 2012 for Males and 2016 for Females in year 2014) for post-retirement healthy participants, and RP 2014 Disabled Annuitant Mortality Tables Not Generational Set forward 1 year for Males for disabled participants.

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Component Units – Board of Education (continued)

The long-term expected rate of return on OPEB plan investments was determined using a combination of building-block methodology and third party consultants to develop the best possible estimate ranges of expected future real rates of return. 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. Expected returns, net of OPEB plan investment expense and inflation are arithmetically developed for each major asset class corresponding with the long term time horizons, discount rate, and tolerance for risk. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long Term Expected Rate of Return
Large Cap	16.0%	6.5%
Mid Cap	7.0%	7.1%
Small Cap	7.5%	7.6%
Int'l Developed Equities	16.5%	8.6%
Int'l Emerging Mkt Equities	8.0%	10.8%
U.S. Real Estate	5.0%	7.7%
U.S. Investment Grade Bonds	30.0%	3.7%
U.S. High Yield Bonds	6.0%	6.0%
Emerging Markets Bonds	1.0%	5.7%
Cash	3.0%	2.3%
	100.0%	

Discount rate - The discount rate used to measure the total OPEB liability was 3.58%. The projection of cash flows used to determine the discount rate assumed that Board contributions will be to fund current contribution levels. Based on those assumptions, the unfunded rate was used. The unfunded rate is determined by using the 20 year U.S Treasury bond. Any increase in the discount rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

TALBOT COUNTY, MARYLAND

**Notes to Financial Statements
June 30, 2018**

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Component Units – Board of Education (continued)

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2015 for FYE 2016	\$ 98,346,000	\$ 100,000	\$ 98,246,000
Changes for the Year:			
Service Cost	4,798,000	-	4,798,000
Interest	2,770,000	-	2,770,000
Employer Trust Contribution	-	2,327,000	(2,327,000)
Net Investment Income	-	7,000	(7,000)
Changes in Assumptions	(13,270,000)	-	(13,270,000)
Benefit Payments	(2,327,000)	(2,327,000)	-
Administrative Expense	-	-	-
Net Changes	<u>(8,029,000)</u>	<u>7,000</u>	<u>(8,036,000)</u>
Balance as of June 30, 2016 for FYE 2017	<u>\$ 90,317,000</u>	<u>\$ 107,000</u>	<u>\$ 90,210,000</u>

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates - The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.58%) or 1% higher (4.58%) than the current discount rate:

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
Discount Rate			
Total OPEB Liability	\$ 109,144,000	\$ 90,317,000	\$ 75,588,000
Net OPEB Liability (Asset)	109,037,000	90,210,000	75,481,000

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates – The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (4.8% decreasing to 2.8%) or 1% higher (6.8 decreasing to 4.8%) than the current healthcare cost trend rates:

	1% Decrease 2.80%	Discount Rate 3.80%	1% Increase 4.80%
Ultimate Trend			
Total OPEB Liability	\$ 72,872,000	\$ 90,317,000	\$ 113,797,000
Net OPEB Liability (Asset)	72,765,000	90,210,000	113,690,000

TALBOT COUNTY, MARYLAND

**Notes to Financial Statements
June 30, 2018**

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Component Units – Board of Education (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the year ended June 30, 2018, the Board recognized OPEB expense of \$6,234,000. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ -	\$11,943,000
Total	<u>\$ -</u>	<u>\$11,943,000</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	
2019	\$ (1,327,000)
2020	(1,327,000)
2021	(1,327,000)
2022	(1,327,000)
2023	(1,327,000)
Thereafter	(5,308,000)

Component Units – Library

The Library’s Post-Employment Benefits Plan (the “Plan”) is a single-employee defined benefit healthcare plan administered by the Library. The Library has the authority to establish and amend the funding of the Plan. No assets are accumulated in a trust that meet the criteria as defined in GASB No. 75 paragraph 4. The Library pays for the cost of the Plan on a pay-as-you-go basis from general fund. For June 30, 2018, the Library paid \$15,506 to the plan.

Employees are eligible to receive health care benefits upon retirement provided that they have 10 years of service with the Library and meet the eligibility requirements of the State Retirement and Pension System of Maryland.

Retirees obtain health care and the Library reimburses the retiree for 2/3 of the cost of the eligible retiree healthcare premiums.

TALBOT COUNTY, MARYLAND

**Notes to Financial Statements
June 30, 2018**

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Component Units – Library (continued)

The number of covered employees are as follows:

<u>Participants</u>	
Active Employees	17
Inactive employees entitled to but not yet receiving benefits	0
Inactive employees currently receiving benefits	<u>4</u>
TOTAL	<u><u>21</u></u>

Significant assumptions and other inputs to measure the total OPEB liability are as follows:

Health Care Trend Rates

Initial Health Care Cost Trend Rate	6.00%
Ultimate Health Care Cost Trend Rate	5.00%
Fiscal Year the Ultimate Rate is Reached	Fiscal Year 2026

Additional Information

Valuation date	July 1, 2017
Measurement date	June 29, 2018
Actuarial cost method	Entry Age Normal
Discount rate	2.98%
Inflation rate	3.00%
Salary rate increase	4.00%

Changes since last actuarial valuation The discount rate was changed per GASB 75 rules. Starting per capita costs were updated using most recent premiums. The health care trend rates were reset based on recent experience.

Mortality RP-2014 Combined Annuitant Mortality Table for males and females. The Mortality Table reflects recent rates developed by the Society of Actuaries.

The discount rate used is the S&P Municipal Bond 20 Year High-Grade Rate Index as of June 29, 2018.

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

Component Units – Library (continued)

The following presents the Plan’s net OPEB liability, calculated using the current discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher:

	Discount Rate		
	1% Increase to 3.98%	Discount Rate 2.98%	1% Decrease to 1.98%
Net OPEB liability	\$ 1,094,333	\$ 1,241,121	\$ 1,421,987

The following presents the Plan’s net OPEB liability, calculated using the current healthcare trend rate, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% point lower or 1% point higher:

	Healthcare Trend		
	1% Increase to 7.00%	Discount Rate 6.00%	1% Decrease to 5.00%
Net OPEB liability	\$ 1,438,663	\$ 1,241,121	\$ 1,081,818

Changes in the net OPEB liability are as follows:

	Plan		
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balances as of June 30, 2017	\$ 1,059,032	\$ -	\$ 1,059,032
Changes for the year:			
Service cost	67,363	-	67,363
Interest on total OPEB liability	36,500	-	36,500
Differences between expected and actual experience	26,757	-	26,757
Changes of assumptions and other inputs	23,978	-	23,978
Benefits payments	(32,606)	-	(32,606)
Other changes	60,097	-	60,097
Net changes	182,089	-	182,089
Balances as of June 30, 2018	\$ 1,241,121	\$ -	\$ 1,241,121

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

9. COMPENSATION

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

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

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

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

10. UNEARNED REVENUES

Unearned revenue consists of federal and state grants, agricultural taxes collected, and other revenues that have been received by the County, but not earned by June 30, 2018. Unearned revenue at June 30, 2018 consisted of the following:

	<u>County</u>	<u>Board of Education</u>
Federal and state grants	\$ 87,423	\$ 754,394
Other sources	5,591,213	-
	<u>\$ 5,678,636</u>	<u>\$ 754,394</u>

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

11. COMMITMENTS AND CONTINGENCIES

Primary Government

Landfills Closure and Post-closure Costs

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

In December 2010, the Mid-Shore I landfill located in Talbot County accepted its last trash and in January 2011, the Mid-Shore II landfill was opened for commercial business. As of June 30, 2018, total closure and post closure care costs were estimated at approximately \$18.6 million, with approximately \$5.0 million attributable to the County. It is expected that these costs will be funded from future revenues. MES has accrued and reported as a long-term liability at June 30, 2018, a portion of these costs, \$5.0 million, determined by the estimated useful life of the Landfills.

Similar to the post closure costs, each of the participating Counties is contingently liable for the debt related to the new facility, Mid-Shore II. Mid-Shore II was funded with project revenue bonds. As of June 30, 2018, total debt was approximately \$18.7 million, with approximately \$5.0 million attributable to the County in the event of default.

MES has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2017. MES expects to satisfy these requirements as of June 30, 2018 using the same criteria.

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

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

11. COMMITMENTS AND CONTINGENCIES (continued)

Primary Government (continued)

Legal Actions

The County believes it is probable that income tax refund claims of approximately \$3,000,000 related to the *Maryland State Comptroller of the Treasury v. Bryan Wynne* case will have to be issued in the future. Maryland's personal income tax on State residents consists of a State income tax and a local tax. Residents who pay income tax to another state were allowed a credit against the State income tax, but not against the local tax. The U.S. Supreme Court determined that this taxing system was unconstitutional. Claims processed through the end of March 2018 totaled approximately \$1.7 million. Deductions from income tax revenues will begin in May 2019.

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

Construction Commitments

The County had entered into contracts for the design, construction, and renovation of facilities at June 30, 2018, which are as follows:

	Amounts Expended To Date	Remaining Construction Commitment	Expected Date of Completion
Sanitary District - St. Michaels	\$ 1,056,941	\$ 797,275	June 2019
Sanitary District - Collection system Repairs/Replacement	1,958,067	1,584,722	June 2019
Sanitary District - BioSolids	420,407	3,878	November 2018

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

12. RISK MANAGEMENT

Primary Government

General Insurance

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

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

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

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

Health Insurance

The County self-insures health insurance coverage for its active employees with Integra Administrative Group, Inc. providing third party administrative services.

Board of Education

General Insurance

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the Maryland Association of Boards of Education Group Insurance and Workers Compensation Pools (MABE), which provides casualty and property insurance, and workers compensation coverage. MABE operates as authorized by Section 482B of Article 84A of the Annotated Code of Maryland. The Board pays an annual premium to MABE for its insurance coverage. The agreement for formation of MABE provides that it will be self-sustaining through member premiums and will reinsure through commercial companies as specified in the agreement. As of June 30, 2018, MABE had total pool surplus of approximately \$29 million. It is believed that there are no outstanding claims in excess of the equity.

TALBOT COUNTY, MARYLAND

Notes to Financial Statements June 30, 2018

12. RISK MANAGEMENT (continued)

Board of Education (continued)

General Insurance (continued)

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

Health Insurance

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

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

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

13. DEFICITS

At June 30, 2018, the Easton Airport Fund had a deficit in unrestricted net position of \$5,316,701. This deficit is expected to be eliminated through normal operations.

14. UNRESTRICTED NET POSITION

The County has issued bonds and notes payable for capital assets for the Board of Education of Talbot County and Chesapeake College. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. At June 30, 2018, the outstanding balance of these bonds and notes payables was \$19,224,834 and the effect of this non-capital debt has been reflected in the unrestricted net position of the County.

TALBOT COUNTY, MARYLAND

Notes to Financial Statements

June 30, 2018

15. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The County adopted Governmental Accounting Standard Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ending June 30, 2018. The implementation of the statement required the County to restate the beginning net OPEB liability. As a result, the net position restatement for the governmental activities decreased by \$9,023,386. The OPEB liability was calculated by actuarial consultants using July 1, 2017 valuation data with the Plan's liability rolled forward to a measurement date of June 30, 2018. The liability is adjusted for passage of time by adding normal cost minus benefit payments all adjusted with interest.

16. NEW ACCOUNTING PRONOUNCEMENTS

The County adopted Governmental Accounting Standard Board (GASB) Statement No. 75 entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The adoption of GASB Statement No. 75 had a material effect on the financial statements as detailed throughout the report and in Note 15 above. Adoption of all other statements issued were either not applicable or did not have a material effect on the financial statements. In prior fiscal years, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, GASB Statement No. 84, *Fiduciary Activities*, and GASB Statement No. 87, *Leases*. During the year ended June 30, 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* and GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The County has begun analyzing the effects of these pronouncements and plans to implement them by their respective effective dates.

REQUIRED SUPPLEMENTARY INFORMATION

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
TAXES - LOCAL				
LOCAL PROPERTY TAXES				
Real property	\$ 36,512,000	\$ 36,512,000	\$ 36,621,804	\$ 109,804
Real property education supplement	1,171,900	1,171,900	1,147,744	(24,156)
Railroad and public utilities	800,000	800,000	878,434	78,434
Penalties and interest	168,500	168,500	184,967	16,467
Total property taxes	38,652,400	38,652,400	38,832,949	180,549
Less: Discount allowed on taxes	(246,000)	(246,000)	(258,610)	(12,610)
Net property taxes	38,406,400	38,406,400	38,574,339	167,939
LOCAL INCOME TAXES	26,900,000	26,900,000	25,767,710	(1,132,290)
OTHER LOCAL TAXES				
Admissions and amusements	20,000	20,000	20,713	713
Recordation	5,250,000	5,250,000	6,648,370	1,398,370
Transfer	3,300,000	3,300,000	4,130,941	830,941
Public accommodations	1,200,000	1,200,000	1,498,913	298,913
Mobile manufactured home	60,000	60,000	55,307	(4,693)
Total other local taxes	9,830,000	9,830,000	12,354,244	2,524,244
Total local taxes	75,136,400	75,136,400	76,696,293	1,559,893
LICENSES AND PERMITS				
Beer, wine and liquor licenses	175,000	175,000	177,190	2,190
Alcoholic beverages fines	-	-	550	550
Traders licenses	27,000	27,000	30,515	3,515
Animal tags and fines	4,000	4,000	3,850	(150)
Stormwater permits	10,000	10,000	22,150	12,150
Flood plain permits	1,000	1,000	455	(545)
Road construction permit	20,000	20,000	12,550	(7,450)
Boat ramp permits and violations	130,200	130,200	136,840	6,640
Marriage licenses	3,000	3,000	2,695	(305)
Planning and zoning fines	-	-	1,000	1,000
Plumbing permits	10,000	10,000	10,265	265
Gas permits and licenses	7,500	7,500	11,000	3,500
Plumbing licenses	7,000	7,000	6,265	(735)
HVAC inspections and registrations	12,000	12,000	16,915	4,915
Electrical inspections and licenses	19,000	19,000	29,098	10,098
Building permits	220,000	220,000	193,938	(26,062)
Total licenses and permits	645,700	645,700	655,276	9,576
INTERGOVERNMENTAL REVENUES				
FROM THE FEDERAL GOVERNMENT				
FEMA	80,000	80,000	71,026	(8,974)
Emergency management - DHS	75,000	75,000	83,643	8,643
Total Federal revenues	\$ 155,000	\$ 155,000	\$ 154,669	\$ (331)

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
FROM THE STATE OF MARYLAND				
Police protection	\$ 124,079	\$ 124,079	\$ 106,604	\$ (17,475)
Sex offender grant	10,000	10,000	10,879	879
School bus safety grant	3,000	3,000	3,611	611
Sheriff grants other	6,000	6,000	46,884	40,884
Motor carrier - State Highway	3,500	3,500	6,038	2,538
Fire and rescue	290,000	290,000	319,140	29,140
911 grants and numbers system board	250,000	250,000	263,640	13,640
Circuit Court - Family Services	285,240	285,240	166,781	(118,459)
Problem solving court grant	142,559	142,559	134,961	(7,598)
Critical areas	15,000	15,000	15,000	-
Maryland historic trust	-	-	26,476	26,476
Highway user revenues	475,000	475,000	473,181	(1,819)
Recordation	30,000	30,000	23,827	(6,173)
Public landing grants	12,000	12,000	40,425	28,425
Tourism	50,000	50,000	71,018	21,018
DSS-Legal fees	75,000	75,000	39,539	(35,461)
Security filing fees	150	150	155	5
MIEMSS grants	49,000	49,000	-	(49,000)
Stop grant	-	-	54,000	54,000
Total state revenues	1,820,528	1,820,528	1,802,159	(18,369)
Total intergovernmental	1,975,528	1,975,528	1,956,828	(18,700)
SERVICES CHARGES				
GENERAL GOVERNMENT CHARGES				
Zoning fees and certificates	16,000	16,000	43,324	27,324
Zoning Violations	-	-	2,778	2,778
Subdivision applications	12,000	12,000	11,843	(157)
Administrative variance	2,700	2,700	2,720	20
Board of appeals	6,000	6,000	3,600	(2,400)
Site plan reviews	3,500	3,500	4,764	1,264
Forest conservation fees	2,500	2,500	850	(1,650)
Critical area preservation	10,000	10,000	16,577	6,577
Bed & breakfast license/home occupation	900	900	975	75
Short term rental fees	14,000	14,000	17,300	3,300
Mobile home fees	300	300	300	-
Roadside vendors and produce stand	2,000	2,000	2,350	350
Weed and litter enforcement	2,000	2,000	4,000	2,000
Weed control spraying	50,000	50,000	71,959	21,959
Economic development/tourism	100,000	100,000	126,861	26,861
Election filing and voter lists	-	-	992	992
Sheriff's fees	24,000	24,000	31,829	7,829
Emergency medical services	1,350,000	1,350,000	1,542,612	192,612
911 center	400,000	400,000	400,000	-
MIEMSS-EMS communications	125,000	125,000	125,000	-
Road access fees	3,000	3,000	1,500	(1,500)
Other charges	-	-	(5,678)	(5,678)
Total general government	2,123,900	2,123,900	2,406,456	282,556
PUBLIC SAFETY CHARGES				
Boarding of local prisoners	18,000	18,000	20,520	2,520
Weekenders fees/other revenues	2,000	2,000	2,143	143
Live-in, work-out fees	3,600	3,600	1,046	(2,554)
Home detention program	500	500	1,051	551
Federal prisoner program	18,250	18,250	45,449	27,199
Community service fees	3,000	3,000	5,200	2,200
Total public safety charges	\$ 45,350	\$ 45,350	\$ 75,409	\$ 30,059

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
SERVICES CHARGES (continued)				
HEALTH				
Mosquito control fees	\$ 115,000	\$ 115,000	\$ 98,104	\$ (16,896)
RECREATION CHARGES				
Boat slips	60,000	60,000	67,308	7,308
Program fees	-	-	8,180	8,180
Pool admissions	40,000	40,000	48,025	8,025
Pool group lessons	28,000	28,000	33,000	5,000
Pool memberships	20,000	20,000	24,795	4,795
Pool rental	3,000	3,000	9,362	6,362
Swim team	5,000	5,000	-	(5,000)
Other recreation	8,825	8,825	7,484	(1,341)
Total recreation	164,825	164,825	198,154	33,329
Total service charges	2,449,075	2,449,075	2,778,123	329,048
FINES AND FORFEITURES				
	-	-	29,094	29,094
MISCELLANEOUS				
Rents	261,965	261,965	271,777	9,812
Other	222,332	941,335	841,998	(99,337)
Total miscellaneous	484,297	1,203,300	1,113,775	(89,525)
INTEREST				
	75,000	75,000	575,450	500,450
TOTAL REVENUES	80,766,000	81,485,003	83,804,839	2,319,836
OTHER FINANCING SOURCES				
Transfer from special revenue fund	166,000	166,000	166,000	-
Reserved and unexpended funds	2,526,000	2,526,000	-	(2,526,000)
Total other financing sources	2,692,000	2,692,000	166,000	(2,526,000)
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 83,458,000	\$ 84,177,003	\$ 83,970,839	\$ (206,164)

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<u>EXPENDITURES</u>				
GENERAL GOVERNMENT				
LEGISLATIVE				
County Council:				
Salaries and fringe benefits	\$ 157,188	\$ 157,188	\$ 157,154	\$ 34
Other operating	57,150	57,150	56,714	436
Total legislative	214,338	214,338	213,868	470
JUDICIAL				
Circuit Court:				
Salaries and fringe benefits	259,513	259,513	173,009	86,504
Other operating	38,880	38,880	33,704	5,176
Court Stenographer:				
Salaries and fringe benefits	44,446	44,446	41,647	2,799
Other operating	150	150	-	150
Family Services:				
Salaries and fringe benefits	133,240	133,240	64,848	68,392
Other operating	152,000	152,000	101,770	50,230
Problem Solving Court:				
Salaries and fringe benefits	111,830	111,830	104,669	7,161
Other operating	30,729	30,729	30,472	257
Orphan's Court:				
Salaries and fringe benefits	50,505	50,505	54,559	(4,054)
Other operating	2,225	2,225	1,868	357
State's Attorney:				
Salaries and fringe benefits	799,190	799,190	816,682	(17,492)
Other operating	74,165	74,165	52,726	21,439
Capital outlay	-	-	11,817	(11,817)
Victim Witness Program:				
Salaries and fringe benefits	167,938	167,938	169,762	(1,824)
Other operating	6,126	6,126	4,676	1,450
Bar Library:				
Other operating	-	-	23,625	(23,625)
Total judicial	1,870,937	1,870,937	1,685,834	185,103
EXECUTIVE				
County Administration:				
Salaries and fringe benefits	663,767	663,767	687,476	(23,709)
Other operating	59,850	59,850	54,382	5,468
Capital outlay	8,000	8,000	-	8,000
Total executive	731,617	731,617	741,858	(10,241)
ELECTIONS				
Board of Supervisors of Elections:				
Salaries and fringe benefits	246,021	246,021	192,531	53,490
Other operating	133,974	133,974	134,127	(153)
Registration and elections:				
Salaries and fringe benefits	46,000	46,000	48,095	(2,095)
Other operating	3,600	3,600	3,600	-
Total elections	429,595	429,595	378,353	51,242
FINANCIAL ADMINISTRATION				
Finance Office:				
Salaries and fringe benefits	728,611	728,611	686,066	42,545
Other operating	287,669	280,056	223,243	56,813
Capital outlay	-	3,300	3,283	17
MD State Department of Assessments and Taxation:	275,000	275,000	196,105	78,895
Liquor License Commissioners:				
Salaries and fringe benefits	11,767	11,767	11,160	607
Other operating	3,275	3,275	1,386	1,889
Total financial administration	\$ 1,306,322	\$ 1,302,009	\$ 1,121,243	180,766

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
GENERAL GOVERNMENT (continued)				
LAW				
County Attorney:				
Salaries and fringe benefits	\$ 344,884	\$ 344,884	\$ 270,628	\$ 74,256
Other operating	25,725	25,725	98,863	(73,138)
Total law	370,609	370,609	369,491	1,118
PLANNING AND ZONING				
Planning Office:				
Salaries and fringe benefits	752,894	752,894	711,330	41,564
Other operating	44,800	44,800	101,960	(57,160)
Capital outlay	-	5,650	5,723	(73)
Board of Appeals:				
Salaries and fringe benefits	92,041	92,041	91,743	298
Other operating	21,075	21,075	18,444	2,631
Total planning and zoning	910,810	916,460	929,200	(12,740)
GENERAL SERVICES				
County Buildings:				
Salaries and fringe benefits	428,185	428,185	418,332	9,853
Other operating	623,840	623,840	802,894	(179,054)
Capital outlay	-	-	10,981	(10,981)
Library Maintenance	133,700	149,700	141,738	7,962
Information Technology:				
Salaries and fringe benefits	285,655	285,655	293,359	(7,704)
Other operating	112,524	112,524	66,045	46,479
Capital outlay	145,000	145,000	138,610	6,390
Insurance	177,310	177,310	173,593	3,717
Total general services	1,906,214	1,922,214	2,045,552	(123,338)
ECONOMIC DEVELOPMENT				
Office of Economic Development:				
Salaries and fringe benefits	143,038	143,038	153,209	(10,171)
Other operating	87,326	87,326	88,397	(1,071)
Arts Council	12,000	12,000	12,000	-
Tourism:				
Salaries and fringe benefits	162,582	162,582	179,783	(17,201)
Other operating	393,430	393,430	476,171	(82,741)
Historic Preservation Commission	5,400	5,400	12,330	(6,930)
Other	23,500	23,500	23,520	(20)
Total economic development	827,276	827,276	945,410	(118,134)
Total general government	8,567,718	8,585,055	8,430,809	154,246
PUBLIC SAFETY				
SHERIFF				
Salaries and fringe benefits	3,175,487	3,175,487	3,104,118	71,369
Other operating	482,700	482,700	447,278	35,422
Capital outlay	105,175	130,935	106,353	24,582
Total sheriff	3,763,362	3,789,122	3,657,749	131,373
MUNICIPAL INSTITUTIONS				
Detention Center:				
Salaries and fringe benefits	3,110,478	3,110,478	2,778,496	331,982
Other operating	1,178,084	1,178,084	1,123,716	54,368
Capital outlay	179,000	179,000	39,902	139,098
Total municipal institutions	\$ 4,467,562	\$ 4,467,562	\$ 3,942,114	\$ 525,448

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
PUBLIC SAFETY (continued)				
OTHER PUBLIC SAFETY				
School Crossing Guards	\$ 61,700	\$ 61,700	\$ 61,700	\$ -
Animal Control Program	419,985	419,985	411,712	8,273
Emergency Management:				
Salaries and fringe benefits	1,722,610	1,722,610	1,666,078	56,532
Other operating	360,603	360,603	407,340	(46,737)
Capital outlay	-	-	104,713	(104,713)
Volunteer Fire Companies	1,788,659	1,788,659	1,805,091	(16,432)
Emergency Medical Services:				
Salaries and fringe benefits	3,353,471	3,353,471	3,512,336	(158,865)
Other operating	524,941	524,941	579,537	(54,596)
Capital outlay	339,000	339,000	289,915	49,085
Hazardous Materials:				
Salaries and fringe benefits	1,140	1,140	-	1,140
Other operating	14,800	14,800	5,616	9,184
Total other public safety	8,586,909	8,586,909	8,844,038	(257,129)
PROTECTIVE INSPECTION				
Electrical Inspection:				
Salaries and fringe benefits	6,450	6,450	5,968	482
Other operating	1,940	1,940	487	1,453
Building and Plumbing Inspection:				
Salaries and fringe benefits	333,502	333,502	324,518	8,984
Other operating	32,850	32,850	20,882	11,968
Capital outlay	-	-	(2,700)	2,700
Total protective inspection	374,742	374,742	349,155	25,587
Total public safety	17,192,575	17,218,335	16,793,056	425,279
PUBLIC WORKS				
PUBLIC WORKS - GENERAL				
Salaries and fringe benefits	650,576	650,576	653,202	(2,626)
Other operating	36,050	36,050	31,175	4,875
Total public works - general	686,626	686,626	684,377	2,249
PUBLIC LANDINGS AND WHARVES				
Salaries and fringe benefits	192,298	192,298	190,989	1,309
Other operating	47,335	47,335	55,530	(8,195)
Capital outlay	-	-	25,260	(25,260)
Total public landings and wharves	239,633	239,633	271,779	(32,146)
SOLID WASTE DISPOSAL				
Salaries and fringe benefits	85,577	85,577	87,191	(1,614)
Other operating	602,250	602,250	522,713	79,537
Total solid waste disposal	687,827	687,827	609,904	77,923
HIGHWAYS AND STREETS				
Salaries and fringe benefits	1,445,073	1,445,073	1,438,674	6,399
Other operating	1,203,154	1,203,154	957,394	245,760
Debt service	52,000	52,000	52,010	(10)
Capital outlay	622,000	622,000	482,860	139,140
Total highways and streets	3,322,227	3,322,227	2,930,938	391,289
Total public works	\$ 4,936,313	\$ 4,936,313	\$ 4,496,998	\$ 439,315

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
HEALTH AND HOSPITALS				
Health department	\$ 1,641,803	\$ 1,641,803	\$ 1,644,083	\$ (2,280)
School health	639,697	639,697	639,697	-
Addictions counseling	76,800	76,800	76,800	-
Senior services program	50,000	50,000	50,000	-
Mosquito control	120,000	120,000	105,132	14,868
Total health and hospitals	2,528,300	2,528,300	2,515,712	12,588
SOCIAL SERVICES				
Social services legal	85,000	85,000	38,339	46,661
Social Services - operating	25,300	25,300	21,387	3,913
Neighborhood Service Center	94,626	94,626	94,626	-
Delmarva Community Services	135,764	135,764	135,764	-
Healthy Talbot	2,500	2,500	2,500	-
Commission on Aging	2,000	2,000	2,000	-
Senior Services	243,047	243,047	243,047	-
St. Martin's Ministries	8,000	8,000	8,000	-
Senior Center bus passes	10,800	10,800	10,248	552
Total social services	607,037	607,037	555,911	51,126
EDUCATION				
Board of Education:				
Operating appropriation	36,879,230	36,879,230	36,879,230	-
Supplemental appropriation	1,122,932	1,122,932	1,122,932	-
Debt Service	3,272,132	3,272,132	3,260,606	11,526
Library:				
Operating appropriation	1,265,723	1,265,723	1,265,723	-
Capital outlay	-	1,406	1,361	45
Community College:				
Operating appropriation	1,618,108	1,618,108	1,618,108	-
Debt Service	187,356	187,356	185,811	1,545
Capital outlay	97,859	97,859	97,859	-
Chesapeake Developmental Center	45,005	45,005	45,005	-
Drug Abuse Resistance Education (DARE):				
Salaries and fringe benefits	48,633	48,633	45,450	3,183
Other operating	14,210	14,210	15,297	(1,087)
Total education	44,551,188	44,552,594	44,537,382	15,212
RECREATION				
Parks and Recreation:				
Salaries and fringe benefits	218,251	218,251	196,824	21,427
Other operating	155,894	155,894	185,111	(29,217)
Capital outlay	-	6,500	-	6,500
Pools:				
Salaries and fringe benefits	147,673	147,673	100,764	46,909
Other operating	50,640	50,640	42,280	8,360
Capital outlay	14,600	14,600	2,474	12,126
Total recreation	\$ 587,058	\$ 593,558	\$ 527,453	\$ 66,105

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
CONSERVATION OF NATURAL RESOURCES				
Agricultural Extension Service	\$ 183,248	\$ 183,248	\$ 182,978	\$ 270
Other	5,000	5,000	2,700	2,300
Weed Control:				
Salaries and fringe benefits	62,347	62,347	61,619	728
Other operating	25,840	25,840	13,156	
Capital outlay	-	-	6,485	(6,485)
Total conservation of natural resources	276,435	276,435	266,938	9,497
INTERGOVERNMENTAL				
Payments to Municipalities:				
Fire, rescue and ambulance fund	50,000	50,000	19,170	30,830
Bank stock	7,535	7,535	7,535	-
Public accommodations tax	900,000	900,000	1,176,488	(276,488)
Total intergovernmental	957,535	957,535	1,203,193	(245,658)
EMPLOYEE BENEFITS				
Health insurance, retirees	400,000	800,000	955,674	(155,674)
Other operating	80,000	80,000	81,920	(1,920)
Total employee benefits	480,000	880,000	1,037,594	(157,594)
MISCELLANEOUS	315,992	315,992	110,226	205,766
DEBT SERVICE				
Principal on long-term debt	859,632	859,632	861,726	(2,094)
Interest on long-term debt	178,217	178,217	158,714	19,503
Total debt service	1,037,849	1,037,849	1,020,440	17,409
RESERVE				
Reserve for contingencies	600,000	118,000	22,990	95,010
Total reserve	600,000	118,000	22,990	95,010
TOTAL EXPENDITURES	82,638,000	82,607,003	81,518,702	1,088,301
OTHER FINANCING USES				
Transfers:				
Capital projects - Operating appropriation	-	750,000	750,000	-
Recreation - Operating appropriation	820,000	820,000	820,000	-
Total other financing uses	820,000	1,570,000	1,570,000	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	83,458,000	84,177,003	83,088,702	1,088,301
Net change in fund balances	\$ -	\$ -	\$ 882,137	\$ 882,137

TALBOT COUNTY, MARYLAND

**SCHEDULE OF CHANGES
IN NET OPEB LIABILITY AND RELATED RATIOS
June 30, 2018**

	2018
Total OPEB liability	
Service Cost	\$ 506,402
Interest	1,086,825
Benefit payments	(597,317)
Other changes	226,021
Net changes in total OPEB liability	1,221,931
Total OPEB liability - beginning	14,602,804
Total OPEB liability - ending (a)	\$ 15,824,735
Plan fiduciary net position	
Contributions - employer	\$ -
Net investment income	790,394
Benefit payments	-
Administrative expense	(55,961)
Net changes in plan fiduciary net position	734,433
Plan fiduciary net position - beginning	11,026,026
Plan fiduciary net position - ending (b)	\$ 11,760,459
County's net OPEB liability - ending (a) - (b)	\$ 4,064,276
Plan fiduciary net position as a percentage of total pension liability	74.32%
Covered payroll	\$ 13,058,200
Net liability as a percentage of covered payroll	31.12%
Annual money-weighted rate of return, net of investment expense	7.17%

Notes to schedule:

This information is not available for FY17 and prior.

TALBOT COUNTY, MARYLAND

**MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Year Ended June 30, 2018**

Fiscal Year	Measurement Date	County's Proportion of the NPL (Percentage) A	County's Proportionate Share of the NPL B	County's Covered Payroll C	Proportionate Share as a Percentage of Covered Payroll (B/C)	Plan's Total Fiduciary Net Position D	Plan's Total Pension Liability E	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D/E)
2015	June 30, 2014	0.04601%	\$ 8,165,742	\$11,581,689	70.51%	\$45,339,988,000	\$63,086,719,000	71.87%
2016	June 30, 2015	0.05197%	10,800,677	11,975,128	90.19%	45,789,840,000	66,571,552,000	68.78%
2017	June 30, 2016	0.05245%	12,374,154	12,090,510	102.35%	45,365,927,000	68,959,954,000	65.79%
2018	June 30, 2017	0.04929%	10,657,934	13,376,509	79.68%	48,987,184,000	70,610,885,000	69.38%

This schedule is presented to illustrate the requirements to show information for 10 years.

However, until a full 10-year trend is complied, pension plans should present information for those years for which information is available.

TALBOT COUNTY, MARYLAND

**MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
SCHEDULE OF CONTRIBUTIONS
Year Ended June 30, 2018**

Fiscal Year	Measurement Date	Actually Determined Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A-B)	Employer's Covered Payroll C	Actual Contribution as a Percentage of Covered Payroll (B/C)
2015	June 30, 2014	\$ 1,095,431	\$ 1,095,431	-	\$ 11,581,689	9.46%
2016	June 30, 2015	1,021,694	1,021,694	-	11,975,128	8.53%
2017	June 30, 2016	1,003,183	1,003,183	-	12,090,510	8.30%
2018	June 30, 2017	1,105,945	1,105,945	-	13,376,509	8.27%

This schedule is presented to illustrate the requirements to show information for 10 years.

However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

TALBOT COUNTY, MARYLAND

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2018**

Note 1. Budgetary Basis

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

Note 2. Required Fund Disclosures

The General Fund had an excess of budgeted expenditures over actual expenditures of \$1,088,272 for the year ended June 30, 2018. There was an excess of budgeted revenues over actual revenues of \$206,164 for the year ended June 30, 2018.

Note 3. Schedule of Funding Progress - Other Post-Employment Benefits

Effective January 2009, the County increased its contribution percentage for post-employment benefits from 66.66% to 90% for eligible individual plans and 85% for family coverage. The information in this schedule is intended to help users assess the County's OPEB Plan's status on a going concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

Note 4. Pensions

Change in Benefit Terms

There were no benefit changes during the year.

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2017 valuation:

1. Inflation assumption changed from 2.90% to 2.65%

TALBOT COUNTY, MARYLAND

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2018**

Method and Assumptions used in Calculations of Actuarially Determined Contributions.

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years for State system
Asset valuation method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15%, including inflation
Investment rate of return	7.50%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

OTHER SUPPLEMENTARY INFORMATION

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
CAPITAL PROJECT FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental - Federal and State	\$ 850,000	\$ 850,000	\$ 238,430	\$ (611,570)
Interest	-	-	5,458	5,458
Total revenues	850,000	850,000	243,888	(606,112)
EXPENDITURES				
General government	200,000	200,000	417,156	(217,156)
Highways and roads	1,400,000	1,400,000	165,948	1,234,052
Public works	200,000	200,000	150,012	49,988
Education	3,276,000	3,276,000	1,998,351	1,277,649
Recreation	-	-	89,868	(89,868)
Total expenditures	5,076,000	5,076,000	2,821,335	2,254,665
OTHER FINANCING SOURCES (USES)				
Designated fund balance	1,406,500	1,406,500	-	(1,406,500)
Issuance of long-term debt	2,700,000	2,700,000	-	(2,700,000)
Transfer from general fund	-	-	750,000	750,000
Transfer from special revenue fund	119,500	119,500	119,500	-
Total other financing sources (uses)	4,226,000	4,226,000	869,500	(3,356,500)
Net Change in Fund Balance	\$ -	\$ -	\$ (1,707,947)	\$ (1,707,947)

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
DEVELOPMENTAL IMPACT FUND
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Licenses and permits:				
Impact fees:				
General government	\$ 60,000	\$ 60,000	\$ 92,250	\$ 32,250
Public works	124,000	124,000	233,850	109,850
Education:				
Public schools	85,000	85,000	182,811	97,811
Library	20,000	20,000	34,356	14,356
Community College	4,000	4,000	7,256	3,256
Recreation	25,000	25,000	36,877	11,877
Interest	2,000	2,000	22,671	20,671
Total revenues	320,000	320,000	610,071	290,071
EXPENDITURES				
OTHER FINANCING SOURCES (USES)				
Transfers:				
General fund	(166,000)	(166,000)	(166,000)	-
Capital projects fund	(119,500)	(119,500)	(119,500)	-
Recreation fund	(22,250)	(22,250)	(22,250)	-
Reserved for future uses	(12,250)	(12,250)	-	(12,250)
Total other financing sources (uses)	(320,000)	(320,000)	(307,750)	(12,250)
Net Change in Fund Balance	\$ -	\$ -	\$ 302,321	\$ 302,321

TALBOT COUNTY, MARYLAND

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

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental - Federal	\$ 718,000	\$ 718,000	\$ 689,969	\$ (28,031)
Intergovernmental - State	1,102,500	1,102,500	1,472,712	370,212
Miscellaneous	216,500	216,500	160,223	(56,277)
Other grants	25,000	25,000	32,932	7,932
Total revenues	2,062,000	2,062,000	2,355,836	293,836
EXPENDITURES				
General government	224,000	224,000	452,774	(228,774)
Public safety	153,900	153,900	2,682	151,218
Public works	1,430,000	1,430,000	1,556,398	(126,398)
Health	-	-	6,668	(6,668)
Social services	254,100	254,100	337,314	(83,214)
Total expenditures	2,062,000	2,062,000	2,355,836	(293,836)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
TALBOT FAMILY NETWORK
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental - Federal and State	\$ 483,650	\$ 483,650	\$ 464,781	\$ (18,869)
Other grants	2,500	2,500	2,500	-
Interest	-	-	1,254	1,254
Total revenues	486,150	486,150	468,535	(17,615)
EXPENDITURES				
Social services	486,150	486,150	467,282	18,868
Total expenditures	486,150	486,150	467,282	18,868
Net Change in Fund Balance	\$ -	\$ -	\$ 1,253	\$ 1,253

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
ENTERPRISE FUND – RECREATION FACILITIES
For the Year Ended June 30, 2018**

	Hog Neck Golf Course			Talbot Community Center			Combined Totals		
	Revised Final Budget	Actual	Variance with Final Budget	Revised Final Budget	Actual	Variance with Final Budget	Revised Final Budget	Actual	Variance with Final Budget
OPERATING REVENUES									
Program fees and admissions	\$ -	\$ -	\$ -	\$ 200,000	\$ 227,820	\$ 27,820	\$ 200,000	\$ 227,820	\$ 27,820
Room rents	-	-	-	55,000	54,906	(94)	55,000	54,906	(94)
Ice revenues	-	-	-	241,500	298,764	57,264	241,500	298,764	57,264
Pro shop and concessions	312,500	292,295	(20,205)	33,000	35,106	2,106	345,500	327,401	(18,099)
Cart rentals	40,250	35,178	(5,072)	-	-	-	40,250	35,178	(5,072)
Green fees	940,000	918,971	(21,029)	-	-	-	940,000	918,971	(21,029)
Other operating	37,500	124,562	87,062	28,500	33,814	5,314	66,000	158,376	92,376
Total operating revenues	1,330,250	1,371,006	40,756	558,000	650,410	92,410	1,888,250	2,021,416	133,166
OPERATING EXPENSES									
Salaries and related expenses	708,565	810,454	(101,889)	324,088	337,177	(13,089)	1,032,653	1,147,631	(114,978)
Professional fees	9,000	13,094	(4,094)	12,500	15,946	(3,446)	21,500	29,040	(7,540)
Office	24,200	33,720	(9,520)	31,700	27,236	4,464	55,900	60,956	(5,056)
Insurance	5,800	3,830	1,970	14,500	11,409	3,091	20,300	15,239	5,061
Repairs and maintenance	111,000	135,625	(24,625)	45,000	68,968	(23,968)	156,000	204,593	(48,593)
Utilities	51,000	61,082	(10,082)	147,750	160,319	(12,569)	198,750	221,401	(22,651)
Supplies and equipment	89,660	103,725	(14,065)	5,000	5,023	(23)	94,660	108,748	(14,088)
Lessons and programs	-	-	-	113,000	94,803	18,197	113,000	94,803	18,197
Pro shop and concessions	125,400	199,807	(74,407)	25,500	25,935	(435)	150,900	225,742	(74,842)
Other operating	38,100	43,714	(5,614)	49,437	74,394	(24,957)	87,537	118,108	(30,571)
Total operating expenses	1,162,725	1,405,051	(242,326)	768,475	821,210	(52,735)	1,931,200	2,226,261	(295,061)
Operating income (loss) before depreciation	167,525	(34,045)	(201,570)	(210,475)	(170,800)	39,675	(42,950)	(204,845)	(161,895)
Depreciation	418,500	231,231	187,269	40,000	566,807	(526,807)	458,500	798,038	(339,538)
Net operating income (loss)	(250,975)	(265,276)	(14,301)	(250,475)	(737,607)	(487,132)	(501,450)	(1,002,883)	(501,433)
NON-OPERATING REVENUES (EXPENSES)									
Transfers from general fund	419,025	419,025	-	400,975	400,975	-	820,000	820,000	-
Transfers from special revenue fund	-	-	-	22,250	22,250	-	22,250	22,250	-
Gain on disposal of capital assets	-	-	-	-	-	-	-	-	-
Program open space grant	-	-	-	-	-	-	-	-	-
Interest expense	(168,050)	(19,344)	148,706	(172,750)	(36,671)	(136,079)	(340,800)	(56,015)	12,627
Net non-operating revenues (expenses)	250,975	399,681	148,706	250,475	386,554	(136,079)	501,450	786,235	12,627
Change in net position	-	134,405	134,405	-	(351,053)	(351,053)	-	(216,648)	(216,648)
OTHER BUDGETED EXPENSE									
Capital outlay	-	-	-	-	-	-	-	-	-
Total other budgeted expenses	-	-	-	-	-	-	-	-	-
Budgeted net income (loss)	\$ -	-	-	\$ -	-	-	\$ -	-	-

TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
ENTERPRISE FUND – SANITARY DISTRICT
For the Year Ended June 30, 2018

	St. Michaels District			Royal Oak District			Tilghman District		
	Revised Final Budget	Actual	Variance with Final Budget	Revised Final Budget	Actual	Variance with Final Budget	Revised Final Budget	Actual	Variance with Final Budget
OPERATING REVENUES									
Sewer service charges	\$ 1,006,750	\$ 1,017,574	\$ 10,824	\$ 265,300	\$ 274,639	\$ 9,339	\$ 296,300	\$ 286,498	\$ (9,802)
Sewer connection charges	360,000	200,293	(159,707)	96,000	48,000	(48,000)	7,450	-	(7,450)
Residential benefit charges	-	-	-	-	-	-	20,000	20,784	784
Wind/solar renewable energy	-	-	-	-	-	-	-	-	-
Miscellaneous	30,000	505	(29,495)	30,000	218	(29,782)	-	470	470
Total operating revenues	1,396,750	1,218,372	(178,378)	391,300	322,857	(68,443)	323,750	307,752	(15,998)
OPERATING EXPENSES									
Salaries and related expenses	391,863	390,074	1,789	86,234	87,203	(969)	140,624	142,286	(1,662)
Professional fees	2,000	190	1,810	500	95	405	500	39	461
Office	8,950	11,823	(2,873)	4,500	3,858	642	6,450	6,629	(179)
Insurance	22,000	9,132	12,868	3,000	781	2,219	4,000	1,368	2,632
Contracted services	102,000	194,727	(92,727)	47,500	145,104	(97,604)	25,000	25,030	(30)
Repairs and maintenance	50,000	32,316	17,684	35,000	75,082	(40,082)	35,000	39,809	(4,809)
Utilities	148,200	161,514	(13,314)	43,050	41,368	1,682	21,000	19,315	1,685
Supplies and equipment	67,500	70,549	(3,049)	34,100	22,736	11,364	27,600	38,288	(10,688)
Other operating	21,250	13,779	7,471	3,250	2,615	635	3,850	3,421	429
Total operating expenses	813,763	884,104	(70,341)	257,134	378,842	(121,708)	264,024	276,185	(12,161)
Operating income (loss) before depreciation	582,987	334,268	(248,719)	134,166	(55,985)	(190,151)	59,726	31,567	(28,159)
Depreciation	118,487	631,851	(513,364)	20,666	147,814	(127,148)	25,726	153,139	(127,413)
Net operating income (loss)	464,500	(297,583)	(762,083)	113,500	(203,799)	(317,299)	34,000	(121,572)	(155,572)
NON-OPERATING REVENUES (EXPENSES)									
Intergovernmental revenues	-	301,682	301,682	-	132,000	132,000	-	-	-
Interest income	500	-	(500)	500	12,816	12,316	1,000	6,018	5,018
Interest expense	(20,000)	(15,610)	4,390	(21,000)	(13,085)	7,915	(2,000)	(1,600)	(400)
Net non-operating revenues (expenses)	(19,500)	286,072	305,572	(20,500)	131,731	152,231	(1,000)	4,418	4,618
Change in net position	445,000	(11,511)	(456,511)	93,000	(72,068)	(165,068)	33,000	(117,154)	(150,154)
OTHER BUDGETED EXPENSE									
Debt service	445,000			104,000			32,000		
Capital outlay	20,000			10,000			3,000		
Total other budgeted expenses	465,000			114,000			35,000		
Budgeted net income (loss)	\$ (20,000)			\$ (21,000)			\$ (2,000)		

TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES AND EXPENSES
 BUDGET AND ACTUAL
 ENTERPRISE FUND – SANITARY DISTRICT
 For the Year Ended June 30, 2018
 (continued)

	Unionville District			Bio-solids Utilization Facility			Onsite Sewage Disposal		
	Revised		Variance with	Revised		Variance with	Revised		Variance with
	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget</u>
OPERATING REVENUES									
Sewer service charges	\$ 112,320	\$ 113,698	\$ 1,378	\$ 560,000	\$ 306,027	\$ (253,973)	\$ -	\$ -	\$ -
Sewer connection charges	60,000	-	(60,000)	-	-	-	-	-	-
Residential benefit charges	-	-	-	-	-	-	-	-	-
Wind/solar renewable energy	-	-	-	30,000	2,747	(27,253)	-	-	-
Miscellaneous	-	192	192	-	2,500	2,500	-	-	-
Total operating revenues	172,320	113,890	(58,430)	590,000	311,274	(278,726)	-	-	-
OPERATING EXPENSES									
Salaries and related expenses	37,957	38,569	(612)	150,529	161,074	(10,545)	65,396	67,090	(1,694)
Professional fees	300	33	267	1,100	-	1,100	200	-	200
Office	2,500	1,687	813	5,200	5,511	(311)	-	-	-
Insurance	1,000	308	692	10,000	8,613	1,387	-	-	-
Contracted services	8,500	24,855	(16,355)	25,300	80,361	(55,061)	829,650	620,607	209,043
Repairs and maintenance	10,000	25,006	(15,006)	5,000	105,920	(100,920)	18,604	-	18,604
Utilities	12,700	10,860	1,840	13,000	27,272	(14,272)	-	-	-
Supplies and equipment	10,050	18,474	(8,424)	21,750	52,680	(30,930)	-	-	-
Other operating	2,550	2,573	(23)	6,100	9,821	(3,721)	150	12,027	(11,877)
Total operating expenses	85,557	122,365	(36,808)	237,979	451,252	(213,273)	914,000	699,724	214,276
Operating income (loss) before depreciation	86,763	(8,475)	(95,238)	352,021	(139,978)	(491,999)	(914,000)	(699,724)	214,276
Depreciation	39,013	139,721	(100,708)	39,821	210,616	(170,795)	-	-	-
Net operating income (loss)	47,750	(148,196)	(195,946)	312,200	(350,594)	(662,794)	(914,000)	(699,724)	214,276
NON-OPERATING REVENUES (EXPENSES)									
Intergovernmental revenues	-	60,000	60,000	-	109,719	109,719	914,000	669,715	(244,285)
Interest income	250	2,986	2,736	-	-	-	-	-	-
Interest expense	(8,000)	(5,986)	(2,014)	(208,550)	(98,756)	(109,794)	-	-	-
Net non-operating revenues (expenses)	(7,750)	57,000	64,750	(208,550)	10,963	219,513	914,000	669,715	(244,285)
Change in net position	40,000	(91,196)	(131,196)	103,650	(339,631)	(443,281)	-	(30,009)	(30,009)
OTHER BUDGETED EXPENSE									
Debt service	43,000			208,550			-		
Capital outlay	5,000			103,650			-		
Total other budgeted expenses	48,000			312,200			-		
Budgeted net income (loss)	\$ (8,000)			\$ (208,550)			\$ -		

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
ENTERPRISE FUND – SANITARY DISTRICT
For the Year Ended June 30, 2018
(continued)**

	Martingham District			Combined Totals		
	Revised Final Budget	Actual	Variance with Final Budget	Revised Final Budget	Actual	Variance with Final Budget
OPERATING REVENUES						
Sewer service charges	\$ 233,650	\$ 234,236	\$ 586	\$ 2,474,320	\$ 2,232,672	\$ (241,648)
Sewer connection charges	-	12,000	12,000	523,450	260,293	(263,157)
Residential benefit charges	-	-	-	20,000	20,784	784
Wind/solar renewable energy	-	-	-	30,000	2,747	(27,253)
Miscellaneous	20	8,372	8,352	60,020	12,257	(47,763)
Total operating revenues	233,670	254,608	20,938	3,107,790	2,528,753	(579,037)
OPERATING EXPENSES						
Salaries and related expenses	57,769	59,179	(1,410)	930,372	945,475	(15,103)
Professional fees	400	31	369	5,000	388	4,612
Office	4,900	3,544	1,356	32,500	33,052	(552)
Insurance	750	226	524	40,750	20,428	20,322
Contracted services	13,000	41,339	(28,339)	1,050,950	1,132,023	(81,073)
Repairs and maintenance	3,000	22,541	(19,541)	156,604	300,674	(144,070)
Utilities	35,350	35,095	255	273,300	295,424	(22,124)
Supplies and equipment	4,500	21,636	(17,136)	165,500	224,363	(58,863)
Other operating	(28,400)	(27,888)	(512)	8,750	16,348	(7,598)
Total operating expenses	91,269	155,703	(64,434)	2,663,726	2,968,175	(304,449)
Operating income (loss) before depreciation	142,401	98,905	(43,496)	444,064	(439,422)	(883,486)
Depreciation	7,401	71,796	(64,395)	251,114	1,354,937	(1,103,823)
Net operating income (loss)	135,000	27,109	(107,891)	192,950	(1,794,359)	(1,987,309)
NON-OPERATING REVENUES (EXPENSES)						
Intergovernmental revenues	-	-	-	914,000	1,273,116	359,116
Interest income	-	4,539	4,539	2,250	26,359	24,109
Interest expense	(44,820)	(53,644)	8,824	(304,370)	(188,681)	(91,079)
Net non-operating revenues (expenses)	(44,820)	(49,105)	13,363	611,880	1,110,794	292,146
Change in net position	90,180	(21,996)	(112,176)	804,830	(683,565)	(1,488,395)
OTHER BUDGETED EXPENSE						
Debt service	135,000			967,550		
Capital outlay	-			141,650		
Total other budgeted expenses	135,000			1,109,200		
Budgeted net income (loss)	\$ (44,820)			\$ (304,370)		

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
ENTERPRISE FUND – EASTON AIRPORT
For the Year Ended June 30, 2018**

	<u>Revised Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
OPERATING REVENUES			
Charges - operations	\$ 394,073	\$ 408,669	\$ 14,596
Charges - fuel facility	2,046,150	2,131,002	84,852
Charges - hangars	596,758	560,284	(36,474)
Other operating	-	-	-
Total operating revenues	3,036,981	3,099,955	62,974
OPERATING EXPENSES			
Salaries and related expenses	358,273	367,515	(9,242)
Cost of sales - fuel	1,839,200	1,874,802	(35,602)
Professional fees	10,000	548,111	(538,111)
Office	24,600	29,016	(4,416)
Insurance	20,000	18,890	1,110
Repairs and maintenance	102,050	107,298	(5,248)
Utilities	36,000	46,892	(10,892)
Supplies and equipment	3,375	10,241	(6,866)
Other operating	28,997	17,175	11,822
Total operating expenses	2,422,495	3,019,940	(597,445)
Operating income (loss) before depreciation	614,486	80,015	(534,471)
Depreciation	360,561	2,750,265	(2,389,704)
Net operating income (loss)	253,925	(2,670,250)	(2,924,175)
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental revenues	94,932	223,220	128,288
Interest income	-	-	-
Interest expense	(43,725)	(35,043)	(8,682)
Net non-operating revenues (expenses)	51,207	188,177	119,606
Change in net position	305,132	(2,482,073)	(2,787,205)
OTHER BUDGETED EXPENSE			
Debt service	210,200		
Capital outlay	94,932		
Total other budgeted expenses	305,132		
Budgeted net income (loss)	\$ -		

TALBOT COUNTY, MARYLAND
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2018

	<u>Developmental Impact</u>	<u>Grants</u>	<u>Talbot Family Network</u>	<u>Total Other Governmental Funds</u>
ASSETS				
Cash and short -term investments	\$ 1,970,822	\$ 429,975	\$ 104,002	\$ 2,504,799
Receivables:				
Accounts receivable	-	10,226	81,617	91,843
Intergovernmental:				
State	-	525,048	-	525,048
Federal	-	210,037	-	210,037
Prepaid items	-	-	-	-
Due from other funds	-	-	-	-
Advances to other funds	-	-	-	-
TOTAL ASSETS	<u>\$ 1,970,822</u>	<u>\$ 1,175,286</u>	<u>\$ 185,619</u>	<u>\$ 3,331,727</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable & accrued liabilities	\$ -	\$ 541,350	\$ 10,145	\$ 551,495
Unearned revenue	-	633,936	77,605	711,541
TOTAL LIABILITIES	<u>-</u>	<u>1,175,286</u>	<u>87,750</u>	<u>1,263,036</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted for:				
Social Services	-	-	97,869	97,869
Committed for:				
Capital projects	417,822	-	-	417,822
Assigned for:				
Future budget	1,553,000	-	-	1,553,000
Unassigned	-	-	-	-
TOTAL FUND BALANCES	<u>1,970,822</u>	<u>-</u>	<u>97,869</u>	<u>2,068,691</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,970,822</u>	<u>\$ 1,175,286</u>	<u>\$ 185,619</u>	<u>\$ 3,331,727</u>

TALBOT COUNTY, MARYLAND

**COMBINING SCHEDULE OF REVENUES AND EXPENDITURES
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018**

	<u>Developmental Impact</u>	<u>Grants</u>	<u>Talbot Family Network</u>	<u>Total Other Governmental Funds</u>
REVENUE				
Intergovernmental:				
Federal	\$ -	\$ 689,969	\$ -	\$ 689,969
State	-	1,472,712	464,781	1,937,493
Licenses and permits	587,400	-	-	587,400
Miscellaneous	-	193,155	2,500	195,655
Interest	22,672	-	1,254	23,926
Total Revenue	<u>610,072</u>	<u>2,355,836</u>	<u>468,535</u>	<u>3,434,443</u>
EXPENDITURES				
Current:				
General government	-	452,774	-	452,774
Public safety	-	2,682	-	2,682
Public works	-	1,556,398	-	1,556,398
Health and hospitals	-	6,668	-	6,668
Social services	-	337,314	467,282	804,596
Total Expenditures	<u>-</u>	<u>2,355,836</u>	<u>467,282</u>	<u>2,823,118</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>610,072</u>	<u>-</u>	<u>1,253</u>	<u>611,325</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out) to other funds:				
Capital projects - operating appropriation	<u>(307,750)</u>	<u>-</u>	<u>-</u>	<u>(307,750)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(307,750)</u>	<u>-</u>	<u>-</u>	<u>(307,750)</u>
NET CHANGES IN FUND BALANCE	<u>302,322</u>	<u>-</u>	<u>1,253</u>	<u>303,575</u>
FUND BALANCES - BEGINNING OF YEAR	<u>1,668,500</u>	<u>-</u>	<u>96,616</u>	<u>1,765,116</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,970,822</u>	<u>\$ -</u>	<u>\$ 97,869</u>	<u>\$ 2,068,691</u>

TALBOT COUNTY, MARYLAND

**SCHEDULE OF REVENUES AND EXPENDITURES
AS REQUIRED BY THE GOC FOR LMB OFFICES
ON BEHALF OF THE CHILDREN'S CABINET
For the Year Ended June 30, 2018**

REVENUES

Intergovernmental		
Community Partnership Agreement (GOC)	\$	441,012
Resource development		7,807
Regional grant		15,963
Miscellaneous		2,500
Interest Income		1,254
TOTAL REVENUES		<u>468,536</u>

EXPENDITURES

Social Services		
Community Partnership Programs:		
Healthy Habits After School Program		44,369
Healthy Families		97,966
Community Nutrition & Gardening		29,000
Mentoring & support Group- Children w/ Incarcerated parents		35,774
Bridges Out of poverty/Getting ahead		28,747
Conversations on race		12,000
Local Coordinating Team		23,205
Support & Connect		23,121
Reengagement coordinator		31,740
Career Pathways		7,093
Total Community Partnership programs		<u>333,015</u>
Non-Community Partnership Programs		
Administration		107,997
Talbot County website support		2,500
Resource Development		7,807
Regional Grant		15,963
Total non-Community partnership programs		<u>134,267</u>
TOTAL EXPENDITURES		<u>467,282</u>
Net Change in Fund Balance	\$	<u>1,254</u>

TALBOT COUNTY, MARYLAND

NOTES TO OTHER SUPPLEMENTARY INFORMATION

Note 1. Budgetary Basis

Other supplementary information includes financial statements and schedules that are not required by the Governmental Accounting Standards Board nor are they considered part of the basic financial statements.

Such information is included for purposes of additional analysis. The budgetary information contained in this section is prepared and adopted on a basis consistent with generally accepted accounting principles. Such statements and schedules include:

Budgetary Comparison Schedules:

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

Combining Balance Sheet - Other Governmental Funds

Combining Schedule of Revenues and Expenditures - Other Governmental Funds

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

Offices on Behalf of the Children's Cabinet

STATISTICAL SECTION

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

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

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

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

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

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

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

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014*	2015	2016	2017	2018
Governmental activities										
Net investment in capital assets	\$ 60,070,294	\$ 75,347,678	\$ 77,628,434	\$ 78,931,013	\$ 80,387,586	\$ 80,625,199	\$ 80,132,665	\$ 78,908,012	\$ 80,610,059	\$ 78,664,492
Restricted			547,778	287,350	144,869	94,239	94,396	95,943	96,616	97,869
Unrestricted	<u>40,028,210</u>	<u>14,736,372</u>	<u>1,031,005</u>	<u>(2,611,189)</u>	<u>523,202</u>	<u>(3,752,306)</u>	<u>2,973,933</u>	<u>7,325,290</u>	<u>10,659,249</u>	<u>4,162,871</u>
Total governmental activities net position	\$ <u>100,098,504</u>	\$ <u>90,084,050</u>	\$ <u>79,207,217</u>	\$ <u>76,607,174</u>	\$ <u>81,055,657</u>	\$ <u>76,967,132</u>	\$ <u>83,200,994</u>	\$ <u>86,329,245</u>	\$ <u>91,365,924</u>	\$ <u>82,925,232</u>
Business-type activities										
Net investment in capital assets	\$ 53,100,037	\$ 54,672,754	\$ 57,872,067	\$ 55,881,195	\$ 54,021,693	\$ 51,985,231	\$ 52,050,922	\$ 49,231,203	\$ 51,133,626	\$ 48,005,138
Unrestricted	<u>(2,028,817)</u>	<u>(399,540)</u>	<u>(310,795)</u>	<u>152,157</u>	<u>(140,916)</u>	<u>(101,952)</u>	<u>(521,710)</u>	<u>(434,743)</u>	<u>(3,194,337)</u>	<u>(3,448,134)</u>
Total business-type activities net position	\$ 51,071,220	\$ 54,273,214	\$ 57,561,272	\$ 56,033,352	\$ 53,880,777	\$ 51,883,279	\$ 51,529,212	\$ 48,796,460	\$ 47,939,289	\$ 44,557,004
Primary government										
Net investment in capital assets	\$ 113,170,331	\$ 130,020,432	\$ 135,500,501	\$ 134,812,208	\$ 134,409,279	\$ 132,610,430	\$ 132,183,587	\$ 128,139,215	\$ 131,743,685	\$ 126,669,630
Restricted			547,778	287,350	144,869	94,239	94,396	95,943	96,616	97,869
Unrestricted	<u>37,999,393</u>	<u>14,336,832</u>	<u>720,210</u>	<u>(2,459,032)</u>	<u>382,286</u>	<u>(3,854,258)</u>	<u>2,452,223</u>	<u>6,890,547</u>	<u>7,464,912</u>	<u>714,737</u>
Total primary government net position	\$ <u>151,169,724</u>	\$ <u>144,357,264</u>	\$ <u>136,768,489</u>	\$ <u>132,640,526</u>	\$ <u>134,936,434</u>	\$ <u>128,850,411</u>	\$ <u>134,730,206</u>	\$ <u>135,125,705</u>	\$ <u>139,305,213</u>	\$ <u>127,482,236</u>

* FY 2014 net position was restated due to the implementation of Governmental Accounting Standards Board's Statement No. 68, *Accounting and Financial Reporting for Pensions*.
Fiscal years 2017 and prior have not been restated for GASB 75
Fiscal year 2018 reflects GASB 75

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

	Fiscal Year									
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Expenses										
Governmental activities:										
General government	\$ 10,151,451	\$ 9,518,269	\$ 10,183,649	\$ 9,523,067	\$ 9,358,236	\$ 9,551,119	\$ 10,360,176	\$ 11,224,921	\$ 11,325,690	\$ 12,144,928
Public safety	13,731,318	13,185,294	13,657,735	12,854,721	14,018,219	16,071,849	14,798,173	15,364,473	17,276,097	18,723,695
Public works	4,831,967	4,249,569	4,334,793	4,601,524	4,509,239	3,788,820	5,919,975	6,550,228	6,427,502	6,543,225
Health and hospitals	2,338,752	2,410,440	3,120,074	3,576,751	3,829,281	4,099,374	4,394,559	2,550,428	2,520,926	2,522,380
Social services	1,484,690	1,499,755	1,224,920	1,147,850	838,625	857,752	936,371	1,821,647	1,640,895	1,360,507
Education	46,271,163	39,811,132	39,715,193	37,597,612	38,491,514	41,640,092	39,518,549	41,025,371	42,249,348	43,745,918
Recreation	885,695	864,772	748,414	738,616	642,770	632,538	541,540	734,248	959,049	576,070
Conservation of natural resources	302,516	269,891	255,489	226,264	218,361	252,375	242,700	252,228	250,848	282,789
Interest on long-term debt	71,418	55,936	23,388	15,904	14,456	13,439	173,141	212,886	185,145	158,714
Total governmental activities expenses	<u>80,068,970</u>	<u>71,865,058</u>	<u>73,263,655</u>	<u>70,282,309</u>	<u>71,920,701</u>	<u>76,907,358</u>	<u>76,885,184</u>	<u>79,736,430</u>	<u>82,835,500</u>	<u>86,058,226</u>
Business-type activities:										
Recreation facilities	3,258,076	2,958,425	3,162,507	2,582,398	2,624,390	2,652,143	2,647,744	2,676,732	2,888,465	3,080,314
Sanitary district	3,396,151	2,759,881	2,952,404	3,353,238	3,354,872	3,430,264	3,710,861	3,883,742	4,366,586	4,511,793
Airport	4,280,559	3,855,297	4,712,248	4,655,128	4,903,460	4,837,671	4,464,150	4,312,785	4,525,433	5,805,247
Pool	397,202	329,445	267,306	233,239	257,766	215,301	249,430	-	-	-
Total business-type activities expenses	<u>11,331,988</u>	<u>9,903,048</u>	<u>11,094,465</u>	<u>10,824,003</u>	<u>11,140,488</u>	<u>11,135,379</u>	<u>11,072,185</u>	<u>10,873,259</u>	<u>11,780,484</u>	<u>13,397,354</u>
Total primary government expenses	<u>\$ 91,400,958</u>	<u>\$ 81,768,106</u>	<u>\$ 84,358,120</u>	<u>\$ 81,106,312</u>	<u>\$ 83,061,189</u>	<u>\$ 88,042,737</u>	<u>\$ 87,957,369</u>	<u>\$ 90,609,689</u>	<u>\$ 94,615,984</u>	<u>\$ 99,455,580</u>
Program Revenues										
Governmental activities:										
Charges for services										
General government	\$ 920,419	\$ 848,085	\$ 757,436	\$ 840,171	\$ 824,281	\$ 808,001	\$ 879,528	\$ 799,385	\$ 876,513	\$ 571,155
Public safety	1,806,004	1,553,647	1,841,268	1,766,198	1,687,609	1,594,468	1,716,348	1,700,062	2,409,072	2,442,331
Public works	233,621	152,197	30,693	162,353	30,938	228,548	416,507	262,496	245,783	474,198
Health and hospitals	89,123	89,939	70,199	118,979	130,705	133,248	115,961	110,303	95,011	98,104
Social Services	-	-	-	-	-	-	-	-	-	-
Education	189,303	267,153	112,872	115,776	80,295	151,045	99,143	105,745	410,781	224,423
Recreation	133,934	144,521	75,602	101,816	102,867	99,968	97,455	183,097	240,526	167,724
Conservation of natural resources	-	-	-	-	-	-	-	-	-	71,959
Operating/Capital grants and contributions	9,192,985	3,134,627	5,877,037	6,067,814	8,217,559	5,640,620	5,813,482	5,392,962	5,293,139	4,822,721
Total governmental activities program revenues	<u>12,565,389</u>	<u>6,190,169</u>	<u>8,765,107</u>	<u>9,173,107</u>	<u>11,074,254</u>	<u>8,655,898</u>	<u>9,138,424</u>	<u>8,554,050</u>	<u>9,570,825</u>	<u>8,872,615</u>

Schedule 2 (continued)
Talbot County, Maryland
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Program Revenues (continued)										
Business-type activities:										
Charges for services										
Recreation facilities	1,475,498	1,446,815	1,473,218	1,637,646	1,490,032	1,417,840	1,445,070	1,845,663	2,050,009	2,021,416
Sanitary district	2,100,885	2,045,673	2,103,019	2,318,164	2,166,256	2,328,288	2,440,190	2,203,946	3,473,144	2,528,753
Easton airport	2,898,388	2,519,061	3,015,851	3,397,868	3,216,518	3,351,214	2,992,658	2,527,763	2,524,209	3,099,955
Pool	77,082	87,317	113,324	133,023	116,353	109,084	108,506	-	-	-
Operating/Capital grants and contributions	2,297,603	5,282,059	6,431,135	1,219,494	1,453,759	1,315,605	3,098,649	1,223,632	2,300,676	1,496,336
Total business-type activities program revenues	<u>8,849,456</u>	<u>11,380,925</u>	<u>13,136,547</u>	<u>8,706,195</u>	<u>8,442,918</u>	<u>8,522,031</u>	<u>10,085,073</u>	<u>7,801,004</u>	<u>10,348,038</u>	<u>9,146,460</u>
Total primary government program revenues	<u>\$ 21,414,845</u>	<u>\$ 17,571,094</u>	<u>\$ 21,901,654</u>	<u>\$ 17,879,302</u>	<u>\$ 19,517,172</u>	<u>\$ 17,177,929</u>	<u>\$ 19,223,497</u>	<u>\$ 16,355,054</u>	<u>\$ 19,918,863</u>	<u>\$ 18,019,075</u>
Net (Expense)/Revenue										
Governmental activities	\$ (67,503,581)	\$(65,674,889)	\$ (64,498,548)	\$ (61,109,202)	\$ (60,846,447)	\$ (68,251,460)	\$ (67,746,760)	\$ (71,182,380)	\$ (73,264,675)	\$ (77,185,611)
Business-type activities	<u>(2,482,532)</u>	<u>1,477,877</u>	<u>2,042,082</u>	<u>(2,117,808)</u>	<u>(2,697,570)</u>	<u>(2,613,348)</u>	<u>(987,112)</u>	<u>(3,072,255)</u>	<u>(1,432,446)</u>	<u>(4,250,894)</u>
Total primary government net expense	<u>\$ (69,986,113)</u>	<u>\$(64,197,012)</u>	<u>\$ (62,456,466)</u>	<u>\$ (63,227,010)</u>	<u>\$ (63,544,017)</u>	<u>\$ (70,864,808)</u>	<u>\$ (68,733,872)</u>	<u>\$ (74,254,635)</u>	<u>\$ (74,697,121)</u>	<u>\$ (81,436,505)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Property taxes	\$ 27,436,368	\$ 28,324,937	\$ 29,154,652	\$ 30,002,020	\$ 32,741,855	\$ 33,660,872	\$ 34,726,851	\$ 35,280,376	\$ 36,531,210	\$ 38,574,339
Local income tax	31,635,555	19,260,503	18,551,894	20,269,343	23,140,754	27,108,102	28,562,934	26,568,636	28,007,970	25,767,710
Other local taxes	7,097,837	6,831,278	6,792,369	8,449,480	9,727,044	9,522,629	10,706,846	11,340,994	12,859,841	12,354,244
Interest	2,470,720	980,562	221,952	166,317	105,007	94,004	91,344	132,640	231,807	604,834
Miscellaneous	739,625	1,927,226	136,104	197,427	115,471	2,306,687	514,997	1,317,542	1,206,986	1,309,428
Transfers in (out)	<u>(1,196,795)</u>	<u>(1,664,071)</u>	<u>(1,235,256)</u>	<u>(575,428)</u>	<u>(535,201)</u>	<u>(598,850)</u>	<u>(622,350)</u>	<u>(329,557)</u>	<u>(536,460)</u>	<u>(842,250)</u>
Total governmental activities	<u>68,183,310</u>	<u>55,660,435</u>	<u>53,621,715</u>	<u>58,509,159</u>	<u>65,294,930</u>	<u>72,093,444</u>	<u>73,980,622</u>	<u>74,310,631</u>	<u>78,301,354</u>	<u>77,768,305</u>
Business-type activities:										
Interest	98,421	60,046	10,720	14,460	7,333	6,500	6,195	9,946	18,815	26,359
Miscellaneous	-	-	-	-	2,461	10,500	4,500	-	20,000	-
Transfers in (out)	<u>1,196,795</u>	<u>1,664,071</u>	<u>1,235,256</u>	<u>575,428</u>	<u>535,201</u>	<u>598,850</u>	<u>622,350</u>	<u>329,557</u>	<u>536,460</u>	<u>842,250</u>
Total business-type activities	<u>1,295,216</u>	<u>1,724,117</u>	<u>1,245,976</u>	<u>589,888</u>	<u>544,995</u>	<u>615,850</u>	<u>633,045</u>	<u>339,503</u>	<u>575,275</u>	<u>868,609</u>
Total primary government	<u>\$ 69,478,526</u>	<u>\$ 57,384,552</u>	<u>\$ 54,867,691</u>	<u>\$ 59,099,047</u>	<u>\$ 65,839,925</u>	<u>\$ 72,709,294</u>	<u>\$ 74,613,667</u>	<u>\$ 74,650,134</u>	<u>\$ 78,876,629</u>	<u>\$ 78,636,914</u>
Prior Period Restatement*	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,930,509)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Net Position										
Governmental activities	\$ 679,729	\$(10,014,454)	\$ (10,876,833)	\$ (2,600,043)	\$ 4,448,483	\$ (4,088,525)	\$ 6,233,862	\$ 3,128,251	\$ 5,036,679	\$ 582,694
Business-type activities	<u>(1,187,316)</u>	<u>3,201,994</u>	<u>3,288,058</u>	<u>(1,527,920)</u>	<u>(2,152,575)</u>	<u>(1,997,498)</u>	<u>(354,067)</u>	<u>(2,732,752)</u>	<u>(857,171)</u>	<u>(3,382,285)</u>
Total primary government	<u>\$ (507,587)</u>	<u>\$ (6,812,460)</u>	<u>\$ (7,588,775)</u>	<u>\$ (4,127,963)</u>	<u>\$ 2,295,908</u>	<u>\$ (6,086,023)</u>	<u>\$ 5,879,795</u>	<u>\$ 395,499</u>	<u>\$ 4,179,508</u>	<u>\$ (2,799,591)</u>

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

Fiscal years 2017 and prior have not been restated for GASB 75

Fiscal year 2018 reflects GASB 75

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

	Fiscal Year									
	<u>2009</u>	<u>2010</u>	<u>2011*</u>	<u>2012*</u>	<u>2013*</u>	<u>2014*</u>	<u>2015*</u>	<u>2016*</u>	<u>2017*</u>	<u>2018*</u>
General Fund										
Reserved	\$ 966,200	\$ 105,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved										
Designated	17,643,743	15,947,750	-	-	-	-	-	-	-	-
Undesignated	22,625,265	16,992,681	-	-	-	-	-	-	-	-
Non spendable										
Prepaid	-	-	56,271	94,005	143,711	74,482	205,551	83,672	55,539	492,383
Committed	-	-	7,000,000	-	-	-	-	-	-	-
Assigned	-	-	1,350,000	1,487,600	761,814	-	1,290,000	2,156,000	2,526,000	7,775,000
Unassigned	-	-	15,517,033	15,305,808	18,617,745	20,772,381	23,744,224	23,322,998	26,834,499	22,030,792
Total General Fund	<u>\$ 41,235,208</u>	<u>\$ 33,045,700</u>	<u>\$ 23,923,304</u>	<u>\$ 16,887,413</u>	<u>\$ 19,523,270</u>	<u>\$ 20,846,863</u>	<u>\$ 25,239,775</u>	<u>\$ 25,562,670</u>	<u>\$ 29,416,038</u>	<u>\$ 30,298,175</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved										
Designated - Capital Fund	22,890,931	20,893,889	-	-	-	-	-	-	-	-
Designated - Special Revenue Funds	2,391,733	2,805,745	-	-	-	-	-	-	-	-
Undesignated - Special Revenue Funds	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	547,778	287,350	144,869	94,239	94,396	95,943	96,616	97,869
Committed	-	-	16,971,966	10,501,167	10,118,592	10,628,689	9,883,203	11,411,980	8,505,196	5,866,571
Assigned	-	-	1,000,000	1,997,000	910,000	300,000	437,950	246,000	320,000	1,553,000
Unassigned	-	-	-	(1,289)	(1,289)	(1,289)	-	-	-	-
Total all other governmental funds	<u>\$ 25,282,664</u>	<u>\$ 23,699,634</u>	<u>\$ 18,519,744</u>	<u>\$ 12,784,228</u>	<u>\$ 11,172,172</u>	<u>\$ 11,021,639</u>	<u>\$ 10,415,549</u>	<u>\$ 11,753,923</u>	<u>\$ 8,921,812</u>	<u>\$ 7,517,440</u>
Total Governmental Funds	<u>\$ 66,517,872</u>	<u>\$ 56,745,334</u>	<u>\$ 42,443,048</u>	<u>\$ 29,671,641</u>	<u>\$ 30,695,442</u>	<u>\$ 31,868,502</u>	<u>\$ 35,655,324</u>	<u>\$ 37,316,593</u>	<u>\$ 38,337,850</u>	<u>\$ 37,815,615</u>

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

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
Property tax	\$ 27,436,368	\$ 28,324,937	\$ 29,154,652	\$ 30,002,020	\$ 32,741,855	\$ 33,660,872	\$ 34,726,851	\$ 35,280,376	\$ 36,531,210	\$ 38,574,339
Income tax	31,635,555	19,260,503	18,551,894	20,269,343	23,140,754	27,108,102	28,562,934	26,568,636	28,007,970	25,767,710
Other local taxes	7,097,837	6,831,278	6,792,369	8,449,480	9,727,044	9,522,629	10,706,846	11,340,994	12,859,841	12,354,244
Licenses and permits	1,031,899	1,079,221	754,521	921,714	709,104	1,064,650	1,197,384	1,131,327	1,534,397	1,242,676
Intergovernmental:										
Federal	1,440,141	862,601	3,204,079	3,255,988	2,458,706	2,611,375	2,711,862	1,806,977	1,969,264	908,238
State	7,752,844	2,272,026	2,672,958	2,811,826	2,618,853	2,980,645	3,096,220	3,585,985	3,323,875	3,914,482
Contributions/Cost Sharing					1,500,000	-	-	-	-	-
Other Grants					6,268	48,600	5,400	-	-	-
Service charges	2,336,814	1,967,453	2,129,649	2,178,232	2,135,969	1,939,522	2,124,798	2,026,744	2,741,847	2,778,123
Fines and forfeitures	3,691	8,868	3,900	5,347	5,354	11,106	2,760	3,017	1,442	29,094
Miscellaneous	739,625	1,927,226	136,104	197,427	115,471	2,306,687	514,997	1,317,542	1,206,986	1,309,430
Interest Income	2,470,720	980,562	221,952	166,317	105,007	94,004	91,344	132,640	231,807	604,834
Total revenues	81,945,494	63,514,675	63,622,078	68,257,694	75,264,385	81,348,192	83,741,396	83,194,238	88,408,639	87,483,170
Expenditures										
General Government	12,998,191	5,704,039	8,000,023	8,964,591	5,846,871	6,070,668	6,350,740	7,642,163	8,802,050	9,300,739
Public Safety	11,633,072	11,048,315	11,736,551	10,525,791	12,240,008	13,799,168	20,277,465	17,363,993	17,499,498	16,961,686
Public Works*	6,148,333	3,563,248	4,592,005	4,554,963	5,059,652	5,182,051	5,781,264	6,953,835	7,930,246	6,151,398
Health and hospitals	2,331,749	2,404,180	3,113,814	3,570,491	3,823,021	4,093,114	4,416,125	2,544,168	2,520,926	2,522,380
Social services	1,468,953	1,484,019	1,209,401	1,033,099	838,625	857,752	936,371	1,821,647	1,640,895	1,360,507
Education*	44,485,803	38,135,444	38,808,462	36,421,420	37,384,195	40,601,847	38,573,503	39,829,829	40,741,943	43,089,316
Recreation	1,279,319	491,376	329,191	286,009	550,994	389,354	490,067	601,223	909,747	617,321
Conservation of natural resources	313,771	269,891	255,489	226,264	218,361	252,375	242,700	252,228	250,848	266,938
Employee Benefits	2,926,325	3,116,961	3,460,899	10,461,176	3,247,384	5,695,880	4,038,964	1,695,449	825,003	1,037,594
Miscellaneous	122,362	130,043	216,666	77,239	95,150	79,206	101,568	74,127	130,261	110,226
Intergovernmental	750,180	722,861	761,613	820,446	822,434	874,438	1,068,923	948,472	964,560	1,203,193
Debt service interest*	1,823,345	1,757,404	1,416,612	1,269,420	1,199,099	1,133,383	1,200,065	927,781	985,661	867,326
Debt service principal*	2,372,779	2,502,108	2,659,867	2,203,067	2,282,292	2,390,431	2,562,706	3,554,365	3,539,009	3,651,541
Debt issuance costs	-	-	-	-	-	-	-	124,648	-	-
Contingencies	228,661	306,253	440,569	39,697	97,297	214,355	41,972	81,219	114,433	22,990
Total expenditures	88,882,843	71,636,142	77,001,162	80,453,673	73,705,383	81,634,022	86,082,433	84,415,147	86,855,080	87,163,155
Excess of revenues over (under) expenditures	(6,937,349)	(8,121,467)	(13,379,084)	(12,195,979)	1,559,002	(285,830)	(2,341,037)	(1,220,909)	1,553,559	320,015
Other Financing Sources (Uses)										
Proceeds from long-term debt	-	13,000	12,281,271	-	-	2,057,740	6,750,209	15,243,760	-	-
Payment to refunded debt escrow agent	-	-	(12,650,858)	-	-	-	-	(16,410,830)	-	-
Bond premium	-	-	681,641	-	-	-	-	1,327,418	4,158	-
Proceeds from Sale of Land	-	-	-	-	-	-	-	3,510,650	-	-
Transfers in (out)										
Pools	(144,014)	(79,561)	(164,281)	(100,216)	(142,231)	(113,850)	(107,950)	(191,030)	-	-
Recreation	(1,052,781)	(1,584,510)	(1,070,975)	(475,212)	(392,970)	(485,000)	(514,400)	(597,790)	(536,460)	(842,250)
Total other financing sources (uses)	(1,196,795)	(1,651,071)	(923,202)	(575,428)	(535,201)	1,458,890	6,127,859	2,882,178	(532,302)	(842,250)
Net change in fund balances	\$ (8,134,144)	\$ (9,772,538)	\$ (14,302,286)	\$ (12,771,407)	\$ 1,023,801	\$ 1,173,060	\$ 3,786,822	\$ 1,661,269	\$ 1,021,257	\$ (522,235)

*Debt service principal and debt service interest Expenditures include debt service from Public Works, Education and Debt Service categories of expenditures.

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

	Fiscal Year									
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total expenditures (Schedule 4)	88,882,843	71,636,142	77,001,162	80,453,673	73,705,383	81,634,022	86,082,433	84,415,147	86,855,080	87,163,155
Less Capital Outlay Expenditures	<u>11,186,721</u>	<u>2,281,158</u>	<u>5,990,743</u>	<u>4,978,811</u>	<u>3,716,763</u>	<u>3,862,623</u>	<u>10,214,790</u>	<u>4,676,266</u>	<u>5,133,230</u>	<u>2,200,857</u>
Non-Capital Expenditures	77,696,122	69,354,984	71,010,419	75,474,862	69,988,620	77,771,399	75,867,643	79,738,881	81,721,850	84,962,298
Debt Service Expenditures (Schedule 4)										
Principal	2,372,779	2,502,108	2,659,867	2,203,067	2,282,292	2,390,431	2,562,706	3,554,365	3,539,009	3,651,541
Interest	<u>1,823,345</u>	<u>1,757,404</u>	<u>1,416,612</u>	<u>1,269,420</u>	<u>1,199,099</u>	<u>1,133,383</u>	<u>1,200,065</u>	<u>927,781</u>	<u>985,661</u>	<u>867,326</u>
Total Debt Service Expenditures	4,196,124	4,259,512	4,076,479	3,472,487	3,481,391	3,523,814	3,762,771	4,482,146	4,524,670	4,518,867
Debt service as a percentage of Non-capital expenditures	5.40%	6.14%	5.74%	4.60%	4.97%	4.53%	4.96%	5.62%	5.54%	5.32%

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

Fiscal Year	Real Property ^a				Public Utility Personal Property ^b			Total Estimated Market Value
	Assessed Value	Estimated Market Value	Tax Rate ^c	Weighted Average Tax Rate ^d	Assessed Value	Estimated Market Value	Tax Rate ^c	
2018	\$ 8,365,734,487	\$ 8,365,734,487	\$ 0.5708	\$ 0.5214	\$ 64,395,380	\$ 64,395,380	\$ 1.427	\$ 8,430,129,867
2017	8,367,983,282	8,367,983,282	0.5471	0.4990	64,786,610	64,786,610	\$ 1.368	8,432,769,892
2016	8,354,090,629	8,354,090,629	0.5360	0.4884	63,153,192	63,153,192	\$ 1.340	8,417,243,821
2015	8,494,000,738	8,494,000,738	0.5270	0.4805	62,229,920	62,229,920	\$ 1.318	8,556,230,658
2014	8,812,185,090	8,812,185,090	0.5120	0.4660	56,604,950	56,604,950	\$ 1.280	8,868,790,040
2013	9,278,557,414	9,278,557,414	0.4910	0.4470	59,473,730	59,473,730	\$ 1.228	9,338,031,144
2012	9,710,928,300	9,710,928,300	0.4480	0.4050	59,151,090	59,151,090	\$ 1.120	9,770,079,390
2011	10,093,360,351	10,093,360,351	0.4320	0.3890	58,123,220	58,123,220	\$ 1.080	10,151,483,571
2010	10,076,574,525	10,076,574,525	0.4320	0.3890	56,285,760	56,285,760	\$ 1.080	10,132,860,285
2009	9,079,721,565	9,079,721,565	0.4490	0.4070	54,920,220	54,920,220	\$ 1.123	9,134,641,785

Source: State of Maryland, Department of Assessments and Taxation

Notes:

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

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

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

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

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

Fiscal Year Ending June 30	-----Talbot County Direct Real Property Tax Rate-----							-----Overlapping Real Property Tax Rates-----					-----Total-----					
	Unincorporated Area of County	Easton	Oxford	Queen Anne	St. Michaels	Trappe	Weighted Average Tax Rate	Easton	Oxford	Queen Anne	St. Michaels	Trappe	Unincorporated Area of County	Easton	Oxford	Queen Anne	St. Michaels	Trappe
2018	\$ 0.5708	0.4378	0.4538	0.5098	0.4438	0.4728	0.5214	0.520	0.3000	0.180	0.524	0.330	\$ 0.5708	0.9578	0.7538	0.6898	0.9678	0.8028
2017	0.5471	0.4142	0.4302	0.4862	0.4202	0.4492	0.4990	0.520	0.2952	0.180	0.460	0.310	\$ 0.5471	0.9342	0.7254	0.6662	0.8802	0.7592
2016	0.5360	0.4030	0.4190	0.4750	0.4090	0.4380	0.4884	0.520	0.2952	0.180	0.450	0.290	\$ 0.5360	0.9230	0.7142	0.6550	0.8590	0.7280
2015	0.5270	0.3950	0.4100	0.4660	0.4000	0.4300	0.4805	0.520	0.2783	0.180	0.450	0.290	\$ 0.5270	0.9150	0.6883	0.6460	0.8500	0.7200
2014	0.5120	0.3800	0.3960	0.4520	0.3860	0.4250	0.4660	0.520	0.2438	0.180	0.450	0.290	\$ 0.5120	0.9000	0.6398	0.6320	0.8360	0.7150
2013	0.4910	0.3610	0.3770	0.4330	0.3670	0.4060	0.4470	0.520	0.2438	0.180	0.520	0.290	\$ 0.4910	0.8810	0.6208	0.6130	0.8870	0.6960
2012	0.4480	0.3190	0.3350	0.3910	0.3250	0.3640	0.4050	0.520	0.2200	0.180	0.580	0.290	\$ 0.4480	0.8390	0.5550	0.5710	0.9050	0.6540
2011	0.4320	0.3020	0.3180	0.3740	0.3080	0.3470	0.3890	0.520	0.2306	0.180	0.640	0.290	\$ 0.4320	0.8220	0.5486	0.5540	0.9480	0.6370
2010	0.4320	0.3030	0.3190	0.3750	0.3090	0.3480	0.3890	0.520	0.2438	0.180	0.640	0.300	\$ 0.4320	0.8230	0.5628	0.5550	0.9490	0.6480
2009	0.4490	0.3210	0.3370	0.3930	0.3270	0.3680	0.4070	0.520	0.2560	0.180	0.640	0.300	\$ 0.4490	0.8410	0.5930	0.5730	0.9670	0.6680

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

Notes:
 Real property is assessed at full cash value.

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

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

<u>Taxpayer</u>	<u>Fiscal Year 2018</u>			<u>Fiscal Year 2009</u>		
	<u>Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>	<u>Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
RDC Inn at Perry Cabin LLC	\$ 18,833,267	1	0.23%			
Easton Shoppes Business Trust	13,867,800	2	0.17%	\$ 13,427,800	4	0.15%
Bayleigh Chase, Inc	13,781,200	3	0.16%			
Remco Properties, LLC	13,121,633	4	0.16%	11,049,200	6	0.12%
Lowe's Home Centers, Inc.	11,570,600	5	0.14%	11,587,900	5	0.13%
Target Corporation	10,767,300	6	0.13%	8,560,000	9	0.09%
Fre USA LLC	10,501,500	7	0.13%			
Tred Avon LLC	10,491,433	8	0.13%			
Wal Mart Real Estate Business Trust	10,332,867	9	0.12%	8,683,600	8	0.10%
JDC Easton LLC	9,734,467	10	0.12%			
Retirement Comm of Easton Inc				22,315,466	1	0.25%
Perry Cabin Acquisitions Corp.				19,421,566	2	0.21%
Eastern Shore Retirement Assoc.				13,749,200	3	0.15%
Individual				10,825,866	7	0.12%
Individual				8,195,960	10	0.09%
Total	\$ 123,002,067		1.47%	\$ 127,816,558		1.41%

Source: Talbot County Finance Office

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

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections/(Refunds/ Adjustments) in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2018	\$ 38,639,733	\$ 37,718,867	97.62%	\$ -	\$ 37,718,867	97.62%
2017	35,775,649	35,760,252	99.96%	50,680	35,810,932	100.10%
2016	34,576,428	34,546,760	99.91%	-	34,546,760	99.91%
2015	34,024,027	33,996,787	99.92%	5,080	34,001,867	99.93%
2014	33,071,077	33,026,089	99.86%	(3,756)	33,022,333	99.85%
2013	32,194,472	32,120,054	99.77%	(10,659)	32,109,395	99.74%
2012	29,426,822	29,384,626	99.86%	(8,652)	29,375,974	99.83%
2011	28,628,850	28,599,021	99.90%	17,892	28,616,913	99.96%
2010	27,801,093	27,801,093	100.00%	(17,417)	27,783,676	99.94%
2009	26,909,600	26,898,002	99.96%	(31,611)	26,866,391	99.84%

Source: Talbot County Finance Office

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

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

State Income Tax Rates*									
Tax Year	\$1 to \$1,000 Net Taxable Income	\$1,001 to \$2,000 Net Taxable Income	\$2,001 to \$3,000 Net Taxable Income	In excess of \$3,000 Net Taxable Income	\$3,001 to \$100,000 Net Taxable Income	\$100,001 to \$125,000 Net Taxable Income	\$125,001 to \$150,000 Net Taxable Income	\$150,001 to \$250,000 Net Taxable Income	In excess of \$250,000 Net Taxable Income
2017	2.00%	3.00%	4.00%	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2016	2.00%	3.00%	4.00%	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2015	2.00%	3.00%	4.00%	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2014	2.00%	3.00%	4.00%	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2013	2.00%	3.00%	4.00%	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2012	N/A	N/A	N/A	N/A	4.75%	5.00%	5.25%	5.50%	5.75%
2011	2.00%	3.00%	4.00%	N/A					
2010	2.00%	3.00%	4.00%	N/A					
2009	2.00%	3.00%	4.00%	N/A					
2008	2.00%	3.00%	4.00%	N/A					

Tax Year	State Income Tax Rates*					Talbot County Income Tax Direct Rate
	\$3,001 to \$150,000 Net Taxable Income	\$150,001 to \$300,000 Net Taxable Income	\$300,001 to \$500,000 Net Taxable Income	\$500,001 to \$1,000,000 Net Taxable Income	In excess of \$1,000,000 Net Taxable Income	
2017	N/A	N/A	N/A	N/A	N/A	2.40%
2016	N/A	N/A	N/A	N/A	N/A	2.40%
2015	N/A	N/A	N/A	N/A	N/A	2.40%
2014	N/A	N/A	N/A	N/A	N/A	2.40%
2013	N/A	N/A	N/A	N/A	N/A	2.40%
2012	N/A	N/A	N/A	N/A	N/A	2.25%
2011	4.75%	5.00%	5.25%	5.50%	5.50%	2.25%
2010	4.75%	5.00%	5.25%	5.50%	6.25%	2.25%
2009	4.75%	5.00%	5.25%	5.50%	6.25%	2.25%
2008	4.75%	5.00%	5.25%	5.50%	6.25%	2.25%

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

Notes:

*Individual Filing Status

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

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

Tax Year	Number of Taxable Returns	Maryland Adjusted Gross Income	Net Taxable Income	Net State Income Tax	Local Income Tax	Total Tax Liability	Talbot County Income Tax Direct Rate
2016	14,666	\$1,400,448,708	\$1,132,954,384	\$ 52,190,441	\$ 26,246,660	\$ 78,437,101	2.40%
2015	14,528	1,481,708,151	1,169,805,337	54,581,324	27,153,206	81,734,530	2.40%
2014	14,603	1,403,550,972	1,135,662,569	52,780,635	26,577,777	79,358,412	2.40%
2013	14,331	1,386,024,598	1,111,304,912	50,085,415	26,353,729	76,439,144	2.40%
2012	14,370	1,394,066,465	1,124,865,958	51,652,571	25,013,073	76,665,644	2.25%
2011	14,068	1,285,429,925	1,014,019,704	45,374,930	22,534,206	67,909,136	2.25%
2010	13,970	1,231,712,157	966,801,287	43,848,608	21,476,332	65,324,940	2.25%
2009	13,615	1,152,941,209	892,490,578	41,524,166	19,813,516	61,337,682	2.25%
2008	14,129	1,275,092,494	997,801,625	45,438,942	22,225,752	67,664,694	2.25%
2007	15,098	1,637,948,218	1,327,023,177	55,858,849	29,601,486	85,460,335	2.25%

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

Notes:

See Schedule 12 for detailed breakout of adjusted gross income.

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

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

	Tax Year 2016					
	Number of Taxable Returns	Percentage of Total	Net Taxable Income	Percentage of Total	Local Tax Liability	Percentage of Total
Adjusted Gross Income Level						
\$500,000 and higher	263	1.8%	\$ 312,601,088	27.6%	\$ 7,010,103	26.7%
\$250,000 - 499,999	558	3.8%	168,335,098	14.9%	3,966,353	15.1%
\$100,000 - 249,999	2,647	18.0%	323,910,240	28.6%	7,740,491	29.5%
\$50,000 - 99,999	3,665	25.0%	195,482,426	17.3%	4,687,450	17.9%
\$25,000 - 49,999	4,193	28.6%	101,257,234	8.9%	2,232,001	8.5%
\$5,000 - 24,999	3,270	22.3%	31,235,479	2.8%	607,319	2.3%
Under \$5,000	70	0.5%	132,819	0.0%	2,943	0.0%
Totals	14,666	100.0%	\$ 1,132,954,384	100.0%	\$ 26,246,660	100.0%

	Tax Year 2007					
	Number of Taxable Returns	Percentage of Total	Net Taxable Income	Percentage of Total	Local Tax Liability	Percentage of Total
Adjusted Gross Income Level						
\$500,000 and higher	342	2.3%	\$ 585,884,575	44.2%	\$ 13,182,401	44.5%
\$250,000 - 499,999	492	3.3%	144,963,939	10.9%	3,261,689	11.0%
\$100,000 - 249,999	2,241	14.8%	259,624,545	19.6%	5,841,477	19.7%
\$50,000 - 99,999	3,737	24.8%	193,720,471	14.6%	4,358,716	14.7%
\$25,000 - 49,999	4,225	28.0%	103,783,570	7.8%	2,249,615	7.6%
\$5,000 - 24,999	3,954	26.2%	38,875,294	2.9%	703,948	2.4%
Under \$5,000	107	0.7%	170,783	0.0%	3,640	0.0%
Totals	15,098	100.0%	\$ 1,327,023,177	100.0%	\$ 29,601,486	100.0%

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

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

Fiscal Year	Governmental Activities	Business Activities		Total Primary Government	Percentage of Personal Income	Debt Per Capita
	General Obligation Bonds	General Obligation Bonds	Capital Leases			
2018	25,216,355	16,925,000	242,299	42,383,654	1.60%	\$ 1,142
2017	29,043,335	16,322,002	324,066	45,689,403	1.73%	1,231
2016	32,753,625	8,806,100	151,602	41,711,327	1.67%	1,119
2015	35,367,806	9,641,102	193,364	45,202,272	1.86%	1,205
2014	31,257,626	10,503,339	48,875	41,809,840	1.76%	1,111
2013	31,667,641	11,114,740	95,555	42,877,936	1.85%	1,130
2012	34,027,257	11,969,066	159,691	46,156,014	2.01%	1,213
2011	36,307,648	12,809,338	210,316	49,327,302	2.33%	1,297
2010	39,141,954	13,596,277	70,269	52,808,500	2.55%	1,398
2009	41,656,842	13,582,399	129,153	55,368,394	2.70%	1,527

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

Notes:

2018 percentages calculated using 2017 personal income data, which is the most recent available.

2018 debt per capita is calculated using 2017 population estimate, which is the most recent available.

See Schedule 17 for population and personal income data.

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

Fiscal Year	General Obligation Bonds^a	Total Taxable Assessable Base^b	Percentage of Total Taxable Assessable Base	Population^c	General Obligation Debt Per Capita
2018	42,141,355	8,430,129,867	0.50%	*	1,136
2017	45,365,337	8,432,769,892	0.54%	37,103	1,223
2016	41,559,725	8,417,243,821	0.49%	37,278	1,115
2015	45,008,908	8,556,230,658	0.53%	37,512	1,200
2014	41,760,965	8,868,790,040	0.47%	37,643	1,109
2013	42,782,381	9,338,031,144	0.46%	37,931	1,128
2012	45,996,323	9,770,079,390	0.47%	38,040	1,209
2011	49,116,986	10,151,483,571	0.48%	38,025	1,292
2010	52,738,231	10,132,860,285	0.52%	37,782	1,396
2009	55,239,241	9,134,641,785	0.60%	36,262	1,523

Sources:


^a Talbot County Finance Office

^b State of Maryland, Department of Assessments and Taxation

^c U.S. Census Bureau.

* Information not yet available; 2018 debt per capita is calculated using 2017 population estimate data.

Schedule 15
Talbot County, Maryland
Direct and Overlapping Governmental Activities Debt
As of June 30, 2018

<u>Governmental Unit</u>	<u>Total Assessed Valuation of Real Property^a</u>	<u>% of Assessed Valuation to County Total</u>	<u>Pro Rata Share of County General Obligation Bonded Debt</u>	<u>Municipal Debt Outstanding^b</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Easton	2,152,198,569	25.73%	6,487,249	\$ 9,950,000	\$ 16,437,249
Oxford	336,736,300	4.03%	1,015,005	-	1,015,005
Queen Anne	7,346,000	0.09%	22,143	-	22,143
St. Michaels	297,953,779	3.56%	898,105	-	898,105
Trappe	85,635,800	1.02%	258,127	252,684	510,811
Unincorporated	<u>5,485,864,039</u>	<u>65.58%</u>	<u>16,535,726</u>	<u>-</u>	<u>16,535,726</u>
Total	<u>8,365,734,487</u>	<u>100%</u>	<u>25,216,355</u> 	<u>\$ 10,202,684</u>	<u>\$ 35,419,039</u>

Sources:

^a State of Maryland, Department of Assessments and Taxation

^b Municipal Town Clerks

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

	Fiscal Year									
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Taxable Assessable Base *	\$ 8,695,733	\$ 9,633,030	\$ 10,093,360	\$ 9,710,928	\$ 9,278,557	\$ 8,812,185	\$8,494,001	\$ 8,354,091	\$ 8,367,983	\$ 8,365,734
Debt Limit, 15% of Assessable Base	1,304,360	1,444,955	1,514,004	1,456,639	1,391,784	1,321,828	1,274,100	1,253,114	1,255,197	1,254,860
Amount of Debt Applicable to Limit										
General Obligation Bonds	41,373	38,873	35,404	33,201	31,668	31,258	35,368	32,754	29,043	25,216
Legal Debt Margin	<u>\$ 1,262,987</u>	<u>\$ 1,406,082</u>	<u>\$ 1,478,600</u>	<u>\$ 1,423,438</u>	<u>\$ 1,360,116</u>	<u>\$ 1,290,570</u>	<u>\$1,238,732</u>	<u>\$1,220,360</u>	<u>\$ 1,226,154</u>	<u>\$ 1,229,644</u>
Total net debt applicable to the limit as a percentage of debt limit	3.17%	2.69%	2.34%	2.28%	2.28%	2.36%	2.78%	2.61%	2.31%	2.01%

Source:

* State of Maryland, Department of Assessments and Taxation

Note:

Section 622 of the Talbot County Charter limits the County's outstanding general obligation long-term debts to no more than 15 percent of the

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

Year	Population^a	Personal Income^b <i>(thousands of dollars)</i>	Per Capita Personal Income^b	Public School Enrollment^c	Unemployment Rate^d
2018	*	*	*	4,646	4.1%
2017	37,103	2,643,437	71,246	4,593	4.0%
2016	37,278	2,496,549	66,971	4,625	4.1%
2015	37,512	2,430,909	64,804	4,630	5.2%
2014	37,643	2,375,672	63,111	4,537	6.1%
2013	37,931	2,318,765	61,131	4,570	7.6%
2012	38,040	2,297,444	60,395	4,547	7.3%
2011	38,025	2,118,791	55,721	4,504	7.2%
2010	37,782	2,072,002	54,701	4,495	7.8%
2009	36,262	2,049,065	56,507	4,419	7.4%
2008	36,112	2,110,997	58,457	4,396	4.4%

Sources:

^a U.S. Census Bureau.

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

^c Maryland State Department of Education.

^d Maryland Department of Labor, Licensing and Regulation.

* Information not yet available.

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

<u>Employer</u>	<u>CY 2017</u>			<u>CY 2008</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
Univ. of MD/Shore Medical Systems	2,500	1	13.18%			
Quality Health Strategies	475	2	2.50%			
Shore Bancshares	300	3	1.58%			
Bayleigh Chase	265	4	1.40%			
Chesapeake Center	200	5	1.05%			
Genesis Healthcare/The Pines	170	6	0.90%	186	7	1.02%
EAG Laboratories	160	7	0.84%			
Inn at Peyy Cabin by Belmond	160	8	0.84%			
Chesapeake Building Components	155	9	0.82%			
APG Chesapeake Publishing	135	10	0.71%	170	9	0.93%
Target						
Shore Health Systems/EMH				1,350	1	7.39%
Allen Family Foods				640	2	3.50%
Wal-Mart				300	3	1.64%
William Hill Manor				300	4	1.64%
Cadmus Prof. Communications				230	5	1.26%
Lowes				215	6	1.18%
Pro Temps Staffing Solutions				175	8	0.96%
Celeste Industries				150	10	0.82%
	<u>4,520</u>		<u>23.84%</u>	<u>3,716</u>		<u>20.33%</u>

Source: Maryland Department of Business and Economic Development

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

Function/Program	Full-time Equivalent Employees as of June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government	68.4	66.0	63.0	60.3	61.1	63.8	65.8	65.4	66.8	65.7
Public Safety	151.1	151.3	152.0	146.7	151.2	156.3	161.7	170.2	161.3	164.2
Public Works	48.3	50.5	46.0	42.5	41.2	40.8	41.9	44.7	46.1	46.8
Social Services	4.0	3.4	3.0	0.8	-	-	-	-	-	-
Recreation	51.8	46.0	34.0	32.8	33.0	35.1	35.9	35.6	38.0	37.2
Airport	<u>4.9</u>	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	<u>5.1</u>	<u>5.1</u>	<u>5.0</u>	<u>5.1</u>	<u>5.3</u>	<u>5.2</u>
Total	<u><u>328.5</u></u>	<u><u>322.2</u></u>	<u><u>303.0</u></u>	<u><u>288.1</u></u>	<u><u>291.6</u></u>	<u><u>301.1</u></u>	<u><u>310.3</u></u>	<u><u>321.0</u></u>	<u><u>317.5</u></u>	<u><u>319.1</u></u>

Sources: Talbot County Finance Office.

Notes:

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

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

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government										
Building Permits issued	388	316	308	267	261	245	239	259	294	299
Value of new construction (000's)	36,505	31,116	36,974	27,067	28,540	24,379	28,289	34,149	58,099	38,235
Public Safety										
Detention Center										
Avg. daily population	90	92	104	85	81	72	63	67	75	69
Bookings	821	807	771	1,020	954	880	804	775	727	626
9-1-1 Calls Answered										
Fire	1,427	1,724	1,705	1,975	2,034	1,917	2,112	2,523	3,338	2,070
Emergency Medical Services	4,334	4,408	4,330	4,458	4,551	4,358	4,774	4,682	3,894	5,897
Sheriff	14,891	15,191	13,627	13,923	12,165	13,139	13,397	14,896	16,879	20,167
Other Police	7,755	7,399	7,383	8,367	11,533	12,040	11,184	11,834	32,403	29,852
Education										
Students	4,419	4,495	4,504	4,547	4,570	4,537	4,630	4,625	4,593	4,646
Teachers Instructional	308	304	316	312	321	321	321	326	327	325
Recreation Facilities										
Boat ramp permits	6,288	6,848	6,724	6,689	6,443	6,185	6,034	5,886	3,957	3,581
Golf rounds	33,670	22,781	27,969	31,467	28,439	29,057	26,889	35,998	37,903	31,140
Public Works										
Centerline miles of road maintained	372	372	372	374	374	374	374	373	373	373
Wastewater treated (mgd)	0.415	0.558	0.481	0.477	0.483	0.460	0.363	0.428	0.401	0.382
Airport										
Based aircraft	147	143	146	146	176	220	216	229	233	224
Gallons of fuel sold	679,857	614,612	646,268	633,071	581,342	642,726	648,140	660,362	642,921	748,246

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

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Public Safety										
Detention center capacity	140	140	140	145	145	145	145	145	145	145
Fire stations	7	7	7	7	7	7	7	7	7	7
Emergency Medical Services Stations	5	5	5	5	5	5	5	5	5	5
Education										
Elementary Schools	6	6	6	6	6	6	6	6	6	6
Middle Schools	2	2	2	2	2	2	2	2	2	2
High Schools	2	2	2	2	2	2	2	2	2	2
Public Libraries	3	3	3	3	2	2	2	2	2	2
Recreation Facilities										
Community Center/Ice Rink	1	1	1	1	1	1	1	1	1	1
Golf Course (27 holes)	1	1	1	1	1	1	1	1	1	1
County Parks	8	12	12	12	14	14	14	14	14	14
Park acreage	272	272	272	272	293	293	293	293	293	293
Public Landings & Wharves	29	29	30	30	30	30	30	30	30	30
Boat Slips	113	117	117	136	136	136	136	136	136	136
Public Pools	2	2	2	2	2	2	2	2	2	2
Public Works										
Centerline miles of county roads	372	372	372	374	374	374	374	373	373	373
Bridges	9	9	9	9	9	9	9	9	9	9
Wastewater Treatment Plants	3	3	3	3	3	3	3	3	2	2
Miles of mains	38	38	38	38	38	40	40	40	42	42
Pump stations	12	12	12	12	12	12	12	12	12	12
Airport										
Number of Runways	2	2	2	2	2	2	2	2	2	2

Sources: Talbot County Finance Office and applicable County Departments.