

FINANCIAL



SECTION

INDEPENDENT AUDITORS' REPORT

The Honorable County Executive and
Members of the County Council
Baltimore County, Maryland
Towson, 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 Baltimore County, Maryland (the County), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 13 and the schedule of the County's proportionate share of the net pension liability and schedule of county contributions for the Employees' Retirement System, the schedule of changes in the County's net pension liability and related ratios, schedule of County contributions, and schedule of investment returns for the Police, Fire and Widow's Pension Plan and schedule of funding progress, employers' contributions, schedule of changes in total liability and related ratios for the OPEB Trust on pages 82 - 86 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund statements and schedules-supplementary information, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Honorable County Executive and
Members of the County Council
Baltimore County, Maryland

The introductory section and statistical section 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
December 22, 2017

BALTIMORE COUNTY, MARYLAND MANAGEMENT'S DISCUSSION AND ANALYSIS

Baltimore County, Maryland management is providing this narrative overview and analysis of the financial activities of the primary government (the County) as of and for the fiscal year ended June 30, 2017. Readers are to consider the data presented here in conjunction with the information presented in the transmittal letter at the front of this report and with all the County's financial statements and accompanying notes to those financial statements, which follow this section.

Financial Highlights

Government-wide:

- The County's assets and deferred outflows of resources were \$5.122 billion and its liabilities and deferred inflows were \$5.897 billion, resulting in negative net position of \$.775 billion.
- The County's total net position decreased by \$367.231 million.

Fund Level:

- The County's governmental funds have combined fund balances of \$258.649 million.
- The General Fund's fund balance is \$329.688 million of which \$205.391 million is unassigned fund balance inclusive of \$99.360 million in a Revenue Stabilization account.

Long-term Debt:

- The County's total bond and note debt increased by \$448.568 million during the current year. The key factors in this increase were the issuance of \$559.715 million in general obligation bonds, bond anticipation notes, and certificates of participation, in addition to a \$51.064 million draw on the Maryland Water Quality Revolving Loan Fund. These issuances and draws were offset by debt service payments of \$162.211 million.

Overview of the Financial Statements

This discussion and analysis is an introduction to the County's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements (Reporting the County as a Whole)

The *Statement of Net Position* and the *Statement of Activities* are two financial statements that report information about the County's activities that should serve as a useful indicator of whether the County, as a whole, is better or worse off as a result of this year's activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Position* on page 16 presents all of the County's non-fiduciary assets, liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases and decreases in net position measure whether the County's financial position is improving or deteriorating.

The *Statement of Activities* on page 17 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 events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The focus of the statements is clearly on the primary government and the presentation allows the user to address the relative relationship with the component units. Both statements report three activities, which include the governmental activities and business-type activities of the primary government and separate reporting for the County's component units.

- *Governmental Activities* – Most of the County's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The general government, public safety, public works, health and human services, culture and leisure services, economic and community development, and education functions fall within the governmental activities.
- *Business-type Activities* – The County charges fees to customers to help it cover all or most of the costs of certain services it provides. The Metropolitan District water and sewer services are the only business-type activity reported.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the primary government is financially accountable or for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The County reports three component units that are described in the notes to the basic financial statements.

This report includes two summary reconciliations (pages 18 and 20) between the governmental fund financial statements (modified accrual accounting) and the governmental activities (full accrual accounting) reflected on the government-wide financial statements. Note 2 of the notes to the basic financial statements also provides more detail as to the transactions that impact the conversion from the modified accrual basis of accounting to the full accrual basis of accounting.

Fund Financial Statements (Reporting the County's Major Funds)

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is on major funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the County uses to keep track of specific sources of funding and spending for a particular purpose. The County's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- *Governmental funds* – Most of the County's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The County reports the General Fund, Gifts and Grants Fund, and the Consolidated Public Improvement Construction Fund as major funds.
- *Proprietary funds* – When the County charges customers for the services it provides, whether to outside customers or to other agencies within the County, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting; the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. The County reports the Metropolitan District Fund as a major fund. Internal service funds report activities that provide supplies and services to the County's other programs and activities. Internal service funds are primarily reported as governmental activities on the government-wide statements.
- *Fiduciary funds* – The County is the trustee for its employee pension plans and the post employment healthcare benefits plan. These funds are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the County to finance its operations.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found starting on page 29.

Other Information

Required supplementary information includes schedules concerning the County's pension plans and its post-employment healthcare benefits provided to its employees. These schedules can be found starting on page 82. Other supplementary information includes combining and individual fund financial statements and schedules for the General Fund, Liquor License Fund, Stormwater Management Fund, internal service funds and fiduciary funds. These statements and schedules can be found starting on page 88.

Financial Analysis of the County as a Whole

The County's combined net position decreased \$367.231 million in FY 2017. The net position of the governmental activities decreased \$276.581 million and business-type activities decreased \$90.650 million. The schedule below presents the net position of the County's governmental and business-type activities as of June 30, 2017.

The largest component of the County's net position reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure), less any related outstanding debt used to acquire the assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not liquid or available for future spending or liquidation of any liabilities. It is important to note that counties in the State of Maryland issue debt for the construction of schools, yet the school buildings are owned by each public school system. The County also funds projects for the Community College of Baltimore County. Therefore, the County's financial statements include this outstanding debt, without the addition of the corresponding assets, which is a major reason for the governmental activities negative unrestricted net position. The County has a similar situation where it issues debt to finance capital contributions for Baltimore City owned assets. This is what causes the negative unrestricted net position in the business-type activities. These situations are described in more detail in Note 8.

Net Position as of June 30 (in thousands)

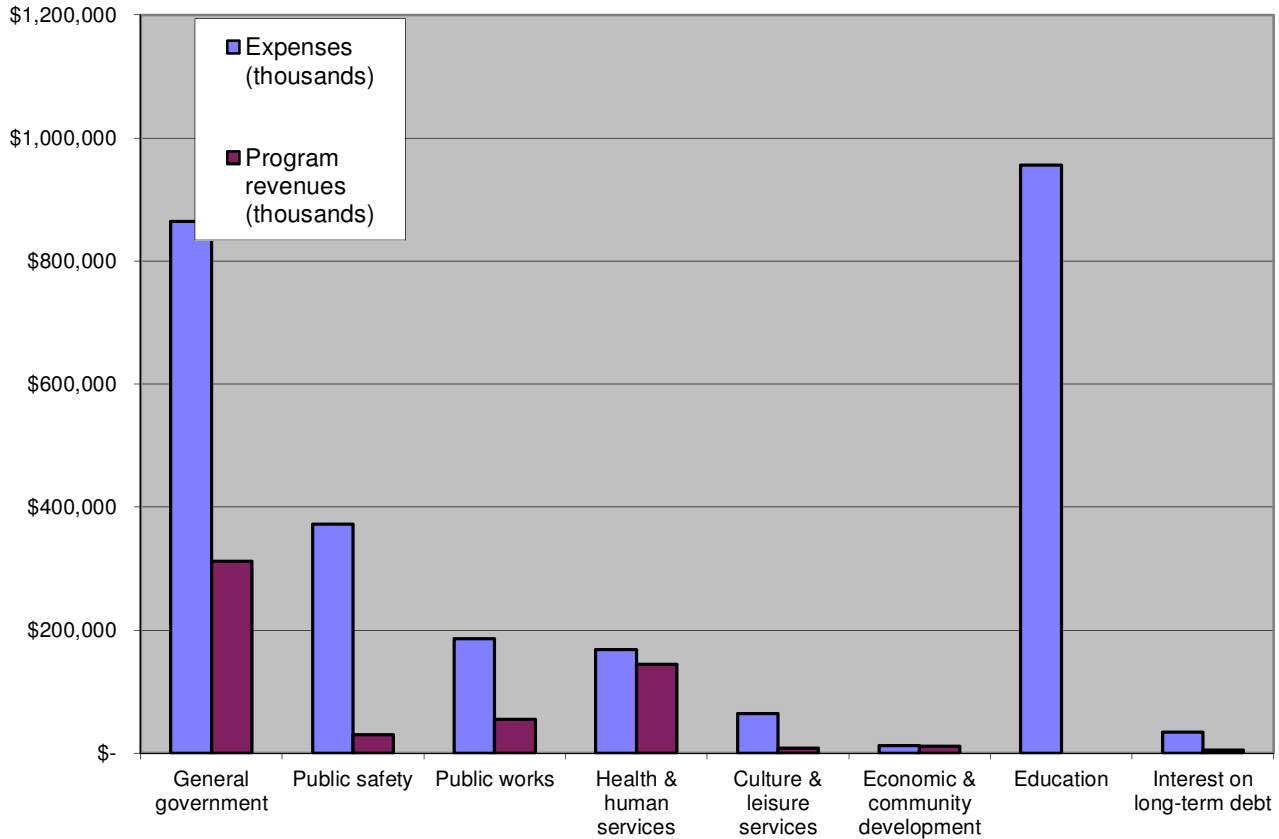
	<u>Governmental</u>		<u>Business-type</u>		<u>Total Primary</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
Assets:	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other non-current assets	\$ 643,558	\$ 502,182	\$ 160,572	\$ 123,015	\$ 804,130	\$ 625,197
Capital assets	2,519,411	2,461,309	1,350,174	1,298,842	3,869,585	3,760,151
Total assets	<u>3,162,969</u>	<u>2,963,491</u>	<u>1,510,746</u>	<u>1,421,857</u>	<u>4,673,715</u>	<u>4,385,348</u>
Total deferred outflow of resources	<u>412,468</u>	<u>286,309</u>	<u>35,398</u>	<u>29,366</u>	<u>447,866</u>	<u>315,675</u>
Liabilities:						
Current liabilities	541,633	410,382	368,100	307,687	909,733	718,069
Long-term liabilities	3,748,659	3,220,803	1,178,354	1,051,989	4,927,013	4,272,792
Total liabilities	<u>4,290,292</u>	<u>3,631,185</u>	<u>1,546,454</u>	<u>1,359,676</u>	<u>5,836,746</u>	<u>4,990,861</u>
Total deferred inflow of resources	<u>57,613</u>	<u>114,502</u>	<u>2,272</u>	<u>3,479</u>	<u>59,885</u>	<u>117,981</u>
Net position:						
Net investment in capital assets	1,602,876	1,529,027	538,172	614,609	2,141,048	2,143,636
Restricted	49,922	42,647	-	-	49,922	42,647
Unrestricted (deficit)	(2,425,266)	(2,067,561)	(540,754)	(526,541)	(2,966,020)	(2,594,102)
Total net position	<u>\$ (772,468)</u>	<u>\$ (495,887)</u>	<u>\$ (2,582)</u>	<u>\$ 88,068</u>	<u>\$ (775,050)</u>	<u>\$ (407,819)</u>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the County's net position changed during the fiscal year.

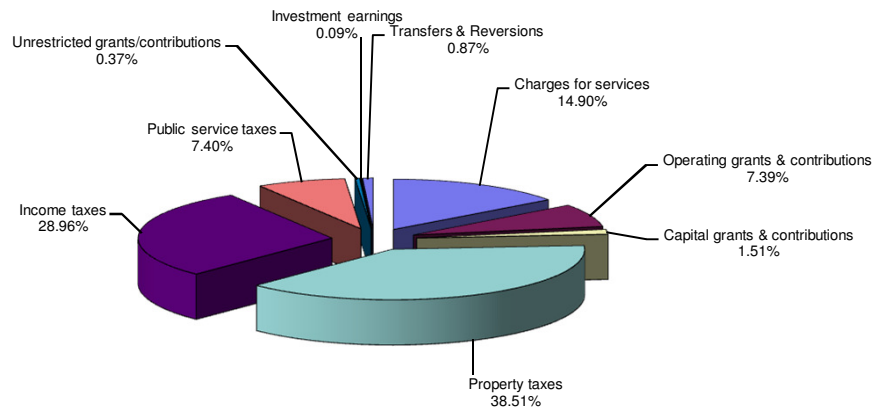
	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	\$ 354,793	\$ 297,400	\$ 246,175	\$ 237,071	\$ 600,968	\$ 534,471
Operating grants	176,028	172,931	2,850	2,893	178,878	175,824
Capital grants	36,021	35,781	21,602	16,186	57,623	51,967
General revenues						
Property taxes	916,768	891,823	-	-	916,768	891,823
Income taxes	689,515	663,510	-	-	689,515	663,510
Public service taxes	176,124	174,239	-	-	176,124	174,239
Unrestricted grants and contributions	8,926	8,966	-	-	8,926	8,966
Investment earnings	2,068	1,392	34	56	2,102	1,448
Total revenues	<u>2,360,243</u>	<u>2,246,042</u>	<u>270,661</u>	<u>256,206</u>	<u>2,630,904</u>	<u>2,502,248</u>
Expenses						
General government	864,527	615,205	-	-	864,527	615,205
Public safety	372,623	368,337	-	-	372,623	368,337
Public works	185,743	178,728	-	-	185,743	178,728
Health and human services	167,861	164,430	-	-	167,861	164,430
Culture and leisure services	64,520	64,165	-	-	64,520	64,165
Economic and community development	12,598	12,449	-	-	12,598	12,449
Education	956,006	943,217	-	-	956,006	943,217
Interest on long-term debt	33,651	26,648	-	-	33,651	26,648
Water and sewer services	-	-	361,069	356,593	361,069	356,593
Total expenses	<u>2,657,529</u>	<u>2,373,179</u>	<u>361,069</u>	<u>356,593</u>	<u>3,018,598</u>	<u>2,729,772</u>
Increase(decrease) in net position before transfers	(297,286)	(127,137)	(90,408)	(100,387)	(387,694)	(227,524)
Reversion of fund balance from component units	20,463	-	-	-	20,463	-
Transfers	242	738	(242)	(738)	-	-
Increase (decrease) in net position	(276,581)	(126,399)	(90,650)	(101,125)	(367,231)	(227,524)
Net position - beginning	(495,887)	(369,488)	88,068	189,193	(407,819)	(180,295)
Net position - ending	<u>\$ (772,468)</u>	<u>\$ (495,887)</u>	<u>\$ (2,582)</u>	<u>\$ 88,068</u>	<u>\$ (775,050)</u>	<u>\$ (407,819)</u>

The following graphs and charts depict the expenses and revenues of the governmental activities and business-type activities for the fiscal year which are derived from the government-wide Statement of Activities.

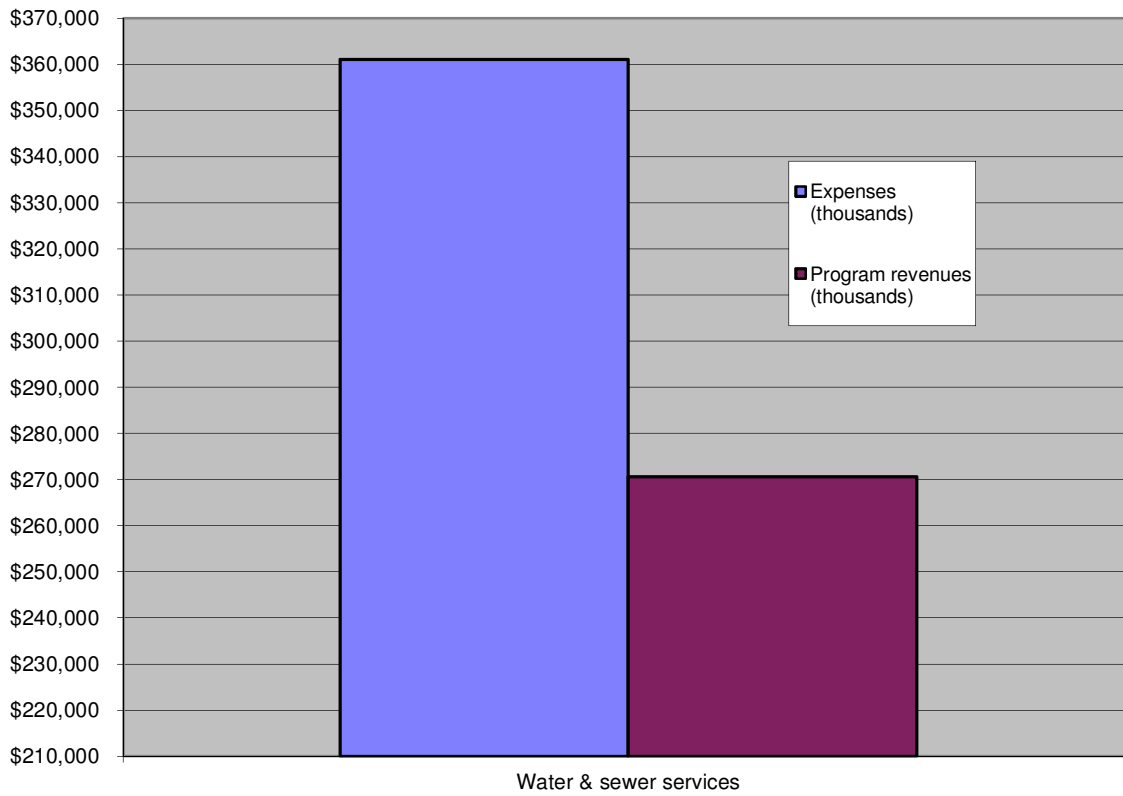
Expenses & Program Revenues-Governmental Activities



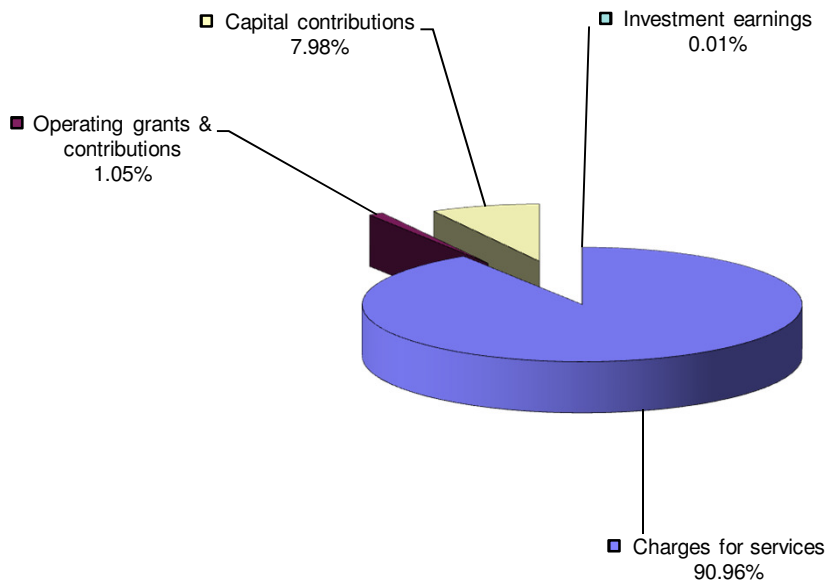
Revenues by Source-Governmental Activities



Expenses and Program Revenues-Business-type Activities



Revenues by Source-Business-type Activities



Governmental Activities

The net position of governmental activities decreased \$276.581 million during FY17. Key elements affecting the net position include:

- General revenues increased \$53.471 million over the prior fiscal year. Income tax revenue increased \$26.005 million after adjusting for the County's portion of income tax reserves held by the State that was recognized under full accrual accounting. Property taxes provided 38.5% of total revenue with an increase of \$24.945 million due from new construction county-wide and from higher reassessed values on real property in the Western third of the County.
- A reversion of fund balance from component units was reported to reflect a \$20 million payment from the Board of Education and a \$.463 million payment from the Board of Library Trustees.
- General Fund miscellaneous revenue increased by \$24.731 million because of an \$18.555 million settlement related to 2007 investments in residential mortgage backed securities.
- General government expenses increased \$250.715 million primarily because of increases in pension plan related expenses.
- Education expenses increased \$12.789 million from FY17 due to additional funding of operational costs for the Board of Education.
- The outstanding debt for the Board of Education and the Community College capital projects (see previous discussion) increased by \$38.70 million.

Business-type Activities

The net position of business-type activities decreased \$90.650 million during FY17. The key elements of the Metropolitan District operations that affect net position are as follows:

- The consent decree with the U.S. Environmental Protection Agency continues to drive expenditures. In FY17, the County's cost sharing contribution of \$130.736 million to Baltimore City for capital facilities was an increase of \$20.294 million from the previous year. The Enhanced Nutrient Removal at the Back River Wastewater Treatment Plant Project, Improvements to Guilford Reservoir and the Design and Procurement of the City's Automatic Meter Reading Project amounted to a combined \$54.527 million in cost sharing expenditures.
- Front foot assessments that are billed over 40 years to County homeowners to recover costs for County construction of water and sewer lines showed a continuing decline of \$5.839 million due to developers assuming the responsibility for construction of these lines.
- The County's charges for services increased \$9.104 million due to a 12% rate increase in FY17 for sewer service, water distribution and water consumption charges.

Financial Analysis of the County's Funds

The County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The governmental funds provide data on near-term inflows, outflows and balances of spendable resources. This data is useful in assessing the County's financing requirements. The unassigned fund balance serves as a useful measure of the County's financial resources available for appropriation at the end of the fiscal year.

The County's governmental funds reported combined ending fund balances of \$258.649 million as of June 30, 2017, an increase of \$30.429 million. Unassigned fund balance of the General Fund, as stated below, is available at the County's discretion. The remaining positive fund balance of \$188.217 million is not available for new spending because of varying constraints set on them.

The General Fund is the County's chief operating fund. At the end of FY17, unassigned fund balance of the General Fund was \$205.391 million, while total fund balance was \$329.688 million. Unassigned fund balance represents 10.92% of total budgetary expenditures, while total fund balance represents 17.53% of total budgetary expenditures. These ratios are typically useful as a measure of the General Fund's liquidity.

The County has \$99.360 million in a Revenue Stabilization account and has assigned \$3.304 million to finance, in part, the FY18 operating budget.

The General Fund fund balance decreased by \$5.684 million during the current fiscal year. Board of Education expenditures, including PAYGO contributions for school projects, increased \$67.930 million which reflects the County's continued funding commitment to address rising enrollment and to modernize schools. The General Fund also had a \$9.957 million increase in public safety expenditures as a result of the County's continued focus on safe communities. Employer contributions to OPEB decreased by \$21.241 million. A reversion of fund balance from component units in addition to a favorable law suit settlement regarding mortgage backed securities increased general fund revenues by a combined \$39.018 million.

The Gifts and Grants Fund fund balance of \$39.36 million consists primarily of \$16.740 million of earned revenue in excess of grant expenditures restricted for various grant activities administered by the County. Specifically, the Asset Forfeiture, Speed Camera, Housing Choice Voucher grants and Environmental Protection grants amounted to a combined \$14.3 million in excess revenue. In addition, \$11.780 million of earned revenue was restricted for the Affordable Housing Program.

The Consolidated Public Improvement Construction Fund fund balance increased \$36.866 million. Major fluctuations in fund balance are primarily the result of the timing of cash inflows from bond sale proceeds and capital expenditure outflows. The County issued \$121 million in new debt to fund capital projects in FY17. Capital expenditures for various County projects increased \$7.457 million to \$139.167 million.

Proprietary Funds

The County's proprietary funds provide more detailed data of the information reported in the government-wide financial statements.

The Metropolitan District Fund net position decreased \$91.081 million. The main factors concerning this decrease have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

The County had multiple supplemental appropriations during fiscal year 2017 including the following: a \$38.940 million Pay-go supplemental appropriation for school air conditioning as mentioned above; a \$.500 million supplemental to the Department of Corrections for additional correctional officers; a \$.850 million supplemental to the Emergency Communication Center for salary and callback; a \$2.7 million supplemental to the Fire Department for salary and callback, and a \$.155 million supplemental to the Department of Environmental Protection for salary.

Significant differences between the final budget and actual amounts are summarized as follows:

- Title transfer taxes were \$3.294 million more than budget due to an increase in high dollar commercial property transactions and increased sales and higher property values from the slowly recovering real estate market.
- The County had \$4.782 million in salary savings across the board from the continuation of position vacancy control.
- An unfavorable revenue variance of \$41.611 million in County income tax revenue resulted because of the lack in growth of personal income, mainly from capital gains. In addition, the County has assumed some additional loss in revenue due to the Wynne Case, which held that Maryland violated the Commerce Clause because it did not permit a taxpayer to take a credit against the County portion of the personal property income tax for taxes paid to other states.
- A \$21.668 million favorable revenue variance in miscellaneous revenue as a result of an \$18.555 million settlement stemming from mortgage backed securities.

Capital Asset and Debt Administration

Capital Assets

The County's investment in capital assets for its governmental and business-type activities totaled \$3.870 billion net of accumulated depreciation. The investment in capital assets includes land, buildings, machinery, vehicles and infrastructure assets.

Capital Assets as of June 30, net of accumulated depreciation (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 290,961	\$ 290,144	\$ 1,317	\$ 1,317	\$ 292,278	\$ 291,461
Buildings and improvements	347,383	326,914	106,566	109,082	453,949	435,996
Vehicles and equipment	97,448	103,624	4,269	5,237	101,717	108,861
Infrastructure	1,173,396	1,192,095	1,001,891	952,330	2,175,287	2,144,425
Construction in progress	610,223	548,532	236,131	230,876	846,354	779,408
Total	\$ 2,519,411	\$ 2,461,309	\$ 1,350,174	\$ 1,298,842	\$ 3,869,585	\$ 3,760,151

The County added \$8.7 million for new or improved roads, \$13 million for storm drains, and \$43.5 million for water and sewer lines as a major part of its infrastructure assets for FY17.

Selected capital asset events during the current year were as follows:

- The County completed new and existing updates to County owned buildings at a cost of \$25.8 million
- The County completed repairs and renovations to the Bread & Cheese, Hawthorn, Marlyn Avenue and Valley Village pumping stations at a cost of \$11.1 million
- The County completed renovations and upgrades to County bridges totaling \$4.9 million

Additional capital asset information can be found in Note 7.

Long-term Debt

At the end of the current fiscal year, the County had general obligation debt outstanding of \$3.153 billion. This includes Consolidated Public Improvement bonds and notes of \$1.444 billion, Pension Funding bonds of \$.392 billion and Metropolitan District bonds and notes of \$1.317 billion. The bonds and notes are backed by the full faith and credit of the County.

Outstanding General Obligation Debt as of June 30 (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 1,700,096	\$ 1,550,668	\$ 1,107,298	\$ 1,003,368	\$ 2,807,394	\$ 2,554,036
General obligation BANs	121,000	99,800	225,000	99,300	346,000	199,100
Total	\$ 1,821,096	\$ 1,650,468	\$ 1,332,298	\$ 1,102,668	\$ 3,153,394	\$ 2,753,136

The County's general obligation debt increased in 2017 by \$400.258 million (considering new borrowing and debt retirement).

The County maintains an "AAA" rating from both Standard & Poor's and Fitch Investor's Service, and a "Aaa" rating from Moody's Investor's Service for general obligation bonds.

The County Charter limits the amount of general obligation debt that the County may issue for Consolidated Public Improvements to 4% of the County's assessable property base. Metropolitan District debt may be issued up to debt limit of 3.2% of the District's assessable property base. The County's debt is significantly below the respective limits of \$3.284 billion and \$2.334 billion. Additional information on the County's long-term debt can be found in Note 8.

Economic Factors and Next Years Budgets and Rates

- The Spending Affordability Committee's consultant, Sage Policy Group, Inc. predicts that the County and State personal income will grow 4.08% and 4.30% respectively, in FY18.
- Employment increased by 1.65% among Baltimore County residents, by 1.57% among Maryland residents, and by 1.75% nationally on an annual average basis from calendar year (CY)15 to CY16. County and State unemployment rates were 4.1% and 3.8% respectively, in December 2016 and averaged 4.6% and 4.4%, respectively, for all FY16. For CY17, Sage policy group, Inc. predicts that the County employment will grow 0.9%, compared to population growth of 0.2%, while State employment growth is expected to be 1.0% compared to population growth of 0.4%.

These and other economic indicators were considered when preparing the FY18 General Fund budget, which estimates revenues at \$1.99 billion. General Fund appropriations for FY18 of \$1.993 billion reflects a 1.78% decrease from the FY17 adjusted budget. The FY18 budget for Baltimore County Public Schools (BCPS) includes an increase of \$40.5 million or 2.8% over FY17 funding levels. The budget exceeds Maintenance of Effort by \$19.9 million. The FY18 budget reflects the second full year of the County's new emergency medical transport billing initiated with the cooperation of the Baltimore County Volunteer Firemen Association. With projected FY18 revenue of \$24.6 million, a broader, deeper commitment has been made to the Baltimore County's volunteer fire and EMS companies including a 12% increase in funding over last year. The County expects to fund \$31.5 million PAYGO to support the FY18 capital budget. The difference between estimated revenue and appropriations of \$3.3 million is covered by fund balance reserves. The projected unassigned fund balance at the end of FY18 is \$205.3 million or 10.3% of the estimated FY18 total revenues.

The income tax rate of 2.83% is unchanged. The respective real property and personal property tax rates remain at \$1.10 and \$2.75 per \$100 of assessed value. The Homestead Assessment Growth Cap remains at 4%, excluding home sales, new construction, and non-principle residences.

Information Requests

This financial report is designed to provide a general overview of Baltimore County's finances for all those with an interest in good government. The report seeks to demonstrate the County's accountability for the monies it receives and for the services it provides. Requests for information regarding this report or additional financial information can be sent to the Baltimore County Office of Budget and Finance, 400 Washington Avenue, Room 149 Towson, Maryland 21204-4665.

The County's component units issue their own separately audited financial statements. These statements may be obtained by directly contacting the component unit (see Note 1).





Basic Financial Statements

Government-wide financial statements combine all of Baltimore County's governmental and business-type activities, as well as its discretely presented components.

Fund financial statements show the financial position and the operating results by fund.

Notes to the Basic Financial Statements are an integral part of the financial statements.

Baltimore County, Maryland
Statement of Net Position
June 30, 2017
(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments (Note 3)	\$ 314,711	\$ 36,058	\$ 350,769	\$ 120,212
Receivables, net (Note 5)	255,054	115,690	370,744	36,936
Due from primary government (Note 6)	-	-	-	82,283
Inventories	9,693	605	10,298	1,824
Prepaid costs	1,135	-	1,135	434
Restricted assets:				
Cash and investments (Note 3)	62,965	8,219	71,184	4,276
Capital assets (Note 7)				
Not being depreciated	901,184	237,448	1,138,632	288,859
Depreciable (net of accumulated depreciation)	1,618,227	1,112,726	2,730,953	1,629,923
Total assets	<u>3,162,969</u>	<u>1,510,746</u>	<u>4,673,715</u>	<u>2,164,747</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	17,843	19,437	37,280	-
Retirement plans	394,625	15,961	410,586	44,243
Total deferred outflows of resources	<u>412,468</u>	<u>35,398</u>	<u>447,866</u>	<u>44,243</u>
LIABILITIES				
Accounts payable	45,067	65,720	110,787	81,877
Accrued payroll	16,153	1,182	17,335	23,230
Accrued interest payable	30,025	17,620	47,645	-
Internal balances	2,923	(2,923)	-	-
Due to component units (Note 6)	60,707	-	60,707	-
Other liabilities	40,215	6,364	46,579	6,661
Unearned revenue (Note 5)	4,339	-	4,339	8,384
Liabilities payable from restricted assets	-	-	-	4,276
Noncurrent liabilities (Note 8)				
Due within one year	342,204	280,137	622,341	35,010
Due in more than one year	3,748,659	1,178,354	4,927,013	228,339
Total liabilities	<u>4,290,292</u>	<u>1,546,454</u>	<u>5,836,746</u>	<u>387,777</u>
DEFERRED INFLOWS OF RESOURCES				
Retirement plans	57,613	2,272	59,885	20,274
NET POSITION				
Net investment in capital assets	1,602,876	538,172	2,141,048	1,879,156
Restricted for:				
Public works	19,756	-	19,756	-
Economic development	11,780	-	11,780	-
Education	-	-	-	21,412
Grant projects	16,740	-	16,740	-
Debt service	1,646	-	1,646	-
Expendable endowments	-	-	-	6,963
Unrestricted (deficit)	(2,425,266)	(540,754)	(2,966,020)	(106,592)
Total net position (deficit)	<u>\$ (772,468)</u>	<u>\$ (2,582)</u>	<u>\$ (775,050)</u>	<u>\$ 1,800,939</u>

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Statement of Activities
For the Year Ended June 30, 2017
(In Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating	Capital	Primary Government			Component Units
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
PRIMARY GOVERNMENT								
Governmental activities:								
General government	\$ 864,527	\$ 309,123	\$ 2,996	\$ -	\$ (552,408)	\$ -	\$ (552,408)	\$ -
Public safety	372,623	11,802	18,163	-	(342,658)	-	(342,658)	-
Public works	185,743	13,920	4,826	36,021	(130,976)	-	(130,976)	-
Health and human services	167,861	15,231	129,450	-	(23,180)	-	(23,180)	-
Culture and leisure services	64,520	4,260	4,294	-	(55,966)	-	(55,966)	-
Economic and community development	12,598	457	11,220	-	(921)	-	(921)	-
Education	956,006	-	-	-	(956,006)	-	(956,006)	-
Interest on long-term debt	33,651	-	5,079	-	(28,572)	-	(28,572)	-
Total governmental activities	<u>2,657,529</u>	<u>354,793</u>	<u>176,028</u>	<u>36,021</u>	<u>(2,090,687)</u>	<u>-</u>	<u>(2,090,687)</u>	<u>-</u>
Business-type activities:								
Water and sewer services	361,069	246,175	2,850	21,602	-	(90,442)	(90,442)	-
Total business-type activities	<u>361,069</u>	<u>246,175</u>	<u>2,850</u>	<u>21,602</u>	<u>-</u>	<u>(90,442)</u>	<u>(90,442)</u>	<u>-</u>
Total primary government	<u>\$ 3,018,598</u>	<u>\$ 600,968</u>	<u>\$ 178,878</u>	<u>\$ 57,623</u>	<u>(2,090,687)</u>	<u>(90,442)</u>	<u>(2,181,129)</u>	<u>-</u>
COMPONENT UNITS								
Board of Education	\$ 1,717,211	\$ 13,372	\$ 193,939	\$ 191,652	-	-	-	(1,318,248)
Community College	214,212	72,147	90,534	6,223	-	-	-	(45,308)
Board of Library Trustees	44,139	3,095	6,990	-	-	-	-	(34,054)
Total component units	<u>\$ 1,975,562</u>	<u>\$ 88,614</u>	<u>\$ 291,463</u>	<u>\$ 197,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,397,610)</u>
General revenues:								
Taxes:								
Property taxes					916,768	-	916,768	-
Income taxes					689,515	-	689,515	-
Public service taxes					176,124	-	176,124	-
Grants and contributions not restricted to specific programs:								
Baltimore County					-	-	-	834,732
State of Maryland					8,926	-	8,926	639,959
Unrestricted investment earnings					2,068	34	2,102	1,128
Other					-	-	-	5,643
Reversion of fund balance from component units					20,463	-	20,463	(20,463)
Transfers					242	(242)	-	-
Total general revenues and transfers					<u>1,814,106</u>	<u>(208)</u>	<u>1,813,898</u>	<u>1,460,999</u>
Change in net position					(276,581)	(90,650)	(367,231)	63,389
Net position (deficit) at beginning of the year					(495,887)	88,068	(407,819)	1,737,550
Net position (deficit) at end of the year					<u>\$ (772,468)</u>	<u>\$ (2,582)</u>	<u>\$ (775,050)</u>	<u>\$ 1,800,939</u>

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Balance Sheet
Governmental Funds
June 30, 2017
(In Thousands)

	General	Gifts and Grants	Consolidated Public Improvement Construction	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 190,723	\$ 25,976	\$ -	\$ 4,755	\$ 221,454
Cash and investments - restricted	62,965	-	-	-	62,965
Receivables, net	185,856	61,039	4,745	158	251,798
Due from other funds	43,626	-	-	-	43,626
Inventories	9,251	-	-	-	9,251
Total assets	<u>\$ 492,421</u>	<u>\$ 87,015</u>	<u>\$ 4,745</u>	<u>\$ 4,913</u>	<u>\$ 589,094</u>
LIABILITIES					
Accounts payable	\$ 18,642	\$ 6,059	\$ 16,945	\$ 61	\$ 41,707
Accrued expenditures	14,533	1,449	-	48	16,030
Due to other funds	-	-	43,626	-	43,626
Due to component units	22,433	-	38,274	-	60,707
Other liabilities	21,321	484	18,410	-	40,215
Unearned revenue - other (Note 5)	691	3,648	-	-	4,339
Total liabilities	<u>77,620</u>	<u>11,640</u>	<u>117,255</u>	<u>109</u>	<u>206,624</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue (Note 5)	85,113	36,015	2,693	-	123,821
Total deferred inflows of resources	<u>85,113</u>	<u>36,015</u>	<u>2,693</u>	<u>-</u>	<u>123,821</u>
FUND BALANCES (DEFICITS) (NOTE 15)					
Nonspendable	9,251	-	-	-	9,251
Restricted	61,062	28,520	19,756	-	109,338
Assigned	53,984	10,840	-	4,804	69,628
Unassigned	205,391	-	(134,959)	-	70,432
Total fund balances (deficit)	<u>329,688</u>	<u>39,360</u>	<u>(115,203)</u>	<u>4,804</u>	<u>258,649</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 492,421</u>	<u>\$ 87,015</u>	<u>\$ 4,745</u>	<u>\$ 4,913</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,505,089
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflows in the funds.	123,821
Internal service funds are used by management to charge the costs of self insurance, fleet management and reproduction to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	39,927
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 2).	(4,036,966)
The net effect of the deferred outflows and deferred inflows of resources recorded in conjunction with the recognition of the County pension liability is shown in the governmental activities but not included in the governmental statements.	337,012
Net position of governmental activities	<u>\$ (772,468)</u>

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017
(In Thousands)

	General	Gifts and Grants	Consolidated Public Improvement Construction	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,775,935	\$ -	\$ -	\$ 940	\$ 1,776,875
Licenses and permits	5,767	-	-	11,982	17,749
Intergovernmental	47,764	136,290	18,641	-	202,695
Repayment of loans	-	1,270	-	-	1,270
Charges for services	43,822	12,530	500	110	56,962
Assessments	-	-	2,177	-	2,177
Fines and forfeitures	7,056	-	-	-	7,056
Investment income	985	334	-	206	1,525
Miscellaneous	58,307	712	3,130	-	62,149
Total revenues	<u>1,939,636</u>	<u>151,136</u>	<u>24,448</u>	<u>13,238</u>	<u>2,128,458</u>
EXPENDITURES					
Current:					
General government	109,778	3,851	-	2,586	116,215
Public safety	355,322	12,273	-	-	367,595
Public works	117,566	104	-	-	117,670
Health and human services	39,909	127,059	-	-	166,968
Culture and leisure services	19,453	3,498	-	-	22,951
Economic and community development	1,317	15,088	-	-	16,405
Pension plan contributions	247,707	-	-	-	247,707
Healthcare contributions	102,742	-	-	-	102,742
Miscellaneous	18,458	141	-	-	18,599
Capital projects	-	-	139,167	-	139,167
Payments to component units	888,218	-	132,282	-	1,020,500
Debt service:					
Principal retirement	83,421	-	-	-	83,421
Interest	49,925	-	-	-	49,925
Fiscal charges	2,355	-	-	-	2,355
Total expenditures	<u>2,036,171</u>	<u>162,014</u>	<u>271,449</u>	<u>2,586</u>	<u>2,472,220</u>
Excess (deficiency) of revenues over expenditures	<u>(96,535)</u>	<u>(10,878)</u>	<u>(247,001)</u>	<u>10,652</u>	<u>(343,762)</u>
OTHER FINANCING SOURCES (USES)					
Bonds issued	144,000	-	99,800	-	243,800
Bond anticipation notes	-	-	121,000	-	121,000
Bond anticipation notes - refunding	-	-	(99,800)	-	(99,800)
Certificates of participation issued	59,810	-	-	-	59,810
Premiums on debt	26,882	-	-	-	26,882
Reversion of fund balance from component units	20,000	-	463	-	20,463
Loans	-	-	1,091	-	1,091
Transfers in	2,362	11,080	166,315	-	179,757
Transfers out	(162,203)	(372)	(5,002)	(11,235)	(178,812)
Total other financing sources (uses)	<u>90,851</u>	<u>10,708</u>	<u>283,867</u>	<u>(11,235)</u>	<u>374,191</u>
Net change in fund balances	<u>(5,684)</u>	<u>(170)</u>	<u>36,866</u>	<u>(583)</u>	<u>30,429</u>
Fund balances (deficit) at beginning of the year	335,372	39,530	(152,069)	5,387	228,220
Fund balances (deficit) at end of the year	<u>\$ 329,688</u>	<u>\$ 39,360</u>	<u>\$ (115,203)</u>	<u>\$ 4,804</u>	<u>\$ 258,649</u>

The accompanying notes are an integral part of these financial statements.

Baltimore 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, 2017
(In Thousands)

Net change in fund balances-total governmental funds	\$ 30,429
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period (Note 2).</p>	45,308
<p>The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position (Note 2).</p>	11,173
<p>Some revenues will not be collected for several months after the fiscal year ends. As such these revenues are not considered "available" revenues and are deferred in the governmental funds. Deferred inflows decreased this year.</p>	(4,507)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items (Note 2).</p>	(237,718)
<p>Some expenses 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 (Note 2).</p>	(32,890)
<p>The net effect of the expenses for recording the County's pension liability from employee retirement plans.</p>	(101,724)
<p>Internal service funds are used by management to charge the costs of self insurance, fleet management, and reproduction services to individual funds. The net income of these internal service funds is reported with governmental activities.</p>	15,224
<p>The recognition of a long-term liability for disputed taxes that was not reported in the governmental funds decreases net position.</p>	(1,876)
Change in net position of governmental activities	\$ (276,581)

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Budgetary Comparison Statement - General Fund
For the Year Ended June 30, 2017
(In Thousands)

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget- Positive (Negative)
REVENUES				
Taxes	\$ 1,811,187	\$ 1,811,187	\$ 1,775,935	\$ (35,252)
Licenses and permits	5,263	5,263	5,767	504
Intergovernmental	47,256	47,256	47,764	508
Charges for services	47,790	47,790	43,822	(3,968)
Fines and forfeitures	6,080	6,080	7,056	976
Reimbursement from other funds	11,335	11,335	12,850	1,515
Interest on investments	3,319	3,319	1,652	(1,667)
Miscellaneous	34,715	54,715	77,084	22,369
Total revenues	<u>1,966,945</u>	<u>1,986,945</u>	<u>1,971,930</u>	<u>(15,015)</u>
EXPENDITURES				
Current:				
General government	120,675	121,115	119,786	1,329
Public safety	349,138	353,363	352,432	931
Public works	113,368	114,218	113,328	890
Health and human services	40,383	40,996	40,076	920
Culture and leisure services	19,809	19,636	19,514	122
Economic and community development	1,285	1,285	1,285	-
Pension plan contributions	104,554	104,594	104,589	5
Healthcare contributions	104,082	104,082	102,764	1,318
Miscellaneous	19,698	18,658	18,458	200
Payments to component units	882,870	882,630	882,629	1
Debt service:				
Principal retirement	83,521	83,471	83,421	50
Interest	42,203	41,993	41,835	158
Fiscal charges	684	434	312	122
Total expenditures	<u>1,882,270</u>	<u>1,886,475</u>	<u>1,880,429</u>	<u>6,046</u>
Excess (deficiency) of revenues over expenditures (budgetary basis)	<u>84,675</u>	<u>100,470</u>	<u>91,501</u>	<u>(8,969)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	252	252	252	-
Transfers out	(104,050)	(142,990)	(142,990)	-
Total other financing sources (uses)	<u>(103,798)</u>	<u>(142,738)</u>	<u>(142,738)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	<u>\$ (19,123)</u>	<u>\$ (42,268)</u>	<u>\$ (51,237)</u>	<u>\$ (8,969)</u>
Adjustments required under generally accepted accounting principles:				
Net change during year in reserve for encumbrances			2,229	
Unbudgeted equipment financing activity			55,425	
Unbudgeted bond escrow payment			443	
Net change in reserve for inventories, imprest funds and other programs			(13,822)	
Prior year encumbrances liquidations			1,278	
Net change in fund balance-GAAP			(5,684)	
Fund balance at beginning of the year			335,372	
Fund balance at end of the year			<u>\$ 329,688</u>	

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Statement of Net Position
Proprietary Funds
June 30, 2017
(In Thousands)

	Metropolitan District Enterprise Fund	Internal Service Funds
ASSETS		
Current assets:		
Cash and investments	\$ 36,058	\$ 93,257
Cash and investments - restricted	8,219	-
Receivables, net (Note 5)	21,327	3,256
Inventories	605	442
Prepaid costs	-	1,135
Total current assets	66,209	98,090
Noncurrent assets:		
Assessments receivable (Note 5)	94,363	-
Capital assets: (Note 7)		
Non-depreciable	237,448	705
Depreciable (net of accumulated depreciation)	1,112,726	13,617
Total noncurrent assets	1,444,537	14,322
Total assets	1,510,746	112,412
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	19,437	-
Retirement plans	15,961	-
Total deferred outflows of resources	35,398	-
LIABILITIES		
Current liabilities:		
Accounts payable	65,720	3,360
Accrued payroll	1,182	123
Accrued interest payable	17,620	-
Compensated absences (Note 8)	1,749	225
Claims and judgments (Note 8)	-	36,506
General obligation debt (Note 8)	277,383	-
Pension funding bonds (Note 8)	336	-
Certificates of participation (Note 8)	669	-
Other liabilities	6,364	-
Total current liabilities	371,023	40,214
Noncurrent liabilities (Note 8):		
Compensated absences	77	-
Claims and judgments	-	29,348
General obligation debt	1,106,806	-
Pension funding bonds	15,363	-
Net pension liability	49,034	-
Certificates of participation	7,074	-
Total noncurrent liabilities	1,178,354	29,348
Total liabilities	1,549,377	69,562
DEFERRED INFLOWS OF RESOURCES		
Retirement plans	2,272	-
Total deferred inflows of resources	2,272	-
NET POSITION		
Net investment in capital assets	541,353	14,322
Unrestricted (deficit)	(546,858)	28,528
Total net position	(5,505)	\$ 42,850
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	2,923	
Net position of business-type activities	\$ (2,582)	

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017
(In Thousands)

	Metropolitan District Enterprise Fund	Total	Internal Service Funds
OPERATING REVENUES			
Licenses and permits	\$ 1,022	\$ 1,022	\$ -
Charges for services	238,984	238,984	332,050
Assessments	6,125	6,125	-
Intergovernmental	2,850	2,850	-
Miscellaneous	44	44	47
Total operating revenues	<u>249,025</u>	<u>249,025</u>	<u>332,097</u>
OPERATING EXPENSES			
Personal services	23,308	23,308	2,876
Business and travel	104	104	-
Contractual services	67,269	67,269	741
Rents and utilities	4,131	4,131	246
Supplies and maintenance	54,313	54,313	9,784
Insurance claims and expenses	-	-	299,543
Equipment	361	361	-
Fringe benefits and overhead	21,581	21,581	-
Depreciation expense	31,066	31,066	2,743
Other	49	49	683
Total operating expenses	<u>202,182</u>	<u>202,182</u>	<u>316,616</u>
Operating income	<u>46,843</u>	<u>46,843</u>	<u>15,481</u>
NONOPERATING REVENUES (EXPENSES)			
Interest on investments	34	34	877
Interest expense	(22,582)	(22,582)	-
Capital contributions to other subdivisions	(130,736)	(130,736)	-
Total nonoperating revenues (expenses)	<u>(153,284)</u>	<u>(153,284)</u>	<u>877</u>
Income/(loss) before transfers and capital contributions	<u>(106,441)</u>	<u>(106,441)</u>	<u>16,358</u>
Capital contributions from external parties	21,602	21,602	-
Transfers out	(242)	(242)	(703)
Employer contribution to pension system	(6,000)	(6,000)	-
Change in net position	<u>(91,081)</u>	<u>(91,081)</u>	<u>15,655</u>
Net position at beginning of the year	85,576		27,195
Net position at end of the year	<u>\$ (5,505)</u>		<u>\$ 42,850</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds		431	
Change in net position of business-type activities		<u>\$ (90,650)</u>	

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017
(In Thousands)

	Metropolitan District Enterprise Fund	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from external customers	\$ 256,525	\$ 229,958
Receipts for interfund services	-	102,109
Payments to suppliers	(123,520)	(11,168)
Payments to employees	(40,613)	(2,901)
Payment for interfund services used	-	(683)
Claims paid	-	(291,750)
Other receipts	-	47
Net cash provided by operating activities	92,392	25,612
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Pension Funding Bonds	6,000	-
Employer contribution to the Pension System	(6,000)	-
Transfers out	(242)	(703)
Capital contributions paid to other subdivisions	(151,089)	-
Repayment of advance	(52,642)	-
Net cash (used for) noncapital financing activities	(203,973)	(703)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	394,994	-
Retirement of bond anticipation notes	(99,300)	-
Capital contributions from external parties	9,921	-
Acquisition and construction of capital assets	(60,194)	(4,553)
Principal paid on capital debt	(53,059)	-
Interest paid on capital debt	(40,557)	-
Sales of capital assets	-	189
Net cash provided by (used for) capital and related financing activities	151,805	(4,364)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	34	877
Net cash provided by investing activities	34	877
Net increase in cash and cash equivalents	40,258	21,422
Cash and cash equivalents at beginning of the year	4,019	71,835
Cash and cash equivalents at end of the year	\$ 44,277	\$ 93,257
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 46,843	\$ 15,481
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	31,066	2,743
Effect of changes in operating accounts:		
Receivables, net	5,697	17
Inventories	18	103
Deferred outflows	(10,115)	-
Accounts and other payables	4,388	(264)
Accrued expenses	14,495	(25)
Claims and judgements	-	7,557
Net cash provided by operating activities	\$ 92,392	\$ 25,612
NONCASH CAPITAL AND NONCAPITAL FINANCING ACTIVITIES		
Capital assets acquired through contributions from developers.	\$ 8,668	\$ -

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017
(In Thousands)

	Benefits Trust Funds
ASSETS	
Cash and cash equivalents (Note 3)	\$ 41,301
Collateral for loaned securities (Note 3)	25,269
Receivables:	
Accrued interest & dividend income	4,132
Receivable for investments sold	16,277
Receivables other	2,857
Total receivables	23,266
Investments, at fair value (Note 3):	
U.S. Government and Agency securities	153,066
Municipal bonds	7,622
Foreign bonds	14,219
Corporate bonds	138,279
Stocks	630,108
Bond mutual funds	448,642
Stock mutual funds	966,284
Real estate equity funds	161,398
Hedge funds	831
Private equity funds	137,866
Global asset allocation	462,951
Total investments	3,121,266
Total assets	3,211,102
LIABILITIES	
Securities lending payable	25,269
Investments purchased	29,249
Investment expenses payable	4,087
Refunds payable	1,940
Other	13,169
Total liabilities	73,714
NET POSITION	
Net position restricted for benefits	\$ 3,137,388

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017
(In Thousands)

	Benefits Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 333,884
Employees	79,653
Other	15,121
Total contributions	428,658
Investment earnings:	
Net increase in the fair value of plan assets	355,602
Interest and dividends	51,988
Investment expenses	(20,332)
Net investment gain	387,258
Net income from securities lending:	
Securities lending income	259
Borrower rebates	66
Agent fees	(89)
Net income from securities lending	236
Total net investment gain	387,494
Total additions	816,152
DEDUCTIONS	
Benefits	424,508
Refunds	5,128
Administrative expense	2,393
Total deductions	432,029
Change in net position	384,123
Net position at beginning of the year	2,753,265
Net position at end of the year	\$ 3,137,388

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Statement of Net Position
Component Units
June 30, 2017
(In Thousands)

	Board of Education	Community College	Board of Library Trustees	Total
ASSETS				
Cash and investments (Note 3)	\$ 80,205	\$ 31,962	\$ 8,045	\$ 120,212
Receivables	30,420	6,156	360	36,936
Due from primary government	80,201	2,082	-	82,283
Inventories	1,736	-	88	1,824
Prepaid costs and other assets	301	126	7	434
Cash restricted for lease purchase	4,276	-	-	4,276
Capital assets (Note 7)				
Non-depreciable	276,625	12,234	-	288,859
Depreciable (net of accumulated depreciation)	1,456,162	164,936	8,825	1,629,923
Total assets	<u>1,929,926</u>	<u>217,496</u>	<u>17,325</u>	<u>2,164,747</u>
DEFERRED OUTFLOWS OF RESOURCES				
Retirement plans	<u>41,694</u>	<u>1,812</u>	<u>737</u>	<u>44,243</u>
LIABILITIES				
Accounts payable	73,238	7,314	1,325	81,877
Accrued payroll	18,958	2,785	1,487	23,230
Other liabilities	3,722	1,631	1,308	6,661
Unearned revenue	3,106	5,251	27	8,384
Liabilities payable from restricted assets	4,276	-	-	4,276
Noncurrent liabilities (Note 8)				
Due within one year	29,414	4,500	1,096	35,010
Due in more than one year	211,673	12,244	4,422	228,339
Total liabilities	<u>344,387</u>	<u>33,725</u>	<u>9,665</u>	<u>387,777</u>
DEFERRED INFLOWS OF RESOURCES				
Retirement plans	<u>18,126</u>	<u>1,570</u>	<u>578</u>	<u>20,274</u>
NET POSITION				
Net investment in capital assets	1,694,111	176,220	8,825	1,879,156
Restricted for:				
Education	13,813	7,599	-	21,412
Expendable endowments	-	6,413	550	6,963
Unrestricted	(98,817)	(6,219)	(1,556)	(106,592)
Total net position	<u>\$ 1,609,107</u>	<u>\$ 184,013</u>	<u>\$ 7,819</u>	<u>\$ 1,800,939</u>

The accompanying notes are an integral part of these financial statements.

Baltimore County, Maryland
Statement of Activities
Component Units
For the Year Ended June 30, 2017
(In Thousands)

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Board of Education	Community College	Board of Library Trustees	Total
BOARD OF EDUCATION								
Public education	\$ 1,502,421	\$ 300	\$ 157,118	\$ 191,652	\$ (1,153,351)	\$ -	\$ -	\$ (1,153,351)
Facilities operations	166,515	-	1,159	-	(165,356)	-	-	(165,356)
Food service	48,275	13,072	35,662	-	459	-	-	459
Total Board of Education	<u>1,717,211</u>	<u>13,372</u>	<u>193,939</u>	<u>191,652</u>	<u>(1,318,248)</u>	<u>-</u>	<u>-</u>	<u>(1,318,248)</u>
COMMUNITY COLLEGE								
Educational and general expenses	178,451	66,146	90,534	-	-	(21,771)	-	(21,771)
Facilities operations	27,999	-	-	6,223	-	(21,776)	-	(21,776)
Auxiliary enterprises	7,762	6,001	-	-	-	(1,761)	-	(1,761)
Total Community College	<u>214,212</u>	<u>72,147</u>	<u>90,534</u>	<u>6,223</u>	<u>-</u>	<u>(45,308)</u>	<u>-</u>	<u>(45,308)</u>
BOARD OF LIBRARY TRUSTEES								
Culture and leisure services	44,139	3,095	6,990	-	-	-	(34,054)	(34,054)
Total component units	<u>\$ 1,975,562</u>	<u>\$ 88,614</u>	<u>\$ 291,463</u>	<u>\$ 197,875</u>	<u>(1,318,248)</u>	<u>(45,308)</u>	<u>(34,054)</u>	<u>(1,397,610)</u>
General Revenues:								
Baltimore County					757,552	44,329	32,851	834,732
State of Maryland					639,959	-	-	639,959
Unrestricted investment earnings					-	1,128	-	1,128
Other					5,643	-	-	5,643
Reversion of fund balance to Baltimore County					(20,000)	-	(463)	(20,463)
Total general revenues					<u>1,383,154</u>	<u>45,457</u>	<u>32,388</u>	<u>1,460,999</u>
Change in net position					64,906	149	(1,666)	63,389
Net position at beginning of the year					1,544,201	183,864	9,485	1,737,550
Net position at end of the year					<u>\$ 1,609,107</u>	<u>\$ 184,013</u>	<u>\$ 7,819</u>	<u>\$ 1,800,939</u>

The accompanying notes are an integral part of these financial statements.

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the County conform in all material respects to generally accepted accounting principles as applicable to governmental entities in the United States (GAAP). The following is a summary of significant policies.

Financial Reporting Entity

Baltimore County, Maryland (the "County") is a corporate polity, performing all local governmental functions within its jurisdiction. Under home rule charter since 1957, the County is governed by an elected County Executive and a seven-member County Council, with each serving executive and legislative functions, respectively.

In accordance with GAAP, the accompanying financial statements include the various departments and agencies governed by the County Executive and County Council (the primary government) and the County's component units. Discretely presented component units are reported separately from the primary government to emphasize that they are legally separate from the County. The component units are included as part of the County's reporting entity because of the significance of their operational or financial relationships with the County. The component units are fiscally dependent on the County because the County approves budget requests providing a significant amount of funding for each of these units, levies taxes to provide the majority of their fiscal support, and issues debt for construction of their capital facilities.

Discretely Presented Component Units

The discretely presented component units are all governed by individual boards. The Board of Education of Baltimore County and the Board of Trustees of the Community College of Baltimore County are appointed by the Governor of Maryland. The Board of Library Trustees is appointed by the County Executive. A brief description of the component units follows.

1. The Board of Education of Baltimore County operates all public schools (grades K through 12) within the County.
2. The Board of Library Trustees operates all public libraries within the County.
3. The Board of Trustees of the Community College of Baltimore County operates a two-year college program at three campuses: Catonsville, Dundalk and Essex.

Annual financial reports can be obtained from the respective administrative offices listed below:

Baltimore County Public Schools
Department of Fiscal Services
6901 N. Charles St.
Towson, Maryland 21204

Community College of Baltimore County
Office of Finance
7200 Sollers Point Road
Baltimore, Maryland 21222

Board of Library Trustees
320 York Road
Towson, Maryland 21204

Related Organizations

The County Executive is also responsible for appointing the members of numerous boards, but the County's accountability for these organizations does not extend beyond making appointments. These boards include:

Adult Public Guardianship Review Board
Advisory Arbitration Panel
Animal Hearing Board
Board of Architectural Review
Board of Liquor License Commissioners

Advisory Commission on Environmental Quality
Agricultural Land Preservation Advisory Board
Board of Appeals
Board of Health
Board of Recreation and Parks

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

Board of Social Services	Child Protection Panel
Commission for Women	Commission on Aging
Commission on Arts and Sciences	Commission on Disabilities
Commission on Veterans' Affairs	Conference and Tourism Advisory Council
Criminal Justice Coordinating Council	Design Review Panel
Drug and Alcohol Abuse Advisory Council	Electrical Administrative Board
Ethics Commission	Ethnic Diversity Advisory Council
Human Relations Commission	Landmarks Preservation Commission
Library Board of Trustees	Local Management Board
Mental Health Advisory Council	Minority and Women Business
Pedestrian and Bicycle Advisory Committee	Enterprise Commission
Personnel and Salary Advisory Board	Planning Board
Plumbing Board	Professional Services Selection Committee
Revenue Authority	Soil Conservation District Board
Workforce Development Council	

The amounts that the County appropriated to these organizations during the fiscal year ended June 30, 2017 were immaterial to the basic financial statements taken as a whole.

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

The statement of net position and statement of activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Interfund activity within the governmental activities and within the business-type activities have been eliminated from these statements.

The **Statement of Net Position** presents the reporting entity's non-fiduciary assets, liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often is assigned to indicate that management does not consider it to be available for general operations. Unrestricted net position often has constraints on resources which are imposed by management, but can be removed or modified.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function.

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are reported as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds, major individual proprietary funds and three combined nonmajor governmental (Liquor License, Owings Mills Tax District and Stormwater Management) funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

The General Fund is the County's general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

The Gifts and Grants Fund accounts for a number of gifts and grants awarded to the County that are not accounted for in another fund.

The Consolidated Public Improvement Construction Fund accounts for the acquisition or construction and related financing sources for capital facilities of the primary government and for capital contributions made to the County's component units for their capital facilities.

The County reports the following major enterprise fund:

The Metropolitan District Fund accounts for the operation of the Metropolitan District, which provides water supply and sewerage systems to County residents within the District.

The County also reports the following fund types:

Internal Service Funds account for the operation of a motor pool of passenger vehicles and light duty trucks, a printing facility and a self-insurance program for workers' compensation; general and auto liability insurance; and employee health insurance.

Benefits Trust Funds, which include the following:

Pension Trust Funds account for the accumulation of assets to be used for pension benefit payments to qualified employees.

Other Post Employment Benefits Trust Fund accounts for the accumulation of assets to be used for healthcare and life insurance benefit payments to qualified employees.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The governmental funds financial statements are reported using the modified accrual basis of accounting. The measurement focus of these funds is the determination of financial position and changes in financial position ("current financial resources" focus). Under the modified accrual basis of accounting, revenues are recorded when

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon thereafter to pay liabilities of the current period. The County considers sales and income taxes, interest income and various intergovernmental revenues available if they are collected within 60 days after year-end. Property tax revenue is recognized on receipts within 30 days of year-end. Revenue related to expenditure driven grants is recognized when the applicable eligibility requirements have been met and to the extent that cash is expected to be received within one year of year-end. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Expenditures, other than principal and interest on long-term debt and compensated absences as described below, are recorded when the liability is incurred. Principal and interest on general long-term debt are recorded in the governmental funds as liabilities when due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Enterprise and Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprise and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses

The pension trust funds and the other postemployment benefit trust fund use the accrual basis of accounting. Member contributions are recognized in the period when due. Employer contributions are recognized when due and a formal contribution commitment has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. These transactions are not finalized until settlement date, which occurs approximately three business days after the trade date.

The County reports unearned revenue in the government-wide, governmental funds and proprietary fund financial statements when cash is received prior to being earned. Deferred inflows are recognized in the governmental fund statements when revenue is unavailable.

Budgetary Data

As required by Article VII of the Baltimore County Charter, the annual operating budget and the capital budget are prepared by the County Executive and submitted to the County Council for adoption. Such budgets are generally prepared on the modified accrual basis of accounting described above and reflect encumbrance accounting. Prior to adoption of the budgets, the County Council may decrease or delete any item with the exception of those required by the general laws of the State of Maryland, provisions for debt service on outstanding obligations and provisions to eliminate any estimated cash deficits. Requests for supplementary and emergency appropriations may be prepared during the year by the County Executive and adopted by the County Council. There were \$43.145 million in supplementary and emergency appropriations adopted for the General Fund operating budget during fiscal year 2017.

Annual budgets are adopted for the General Fund and the nonmajor Special Revenue Funds - Liquor License Fund and the Stormwater Management Fund. The nonmajor Special Revenue Fund – Owings Mills Tax District Fund has no adopted budget. All other governmental funds have an adopted project-length budget. The operating budget reflects appropriations for the General Fund and the Special Revenue Funds on a function/agency/program basis. Expenditures and encumbrances of such funds may not legally exceed appropriations at the program level. Inter-program transfers of no more than ten percent of appropriations may be authorized by the County Administrative Officer. Inter-program transfers in excess of ten percent of appropriations require the approval of the County Executive and the County Council. Inter-agency transfers between County offices, departments or agencies may be made during the last quarter of the fiscal year only on the recommendation of the County Executive with the approval of the County Council. All unencumbered appropriations of annual budgets lapse at the end of the fiscal year.

BALTIMORE COUNTY, MARYLAND
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The County presents its General Fund budgetary comparison statement as part of the basic financial statements. Unbudgeted equipment financing activity in the General Fund comparison consists of \$71.298 million in new proceeds, \$0.219 million of interest income, \$0.242 million in transfers from the Metropolitan District Fund and decreased by \$16.334 million of equipment purchases. The unspent equipment financing proceeds of \$59.416 million are reported as a restriction of fund balance at fiscal year-end.

The capital budget reflects appropriations for the Consolidated Public Improvement Construction Fund at the individual project level. Expenditures and encumbrances may not legally exceed appropriations at that level and unencumbered appropriations lapse at the completion or abandonment of individual projects. Transfers of appropriations between projects must be approved by the County Executive and the County Council.

Pooled Cash, Cash Equivalents and Investment Income

The County maintains a cash and investment income pool for all funds except for the fiduciary funds. Based on the availability of cash in various funds, marketable securities are purchased and income on investments is credited to the General, Metropolitan District, and Self-Insurance Program Funds.

For purposes of the statements of cash flows, the County defines cash equivalents to include the following: all highly liquid, unrestricted investments with a maturity of three months or less when purchased; all cash and investment pools that are used essentially as demand accounts; all cash with fiscal agents; and all restricted cash and investments that have been determined to be cash equivalents.

Debt Retirement

General obligation long-term debt retirements are paid from the General and Metropolitan District Funds. The Metropolitan District Fund includes \$78.0 million of receivables for future billings of assessments for water and sewer lateral pipe abutting properties within the District. These assessments, which are levied on individual properties for a period of forty years from the date of installation, represent a significant cash stream that is designated to retire the Metropolitan District long-term debt.

Investments

Money market investments and participating interest-earning investment contracts are carried at amortized cost, which approximates fair value. Other investment securities are carried at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at the prevailing exchange rates as of June 30, 2017. The fair value of mutual funds is based on the fair values of the underlying securities. The fair value of real estate equity funds is based on independent appraisals. Private equity funds and hedge funds are valued based on information provided by the respective fund managers.

Inventories

Inventories are valued at cost. They are accounted for using the purchases method in the General Fund. Under the purchases method, inventories are recorded as expenditures when purchased; however, material amounts of inventories are reported as assets. Non-spendable fund balance for the amount of General Fund inventories has been reported in the governmental fund statements to reflect the non-availability of those amounts for appropriation or expenditure.

Capital Assets

Capital assets of governmental funds are recorded in the statement of net position at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the acquisition value at the date of donation. The County's capitalization levels are \$5,000 for individual vehicles, machinery and equipment, and \$25,000 for buildings and infrastructure. The costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's life are not capitalized. An allowance for depreciation has

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

been provided using the straight-line method over the estimated useful life. The estimated useful lives range from two to fifteen years for vehicles, machinery and equipment, twenty to fifty years for buildings, and twenty to seventy-five years for infrastructure. Major outlays for the construction of buildings and infrastructure are capitalized as constructed. Interest is capitalized during the construction of business-type activities capital assets as it is incurred.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until the future period. At June 30, 2017, the County had deferred outflows of resources for deferred charges on bond refundings and for changes in activity, experience, assumptions and contributions related to the County Employees Retirement System and Police, Fire and Widow Pension Plan.

A deferred inflow of resources represents 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. At June 30, 2017, the County had deferred inflows of resources related to the difference between actual and expected experience and the difference between projected and actual earnings on investments of the County pension plans.

Outstanding Claims

The outstanding claims liability includes estimates for all known workers' compensation, personal injury, property damage and health claims and an estimate for claims incurred but not reported at June 30, 2017.

Compensated Absences

County employees are granted vacation, personal, and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and personal leave days up to a certain maximum depending on employment classification. Employees are not reimbursed for accumulated sick leave. Payments made to terminated employees for accumulated leave are charged as expenditures/expenses, primarily in the General Fund, Special Revenue Funds, and Proprietary Funds, when paid. Accumulated vacation, personal leave and compensatory time benefits at year-end are recorded as obligations in the statement of net position and proprietary fund statements.

Restricted Net Position

The government-wide statement of net position reports \$49.922 million of restricted net position, of which \$19.756 million is restricted by enabling legislation.

Governmental Funds' Fund Balance

Fund balance classifications comprise a hierarchy based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance amounts are properly reported within one of the fund balance categories listed below:

Non-spendable – Includes fund balance amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact, such as a permanent fund. Not in spendable form includes items that are not expected to be converted to cash, such as inventories and prepaid items.

Restricted – Includes amounts that are restricted to a specific purpose when constraints are placed on the use of resources by constitution, external resource providers, or through enabling legislation.

Committed – Includes fund balance amounts that can be used only for the specific purposes determined by formal action of the County's highest level of decision-making authority. The County Council is the

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

highest level of decision-making authority for the County that can commit fund balance by adoption of a Council bill prior to fiscal year end. Similar action of the County Council is required to modify or rescind such commitments.

Assigned – Includes fund balance amounts that are intended to be used by the County for specific purposes as determined by the County Executive or County Administrative Officer in accordance with County Charter. Additionally, in accordance with Section 715 of the County Charter on certification of funds availability, the Director of Budget & Finance may assign fund balance for contractual commitments encumbered prior to year-end. Constraints imposed on the use of assigned amounts do not rise to the level required to be classified as either restricted or committed.

Unassigned – Represents the residual classification for the County's funds and includes all spendable amounts not contained in the four classifications described above. Unassigned fund balance can only be used in the General fund or, if negative, in other governmental funds.

Order of Fund Balance Spending Policy

The County has established a fund balance spending policy for those instances where an expenditure is incurred for a purpose for which amounts in any of the restricted or unrestricted fund balance classifications (committed, assigned, or unassigned) could be used. The County will apply expenditures against restricted amounts first, followed by the committed, assigned and unassigned amounts.

Amounts reported as encumbrances may be classified as either restricted, committed or assigned depending on the constraints and approval in place at year end. Encumbrances outstanding at year-end are reported as assignments of fund balance in the General Fund and Special Revenue Funds and do not constitute expenditures or liabilities because the obligation will be honored during the subsequent year.

Revenue Stabilization Account

Section 10-8-101 of the County Code gives the County the authority to establish and maintain a Revenue Stabilization Account (the Account) to provide financial resources for unanticipated decreases in revenues, primarily intergovernmental revenues. The General Fund Unassigned Fund Balance includes \$99.360 million that the County has set aside in the Account. Revenues in excess of estimates and any unexpended appropriations at the close of the fiscal year shall be transferred to the Account if the Account balance does not exceed five percent of the current fiscal year General Fund budgeted revenue after interest is credited to the Account. The Director of Budget and Finance shall notify the County Executive and County Council that a funds availability deficit exists in the General Fund at the end of any fiscal year and request that sufficient monies to the extent available be transferred from the Account to eliminate the deficit. Funds in the Account are not to be used for any other purpose except upon the recommendation of the County Executive and approval of a majority plus one of the County Council.

Pensions

For purposes of measuring the 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 County's pension plans (Employees' Retirement System Plan and Police, Fire and Widows' Pension Plan) and additions to/deductions from their respective fiduciary net position have been determined on the same basis as they are reported by each pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (expressed in thousands):

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of the reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$4,036,966 difference are as follows:

General obligation debt	\$ 1,821,096
Certificates of participation and loan payable	132,911
Add: Issuance premium (to be amortized as a reduction to interest expense)	122,600
Less: Issuance discount (to be amortized as interest expense)	(1,313)
Less: Deferred charge on refunding (to be amortized as interest expense)	(17,843)
Accrued interest payable	30,025
Compensated absences	68,031
Other post employment benefits liability	228,018
Net pension liability	1,585,895
Disputed taxes	49,969
Estimated landfill closing costs	<u>17,577</u>
Net adjustment to reduce fund balance - total funds to arrive at net position of governmental activities	<u><u>\$ 4,036,966</u></u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of the reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$45,308 difference are as follows:

Capital outlay	\$ 125,292
Depreciation expense	<u>(79,984)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$ 45,308</u></u>

Another element of the reconciliation states that “The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The details of this \$11,173 difference are as follows:

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In the statement of activities, only the gain/(loss) on the sale or disposal of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets sold. \$ (425)

Donations and transfers in of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources. 11,598

Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities. \$ 11,173

Another element of the reconciliation states that "The issuance of long-term debt (e.g., bonds, certificates of participation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$(237,718) difference are as follows:

Debt issued or incurred:	
General obligation debt	\$ (364,800)
Certificates of participation and loans	(60,901)
Add: premium	(26,882)
Principal repayments:	
General obligation debt	194,172
Certificates of participation and loans	<u>20,693</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (237,718)</u>

Another element of the reconciliation states that "Some expenses 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." The details of this \$(32,890) difference are as follows:

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Increase in compensated absences	\$ (2,579)
Increase in accrued interest	(5,553)
Increase in other post employment benefits liability	(45,801)
Increase in landfill closure and post-closure costs	(784)
Amortization of deferred charge on refunding	(2,044)
Amortization of premiums	23,984
Amortization of discounts	<u>(113)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (32,890)</u>

3. CASH, INVESTMENTS AND SECURITIES LENDING:

The County maintains a cash and investment pool that is available for use by all funds, except for the fiduciary funds. Each fund's portion of this pool is reported on the statement of net position as "Cash and investments." The fiduciary funds investments are held and managed separately from those of other County funds.

Deposits

The County maintains cash balances, which are covered by FDIC insurance and collateral held at the Federal Reserve in the County's name. The component units' cash in banks are covered either by FDIC insurance or the County's blanket collateral coverage. At June 30, 2017, the carrying amounts of cash for the primary government and its component units were \$(0.950) million and 18.662 million respectively.

Investments

Internal Investment Pool (the "Pool") - The County has adopted an investment policy to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the cash flow demands of the County and conforming to all state and local statutes governing the investment of public funds. Permissible investments include U.S. Government obligations, U.S. Government agency obligations, money market mutual funds, repurchase agreements, banker's acceptances, commercial paper (no more than 10% of the portfolio) and the Maryland Local Government Investment Pool (MLGIP) that is administered by the State Treasurer. Repurchase agreements are collateralized according to Maryland State Investment Code and marked to market daily.

The MLGIP was established under the Annotated Code of Maryland and is rated AAAM by Standard and Poors, their highest rating for money market funds. MLGIP is a 2a7 like pool, which is not registered with the Securities and Exchange Commission (SEC), but generally operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 (Rule 2a7). Unit value is computed using the amortized cost method and maintains a \$1 per share value.

Pension Trust Funds and Other Post Employment Benefits ("OPEB Plan") – As provided in Article 5, Title 1 and § 10-14-106 of the Baltimore County Code, the Board of Trustees of the Employees' Retirement System (the "System") is empowered to invest the System's and the OPEB Plan's assets jointly and to take appropriate action regarding the investment, management and custodianship of the System's and the OPEB Plan's assets. The System's and the OPEB Plan's investment policy targets 27% in U.S. equities, 22% in international equities, 24% in core-plus fixed income investments, 5% in real estate equity, 7% in private equities and 15% in Global Asset Allocation Funds. Certain System and the OPEB Plan's investment managers have invested in the following types of instruments: asset backed securities, warrants, variable rate securities and interest rate swaps, U.S. Treasury interest and principal strips, U.S. Treasury futures and options, and collateralized mortgage obligations. The System's and the OPEB Plan's fixed income managers primarily acquire these types of instruments to increase

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investment yield and/or decrease investment risk. The Police, Fire and Widows' Pension Plan (the "Pension Plan") invests 70% in fixed income securities and 30% in equities.

Investments for the primary government as of June 30, 2017 are as follows (in thousands):

Primary Government Investments	<u>The System</u>				Pension Plan	Total Primary Government
	<u>The Pool</u>	<u>Plan A</u>	<u>Plan B</u>	<u>OPEB Plan</u>		
U.S. securities and agencies						
Not on securities loan	\$ 71,548	\$ 124,678	\$ 3,802	\$ 19,935	\$ -	\$ 219,963
On securities loan for securities or cash collateral	-	3,907	119	625	-	4,651
MLGIP	275,888	-	-	-	-	275,888
Municipal bonds	-	2,021	62	323	5,216	7,622
Foreign bonds	-	6,095	186	974	6,964	14,219
Corporate bonds						
Not on securities loan	-	115,795	3,532	18,515	-	137,842
On securities loan for securities or cash collateral	-	367	11	59	-	437
Bond mutual funds	-	372,232	11,352	59,517	5,541	448,642
Money market funds	69,580	32,760	999	5,238	6	108,583
Real estate equity funds	-	135,584	4,135	21,679	-	161,398
Stocks						
Not on securities loan	-	472,208	14,402	75,502	-	562,112
On securities loan for securities or cash collateral	-	57,121	1,742	9,133	-	67,996
Stock mutual funds - domestic	-	417,788	12,742	66,801	6,832	504,163
Stock mutual funds - international	-	385,450	11,755	61,630	3,286	462,121
Hedge funds	-	698	21	112	-	831
Private equity funds	-	115,816	3,532	18,518	-	137,866
Global Asset Allocation fund	-	388,907	11,861	62,183	-	462,951
Securities lending short-term collateral investment pool	-	21,227	648	3,394	-	25,269
Total	<u>\$ 417,016</u>	<u>\$ 2,652,654</u>	<u>\$ 80,901</u>	<u>\$ 424,138</u>	<u>\$ 27,845</u>	<u>\$ 3,602,554</u>

Component units' investments of \$105.826 million include \$90.534 million of MLGIP and \$15.292 million of money market funds.

Securities Lending Transactions - The System's, the OPEB Plan's and the Pension Plan's policies authorize the lending of their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's, the OPEB Plan's and the Pension Plan's custodian may lend U.S. government and agency securities, corporate bonds and stocks for collateral in the form of cash, other securities and irrevocable bank letters of credit. Collateral securities, letters of credit and cash are initially pledged at 102% of the fair value of the securities lent. Additional collateral is to be provided by the next business day if the collateral value falls to less than 100% of the fair value of the securities lent. The System, the OPEB Plan and the Pension Plan did not impose any restrictions during the fiscal year on security loans the custodian made on its behalf. The System, the OPEB Plan and the Pension Plan at year-end had no credit risk exposure to borrowers because the amounts owed to borrowers exceed the amounts the borrowers owe. The System, the OPEB Plan, the Pension Plan or the borrower can terminate securities loans on demand. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted average maturity of 4 days. The System, the OPEB Plan and the Pension Plan cannot pledge or sell collateral securities received unless the borrower defaults. The collateral held and the fair value of securities on loan as of June 30, 2017 totaled \$74.713 million and \$73.085 million, respectively.

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The following is a listing of the Pool's, the OPEB Plan's and the Pension Trust Funds' fixed income investments of bonds, short-term investments and related maturity schedule (in thousands):

Investment Type	Fair Value	Investment Maturities (in years)					
		Less than 1	1 - 4.9	5 - 9.9	10 - 19.9	20 - 30	More than 30
The Pool							
U.S. Government Obligations	\$ 347,436	\$ 345,789	\$ -	\$ 1,621	\$ 26	\$ -	\$ -
The System - Plan A							
U.S. Government Obligations	\$ 52,289	\$ 2,788	\$ 10,896	\$ 12,286	\$ 2,367	\$ 20,514	\$ 3,438
U.S. Agency Securities	76,296	8,868	12,508	21,648	14,290	10,948	8,034
Municipal Bonds	2,021	-	-	-	319	1,702	-
Corporate Debt	116,162	25,922	53,916	15,582	4,598	7,728	8,416
Bond Mutual Funds	372,232	-	80,789	291,443	-	-	-
Foreign Debt	6,095	3,964	541	551	216	772	51
Total	<u>625,095</u>	<u>41,542</u>	<u>158,650</u>	<u>341,510</u>	<u>21,790</u>	<u>41,664</u>	<u>19,939</u>
The System - Plan B							
U.S. Government Obligations	1,595	85	332	375	72	626	105
U.S. Agency Securities	2,326	270	381	660	436	334	245
Municipal Bonds	62	-	-	-	10	52	-
Corporate Debt	3,543	791	1,644	475	140	236	257
Bond Mutual Funds	11,352	-	2,464	8,888	-	-	-
Foreign Debt	186	121	15	17	7	24	2
Total	<u>19,064</u>	<u>1,267</u>	<u>4,836</u>	<u>10,415</u>	<u>665</u>	<u>1,272</u>	<u>609</u>
OPEB Plan							
U.S. Government Obligations	8,360	446	1,742	1,964	378	3,280	550
U.S. Agency Securities	12,200	1,418	2,000	3,461	2,285	1,751	1,285
Municipal Bonds	323	-	-	-	51	272	-
Corporate Debt	18,574	4,145	8,621	2,491	735	1,236	1,346
Bond Mutual Funds	59,517	-	12,918	46,599	-	-	-
Foreign Debt	974	634	86	88	35	123	8
Total	<u>99,948</u>	<u>6,643</u>	<u>25,367</u>	<u>54,603</u>	<u>3,484</u>	<u>6,662</u>	<u>3,189</u>
Pension Plan							
Loan	5,216	5,216	-	-	-	-	-
Bond Mutual Funds	5,541	-	-	5,541	-	-	-
Foreign Debt	6,964	-	2,478	-	-	-	4,486
Total	<u>17,721</u>	<u>5,216</u>	<u>2,478</u>	<u>5,541</u>	<u>-</u>	<u>-</u>	<u>4,486</u>
Total Primary Government	<u>\$ 1,109,264</u>	<u>\$ 400,457</u>	<u>\$ 191,331</u>	<u>\$ 413,690</u>	<u>\$ 25,965</u>	<u>\$ 49,598</u>	<u>\$ 28,223</u>

Interest Rate Risk – To the extent possible, the Pool attempts to match investments with anticipated cash flow requirements. Unless matched to specific cash flow, the Pool will not directly invest in securities maturing more than one year from the date of purchase. The Pension Trust Funds' and the OPEB Plan's policy guidelines do not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Pool's, the Pension Trust Funds' and the OPEB Plan's investment policies are to apply the prudent-person rule: Investments are made as a prudent person would be expected to act with discretion and

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intelligence, to seek reasonable income, preserve capital and in general, avoid speculative investments. As of June 30, 2017, the Pension Trust Funds' and the OPEB Plan's fixed income investments had the following risk characteristics:

Moody's Rating or Comparable	The System - Plan A		The System - Plan B		OPEB Plan		Pension Plan	
	Percent of Total Investments	Fair Value (in thousands)	Percent of Total Investments	Fair Value (in thousands)	Percent of Total Investments	Fair Value (in thousands)	Percent of Total Investments	Fair Value (in thousands)
AAA	22.7%	\$ 142,143	22.7%	\$ 4,335	22.7%	\$ 22,728	0.0%	\$ -
AA	1.4%	9,003	1.4%	275	1.4%	1,439	0.0%	-
A	6.7%	42,074	6.7%	1,283	6.7%	6,727	0.0%	-
BBB	6.2%	38,861	6.2%	1,185	6.2%	6,214	0.0%	-
BB	0.7%	4,431	0.7%	135	0.7%	709	0.0%	-
B	0.2%	1,177	0.2%	36	0.2%	188	0.0%	-
CCC	0.2%	964	0.2%	29	0.2%	154	0.0%	-
CC	0.2%	1,368	0.2%	42	0.2%	219	0.0%	-
Not Rated	61.7%	385,074	61.7%	11,744	61.7%	61,570	100.0%	17,721
Total	100.0%	\$ 625,095	100.0%	\$ 19,064	100.0%	\$ 99,948	100.0%	\$ 17,721

The Pool's fixed income investments of \$347,436 were invested 100% in AAA rated investments.

Foreign Currency Risk – The System's and the OPEB Plan's exposure to foreign currency risk is derived from its positions in foreign currency-denominated common stock and fixed asset investments. Managers are allowed to use derivatives to hedge out foreign currency, however, there is no formal policy regarding foreign currency risk. The System's and the OPEB Plan's exposure to foreign currency risk is as follows:

Currency	Fair Value (in thousands)			
	The System		OPEB Plan	Total
	Plan A	Plan B		
Australian Dollar	\$ 7,225	\$ 220	\$ 1,155	\$ 8,600
Brazil Real	686	21	110	817
Canadian Dollar	1,936	59	310	2,305
Danish Krone	4,167	127	666	4,960
Euro Currency Unit	74,371	2,268	11,891	88,530
Hong Kong Dollar	12,808	391	2,048	15,247
Israeli Shekel	792	25	126	943
Japanese Yen	49,800	1,519	7,963	59,282
New Taiwan Dollar	1,530	47	245	1,822
New Zealand Dollar	336	10	54	400
Norwegian Krone	1,366	42	218	1,626
Pound Sterling	21,680	661	3,466	25,807
Singapore Dollar	3,507	107	561	4,175
South African Rand	240	7	38	285
South Korean Won	7,280	222	1,164	8,666
Swedish Krona	4,602	140	736	5,478
Swiss Franc	13,947	425	2,230	16,602
Thailand Baht	267	8	43	318
Turkish Lira	623	19	100	742
	<u>\$ 207,163</u>	<u>\$ 6,318</u>	<u>\$ 33,124</u>	<u>\$ 246,605</u>

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Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. The System and the OPEB Plan entered into certain futures contracts of which the notional value at June 30, 2017 was \$16.009 million.

The System and the OPEB Plan utilizes certain derivative instruments for the purpose of obtaining income or profit. The derivatives are subject to credit risks, interest rate risk, and foreign currency risk. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2017, classified by type and the changes in fair value of such derivative instruments for the year then ended are as follows:

	Changes in Fair Value (expressed in thousands)		Fair Value as of June 30, 2017 (expressed in thousands)	
	Classification	Amount	Amount	Notional Value
Investment Derivatives				
The System - Plan A				
Futures	Investment revenue	\$ -	\$ (8)	\$ 13,448
Options	Investment revenue	61	60	(6,208)
Swaps	Investment revenue	169	196	(6,164)
Mortgage Derivatives	Investment revenue	(177)	776	776
TBA Transactions	Investment revenue	(44)	9,827	9,827
The System - Plan B				
Futures	Investment revenue	\$ -	\$ -	\$ 410
Options	Investment revenue	2	2	(189)
Swaps	Investment revenue	6	6	(188)
Mortgage Derivatives	Investment revenue	(5)	24	24
TBA Transactions	Investment revenue	(1)	300	300
OPEB Plan				
Futures	Investment revenue	\$ -	\$ (1)	\$ 2,151
Options	Investment revenue	10	10	(993)
Swaps	Investment revenue	26	31	(985)
Mortgage Derivatives	Investment revenue	(28)	124	124
TBA Transactions	Investment revenue	(7)	1,571	1,571

Rationale for derivative strategies: The purpose of using futures and options is to hedge the portfolio to reduce risk and adjust exposure along the yield curve. A short position in total options reduces the portfolio's convexity in exchange for higher yield. A long position increases convexity in exchange for lower yields.

The effect of long and short treasury notes and bond futures is to shift the portfolio's duration to its target position.

The combined effect of Eurodollar and Euribor futures and options is to adjust exposure to the front portion of the yield curve.

Long and short call and put options on notes and bond futures are used to adjust portfolio convexity in exchange for higher yields. Credit default indices and credit default swaps on individual names are used as an efficient, low cost way of adjusting credit exposure on the margin.

Interest rate swaps are used to adjust interest rate exposure and/or as a substitute for the physical security.

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Foreign currency futures, forwards or options are purchased or sold to gain or increase exposure to various currency markets and/or to hedge against foreign currency fluctuations.

Fair Value Measurement - Investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 – Investments reflect prices quoted in active markets for identical assets or liabilities.

Level 2 – Investments reflect prices that are observable for the asset or liability, whether 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, where there is little, if any market activity.

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The following table presents the primary government's recurring fair value measurements as of June 30, 2017

<u>INVESTMENT VALUATION (in Thousands)</u>	<u>Fair Value Measurement Using</u>			
	6/30/2017 Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments by Fair Value Level				
Fixed Income:				
U.S. Government Obligations	\$ 131,371	\$ 119,960	\$ 11,411	\$ -
U.S. Securities and Agencies	80,778	889	79,889	-
Municipal bonds	7,622	-	7,622	-
Corporate bonds	138,131	-	130,474	7,657
Foreign bonds	13,914	-	9,198	4,716
Total Debt Securities	<u>371,816</u>	<u>120,849</u>	<u>238,594</u>	<u>12,373</u>
Equity Securities:				
Domestic	382,399	382,399	-	-
International	247,709	247,709	-	-
Total Equity Securities:	<u>630,108</u>	<u>630,108</u>	<u>-</u>	<u>-</u>
Securities Lending Cash Collateral	25,269	-	25,269	-
Total Investments by Fair Value Level	<u>1,027,193</u>	<u>750,957</u>	<u>263,863</u>	<u>12,373</u>
Investments Measured at the Net Asset Value (NAV):				
Commingled Fixed Income Funds	448,642			
Commingled Domestic Equity	504,163			
Commingled International Equity	462,121			
Real Estate Funds	161,398			
Hedge Fund of Funds	831			
Private Equity Funds	137,866			
Global Asset Allocation	462,951			
Total Investments Measured at the NAV	<u>2,177,972</u>			
Investments Derivative Instruments:				
Futures	(9)	(9)	-	-
Options	72	72	-	-
Swaps	233	-	233	-
Mortgage Derivatives	924	-	924	-
TBAs	11,698	-	11,698	-
Total Investments Derivative Instruments	<u>\$ 12,918</u>	<u>\$ 63</u>	<u>\$ 12,855</u>	<u>\$ -</u>
Total Investments by Fair Value Level	<u><u>\$ 3,218,083</u></u>			

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's risk.

Debt, equities, and investment derivatives classified in Level 1 of the fair value hierarchy are valued based on prices quoted in active markets for those securities, such as the New York Stock Exchange or the Nasdaq stock market. Investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique, which is based on the securities' relationship to benchmark quoted prices. Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates and foreign exchange rates. Securities classified in Level 3 of the fair value hierarchy are valued using unobservable inputs for the asset or liability.

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Investments in Entities That Calculate Net Asset Value Per Share - The fair values of investments in certain equity, fixed income, and marketable alternatives funds are based on the investments' net asset value (NAV) per share (or its equivalent) of the Pool's, the System's and the OPEB Plan's ownership interest in the partners' capital provided by the investee. The fair values of investments in certain private equity funds have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments.

The following table presents the primary government's unfunded commitments, redemption terms and investments measured at the NAV as of June 30, 2017.

Investments Measured at the NAV (expressed in thousands)	Fair Value	Strategy Type	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Loomis Sayes Strategic Alpha	\$ 96,171	Absolute Return	-	Semi-monthly	15 days
Loomis Sayes Credit Asset	34,501	High Yield Debt	-	Semi-monthly	15 days
Pimco Diversified Income	188,073	Global, High Yield, Emg. Mkt.	-	Daily	1 day
Pimco Total Return Fund	5,541	Core Plus	-	Daily	1 day
Stone Harbor Local Market	124,356	Emerging Market Debt	-	Daily	1 day
(a) Commingled Fixed Income Funds	<u>448,642</u>				
Benchmark	41,336	Portable Alpha	-	Annually	90 days
Blackrock US Equity	462,827	Wilshire 5000 Index	-	Daily	3 days
(b) Commingled Domestic Equity	<u>504,163</u>				
Blackrock ACWI Ex-US	142,087	All Country World Ex US Index	-	Daily	5 days
Mondrian Emerging Markets	284,994	Emerging Market Equity	-	Monthly	15 days
Strategic Global Advisors	35,040	MSCI World ex USA Small Cap	-	Daily	5 days
(c) Commingled International Equity	<u>462,121</u>				
Aslan Realty Partners	156	Opportunistic Real Estate	-	N/A	N/A
JP Morgan	47,569	Value Added Real Estate	-	Monthly	15 days
Clarion Lion	56,917	Core Real Estate	-	Quarterly	90 days
UBS Real Estate	56,756	Core Real Estate	-	Quarterly	60 days
(d) Real Estate Funds	<u>161,398</u>				
EIM Management Alternative	641	Hedge Fund-of-Funds	-	N/A	N/A
Federal Street Offshore	190	Hedge Fund-of-Funds	-	N/A	N/A
(e) Hedge Fund of Funds	<u>831</u>				
(f) Private Equity	<u>137,866</u>	Private Equity	72,238	N/A	N/A
Bridgewater All Weather	155,890	Risk Parity	-	Monthly	5 days
Mellon EB DV Global Alpha 1	138,473	Global Asset Allocation	-	Daily	3 days
Wellington WTC-CIF Opportunistic	168,588	Global Asset Allocation	-	Monthly	30 days
(g) Global Asset Allocation	<u>462,951</u>				
Total Investments Measured at NAV	<u>\$ 2,177,972</u>				

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Investments measured at the NAV above comprise of the following:

- (a) Commingled Fixed Income Funds – This type includes investments in five funds, utilizing a variety of strategies which include Absolute Return, High Yield Debt and Emerging Market Debt. Three of the funds may be redeemed daily and the other two funds may be redeemed semi-monthly. The fair value of the investments in this type has been determined using the NAV per share (or its equivalent) of the investments.
- (b) Commingled Domestic Equity Funds – This type includes two funds with investments in U.S. common stocks. The strategy type employed are Portable Alpha and the Wilshire 5000 index. The fund utilizing the Portable Alpha strategy may only be redeemed annually with a redemption notice period of ninety days. The fund utilizing the Wiltshire 5000 index strategy may be redeemed daily with a redemption notice period of three days. The fair value of the investments in this type has been determined using the NAV per share (or its equivalent) of the investments.
- (c) Commingled International Equity Funds – This type includes two funds. One of the funds utilizes the All Country World Ex-US Index, with a daily redemption frequency and a redemption notice period of five days. The second fund utilizes an Emerging Market Equity strategy with a monthly redemption frequency and a redemption notice period of fifteen days. The fair value of the investments in this type has been determined using the NAV per share (or its equivalent) of the investments.
- (d) Real Estate Funds – This type includes four funds that invest primarily in U.S. commercial real estate. The fund utilizing the Opportunistic Real Estate strategy is a closed fund. It is expected the assets will be liquidated over five to ten years. The strategy type for two of these funds is Core Real Estate and the fourth fund employs a Value Added Real Estate strategy. The fair value of the investments in this type has been determined using the NAV per share (or its equivalent) of the investments.
- (e) Hedge Fund of Funds – This type includes two funds. These funds are in liquidation. The fair value of the investments in this type has been determined using the NAV per share (or its equivalent) of the investments.
- (f) Private Equity Funds – This type includes thirty two funds whose investments are not publicly traded on a stock exchange. These investments cannot be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be generally liquidated over ten years. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital.
- (g) Global Asset Allocation – This type includes three funds. One fund utilizes the Risk Parity strategy and the other two funds employ Global Tactical Asset Allocation (GTAA). GTAA is designed to balance risk by investing in a variety of asset classes through active management. Funds may be invested in global equities, bonds and commodities. One fund allows daily redemptions with a redemption notice period of three days. The other two funds allow only monthly redemptions. The redemption period is five and thirty days, respectively. The fair value of the investments in this type has been determined using the NAV per share (or its equivalent) of the investments.

4. PROPERTY TAX:

The major portion of the County's property tax is levied each July 1 on the assessed value listed as of that date for all real and personal property located in the County.

Assessed values are established by the Maryland Department of Assessments and Taxation at one hundred percent of estimated market value. The assessed value of taxable real and personal property in the County for fiscal year 2017 was \$82.1 billion.

The property tax rate for the year ended June 30, 2017 was \$1.10 for real property and \$2.75 for personal property

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per \$100 of assessed valuation. The current tax collections for the year were 99.6% of the tax levied. Property taxes are recorded as receivables in the General Fund at the levy date with appropriate allowances for estimated uncollectible amounts as described in Note 5.

The full year property tax calendar is as follows:

*July 1 - Full year levy assessed for current fiscal year.

*July 31 - Bills paid during July are granted a 1% discount.

August 31 - Bills paid during August are granted a ½% discount.

September 30 - First semiannual installment is due if eligible property owners elect the semiannual payment option for real property taxes.

October-April - Delinquent taxes accrue interest at the rate of 1% a month from October 1 to date of payment

December 1 - Second installment due on real property taxes if paying on a semiannual basis.

June - Delinquent real properties are sold at the annual tax sale.

*A 1% discount is granted if paid within 30 days, for bills dated other than July.

5. RECEIVABLES (in thousands):

Receivables as of June 30, 2017 for the County's major funds and Internal Service Funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities					Total Receivables
	General	Gifts and Grants	Consolidated Public Improvement Construction	Nonmajor and Internal Service	Metropolitan District	
Property taxes	\$ 9,879	\$ -	\$ -	\$ -	\$ -	\$ 9,879
Accounts	43,412	-	-	3,256	1,176	47,844
Intergovernmental	134,446	25,021	2,038	-	6,281	167,786
Assessments	164	-	2,707	158	108,233	111,262
Loans	599	67,738	-	-	-	68,337
Interest	77	-	-	-	-	77
Total receivables	<u>188,577</u>	<u>92,759</u>	<u>4,745</u>	<u>3,414</u>	<u>115,690</u>	<u>405,185</u>
Allowance for uncollectible accounts	<u>(2,721)</u>	<u>(31,720)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,441)</u>
Net total receivables	<u>\$ 185,856</u>	<u>\$ 61,039</u>	<u>\$ 4,745</u>	<u>\$ 3,414</u>	<u>\$ 115,690</u>	<u>\$ 370,744</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 73</u>	<u>\$ 34,864</u>	<u>\$ 1,990</u>	<u>\$ -</u>	<u>\$ 94,363</u>	<u>\$ 131,290</u>

At June 30, 2017, the County has recorded \$67.738 million of outstanding loans receivable in the Gifts and Grants Fund. Of these receivables, \$56.815 million are for loans made to residents and developers to acquire, rehab, or repair low-income housing units or to provide funds for settlement costs to qualified first-time home buyers under various federally funded financial assistance programs. Approximately \$31.720 million of these loans are offset by an allowance for uncollectible accounts because collections are highly uncertain. In many cases, the loan repayment is forgiven if the resident/developer complies with certain federal requirements, which may include residing in the property for a stated number of years.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. The various components of deferred inflows and unearned revenue reported in the governmental funds as of June 30, 2017 were as follows:

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	Unavailable	Unearned	Total
Property taxes	\$ 7,573	\$ 691	\$ 8,264
Income taxes	75,937	-	75,937
Interest subsidy	840	-	840
Economic and community development loans	36,614	-	36,614
Special assessments not yet due	2,857	-	2,857
Grant funds received prior to meeting all eligibility requirements	-	3,648	3,648
Total	\$ 123,821	\$ 4,339	\$ 128,160

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (in thousands):

The composition of interfund balances as of June 30, 2017 is as follows:

Receivable fund	Payable fund	Purpose	Amount
General	Consolidated Public Improvement Construction	Deficit cash balance	\$ 43,626
		Total	<u>\$ 43,626</u>

Interfund transfers for the fiscal year ended June 30, 2017 were as follows:

Transferred from	Transferred to			Total
	General	Gifts and Grants	Consolidated Public Improvement Construction	
General	\$ -	\$ 6,673	\$ 155,530	\$ 162,203
Gifts and Grants	372	-	-	372
Consolidated Public Improvement Construction	1,045	3,957	-	5,002
Nonmajor Governmental Funds	-	450	10,785	11,235
Metropolitan District	242	-	-	242
Internal Service Funds	703	-	-	703
Total transfers	<u>\$ 2,362</u>	<u>\$ 11,080</u>	<u>\$ 166,315</u>	<u>\$ 179,757</u>

The transfers from the General Fund to the Consolidated Public Improvement Construction Fund (CPI) are pay-as-you-go funding for capital projects. Net transfers of \$6.301 million between the General Fund and the Gifts and Grants Fund are County matching funds for grant funded programs. A transfer of \$10.785 million from the Stormwater Management Fund to CPI is allocated for capital improvements to reduce stormwater runoff into the Chesapeake Bay. Transfers totaling \$3.957 million from CPI to the Gifts and Grants Fund are contributions for loans and grants. The remaining transfers are various funding contributions for designated grant programs.

As of June 30, 2017, receivable and payable balances remained between the primary government and its discretely presented component units. These balances and transactions are a result of the primary government's ongoing funding of the component units' capital and operating costs. Receivables and payables between the primary government and the component units do not equal due to timing differences.

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7. CAPITAL ASSETS (in thousands):

A summary of the primary government's changes in capital assets for the year ended June 30, 2017 is reported below:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 290,144	\$ 1,109	\$ (292)	\$ 290,961
Construction in progress	548,532	125,530	(63,839)	610,223
Total capital assets not being depreciated	<u>838,676</u>	<u>126,639</u>	<u>(64,131)</u>	<u>901,184</u>
Capital assets being depreciated:				
Buildings and improvements	527,036	34,250	-	561,286
Machinery and equipment	121,279	3,450	(5,232)	119,497
Vehicles	128,225	8,345	(5,277)	131,293
Infrastructure	2,531,117	32,598	(44)	2,563,671
Total capital assets being depreciated	<u>3,307,657</u>	<u>78,643</u>	<u>(10,553)</u>	<u>3,375,747</u>
Less accumulated depreciation for:				
Buildings and improvements	(200,122)	(13,781)	-	(213,903)
Machinery and equipment	(64,693)	(8,571)	5,124	(68,140)
Vehicles	(81,187)	(9,121)	5,106	(85,202)
Infrastructure	(1,339,022)	(51,254)	1	(1,390,275)
Total accumulated depreciation	<u>(1,685,024)</u>	<u>(82,727)</u>	<u>10,231</u>	<u>(1,757,520)</u>
Total capital assets being depreciated, net	<u>1,622,633</u>	<u>(4,084)</u>	<u>(322)</u>	<u>1,618,227</u>
Governmental activities capital assets, net	<u>\$ 2,461,309</u>	<u>\$ 122,555</u>	<u>\$ (64,453)</u>	<u>\$ 2,519,411</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 1,317	\$ -	\$ -	\$ 1,317
Construction in progress	230,876	64,321	(59,066)	236,131
Total capital assets not being depreciated	<u>232,193</u>	<u>64,321</u>	<u>(59,066)</u>	<u>237,448</u>
Capital assets being depreciated:				
Buildings and improvements	197,436	3,320	-	200,756
Machinery and equipment	1,309	-	-	1,309
Vehicles	11,009	-	(367)	10,642
Infrastructure	1,333,756	73,823	-	1,407,579
Total capital assets being depreciated	<u>1,543,510</u>	<u>77,143</u>	<u>(367)</u>	<u>1,620,286</u>
Less accumulated depreciation for:				
Buildings and improvements	(88,354)	(5,836)	-	(94,190)
Machinery and equipment	(650)	(69)	-	(719)
Vehicles	(6,431)	(899)	367	(6,963)
Infrastructure	(381,426)	(24,262)	-	(405,688)
Total accumulated depreciation	<u>(476,861)</u>	<u>(31,066)</u>	<u>367</u>	<u>(507,560)</u>
Total capital assets being depreciated, net	<u>1,066,649</u>	<u>46,077</u>	<u>-</u>	<u>1,112,726</u>
Business-type activities capital assets, net	<u>\$ 1,298,842</u>	<u>\$ 110,398</u>	<u>\$ (59,066)</u>	<u>\$ 1,350,174</u>

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Depreciation expense was charged to primary government functions as follows:

Governmental activities:	
General government	\$ 12,713
Public safety	6,077
Public works, which includes the depreciation of infrastructure assets	50,952
Health and human services	1,246
Culture and leisure services	8,979
Economic and community development	17
Capital assets held by the County's internal service funds is charged to the various activities based on their usage of the assets.	<u>2,743</u>
Total depreciation expense - governmental activities	<u><u>\$ 82,727</u></u>

Business-type activities:	
Water and sewer services, which include the depreciation of infrastructure assets	<u>\$ 31,066</u>
Total depreciation expense - business-type activities	<u><u>\$ 31,066</u></u>

A summary of the component units' changes in capital assets is reported below:

	Beginning Balance	Increases	Decreases	Ending Balance
Board of Education of Baltimore County				
Capital assets not being depreciated:				
Land	\$ 30,526	\$ -	\$ -	\$ 30,526
Construction in progress	355,944	185,326	(295,171)	246,099
Total capital assets not being depreciated	<u>386,470</u>	<u>185,326</u>	<u>(295,171)</u>	<u>276,625</u>
Capital assets being depreciated:				
Buildings	1,752,489	288,969	-	2,041,458
Improvements other than buildings	98,512	3,202	-	101,714
Equipment and vehicles	154,597	13,368	(3,874)	164,091
Total capital assets being depreciated	<u>2,005,598</u>	<u>305,539</u>	<u>(3,874)</u>	<u>2,307,263</u>
Less accumulated depreciation	<u>(781,692)</u>	<u>(73,112)</u>	<u>3,703</u>	<u>(851,101)</u>
Total capital assets being depreciated, net	<u>1,223,906</u>	<u>232,427</u>	<u>(171)</u>	<u>1,456,162</u>
Board of Education capital assets, net	<u><u>\$ 1,610,376</u></u>	<u><u>\$ 417,753</u></u>	<u><u>\$(295,342)</u></u>	<u><u>\$ 1,732,787</u></u>

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	Beginning Balance	Increases	Decreases	Ending Balance
The Community College of Baltimore County				
Capital assets not being depreciated:				
Land	\$ 4,798	\$ -	\$ -	\$ 4,798
Construction in progress	3,286	7,544	(3,394)	7,436
Total capital assets not being depreciated	<u>8,084</u>	<u>7,544</u>	<u>(3,394)</u>	<u>12,234</u>
Capital assets being depreciated:				
Buildings and improvements	246,298	3,029	-	249,327
Infrastructure	27,814	366	-	28,180
Equipment and vehicles	25,595	2,167	(11)	27,751
Library materials	5,996	86	(2,961)	3,121
Total capital assets being depreciated	<u>305,703</u>	<u>5,648</u>	<u>(2,972)</u>	<u>308,379</u>
Less accumulated depreciation	<u>(133,243)</u>	<u>(13,172)</u>	<u>2,972</u>	<u>(143,443)</u>
Total capital assets being depreciated, net	<u>172,460</u>	<u>(7,524)</u>	<u>-</u>	<u>164,936</u>
The Community College of Baltimore County capital assets, net	<u>\$ 180,544</u>	<u>\$ 20</u>	<u>\$ (3,394)</u>	<u>\$ 177,170</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Board of Library Trustees for Baltimore County				
Capital assets being depreciated:				
Equipment and vehicles	\$ 8,633	\$ 57	\$ -	\$ 8,690
Circulation materials	16,477	5,089	(5,620)	15,946
Total capital assets being depreciated	<u>25,110</u>	<u>5,146</u>	<u>(5,620)</u>	<u>24,636</u>
Less accumulated depreciation	<u>(15,488)</u>	<u>(5,943)</u>	<u>5,620</u>	<u>(15,811)</u>
Board of Library Trustees for Baltimore County capital assets, net	<u>\$ 9,622</u>	<u>\$ (797)</u>	<u>\$ -</u>	<u>\$ 8,825</u>

8. LONG-TERM OBLIGATIONS:

The County's principal long-term obligations are general obligation bonds and commercial paper bond anticipation notes (BANs) issued to finance the construction of county-wide public capital projects, water and sewer facilities within the County's Metropolitan District, and to finance pension obligations of the System and the Pension Plan. The County's full faith, credit and unlimited taxing power are irrevocably pledged to the payment of the principal and interest of these bonds and notes.

Other long-term obligations include the accrued liability for vested compensated absences, estimated landfill closing costs, certificates of participation and loans payable. The County considers all non-proprietary funds vested compensated absences to be long-term debt. Of the primary government's general long-term debt, only the redemption of the BANs and the liability for landfill closing costs are expected to be paid with bond proceeds.

The County Charter authorizes the County Council by appropriate resolution to issue bonds, other than

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Metropolitan District bonds, up to a debt limit of 4% of the County's assessable property base, and Metropolitan District bonds up to a debt limit of 3.2% of the District's assessable property base. Information related to these limitations are as follows:

	(in thousands)	
	General Bonds	Metropolitan District
Legal limitation for the borrowing of funds and issuance of bonds	\$ 3,284,073	\$ 2,333,883
General obligation debt outstanding applicable to debt limit	1,821,096	1,332,298

General obligation debt issuances require approval by voter referendum. Approved and unissued general obligation bonded debt totaled \$798,088,347 as of June 30, 2017, comprised of \$418,745,881 for public schools, \$350,402,896 for public facilities and 28,939,570 for the Community College. Appropriated and unissued Metropolitan District bonded debt totaled \$817,729,190 as of June 30, 2017.

General Obligation Bonds

On August 3, 2016, the County settled the issuance of \$150 million Taxable General Obligation Pension Funding Bonds – 2016 Series. The Bonds are being issued to fund the present value of the increased liabilities of the portion of the Employees' Retirement System of Baltimore County (the "System") closed to new membership effective as of July 1, 2007 (Plan A) resulting from the reduction of the valuation rate by the Board of Trustees of the System from 6.75% to 6.375%. The proceeds of the Bonds were used to purchase investments for the benefit of the Plan A and to pay the underwriter's discount and the cost of issuance of the Bonds. The Bonds are due July 1, in each of the years 2017 to 2036, inclusive, and 2046. The interest rates range from 0.600% to 3.303%. The Bonds are subject to redemption as a whole or in part, at any time, in any order of maturities, at the option of the County. The Bonds maturing July 1, 2046 are subject to mandatory sinking fund redemption in each of the years 2037 through 2046 inclusive.

On March 15, 2017, the County sold \$199,100,000 General Obligation Bonds, consisting of \$99,300,000 Metropolitan District Bonds – 78th Issue, for the payment of Baltimore County Metropolitan District Bond Anticipation Notes and \$99,800,000 Consolidated Public Improvement Bonds 2017 Series, for the payment of Baltimore County Consolidated Public Improvement Bond Anticipation Notes. The Metropolitan District Bonds are due March 1, in each of the years 2019 to 2047, inclusive, and bear a true interest cost of 3.40%. The Consolidated Public Improvement Bonds are due March 1, in each of the years 2019 to 2037, inclusive, and bear a true interest cost of 2.96%.

General Obligation Bond Anticipation Notes (BANs)

On March 15, 2017, the County issued \$346 million Fixed Rate (FR) BANs for the purpose of providing funds for capital improvement projects. Of the \$346 million FR BANs, \$121 million were issued as Consolidated Public Improvement (CPI) FR BANs, and \$225 million were issued as Metropolitan District (MD) FR BANs, maturing on March 16, 2018. The true interest cost for the CPI FR BANs and the MD FR BANs was 0.90% and 0.85%, respectively.

Maryland Water Quality Financing Agreement

During fiscal year 2017, the County issued \$51,063,684 in Metropolitan District Bonds through the Maryland Water Quality Revolving Loan Fund. The Fund subsidizes the interest rate on sewer and water projects. As of June 30, 2017, the balance outstanding was \$154,703,541.

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General Obligation Bonds Defeasance

In prior years, the County defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. As of June 30, 2017, \$206,000,000 of bonds were refunded and are considered defeased.

Single Stream Recycling Loan

The County has a conditional purchase agreement with the Baltimore County Police, Fire and Widows Pension Plan that was used to finance a waste transfer station upgrade and to procure and install a single stream recyclables processing system at the County's Resource Recovery Facility in Cockeysville, Maryland. The principal component of the loan is to be repaid monthly commencing July 1, 2014 through June 30, 2018. The interest component of the loan has been paid monthly at an annual rate of 7.875%. As of June 30, 2017, the balance of outstanding principal was \$5,215,834.

Certificates of Participation

The County entered into a ten-year conditional equipment purchase agreement on September 27, 2016. The equipment consists of the acquisition of (i) heavy equipment and vehicles for use primarily in the County's Public Works department, (ii) fire trucks, medic units, and public safety equipment, and (iii) information technology hardware for various departments including 911 equipment. The conditional purchase agreement was financed through the sale of certificates of participation in the aggregate principal of \$63,715,000. The certificates of participation are due October 1, in each of the years 2017 to 2026, inclusive, and bear a true interest cost of 1.58%.

Other

The County issues debt to finance the construction of certain capital facilities of its component units and for major water and sewer projects done in conjunction with the City of Baltimore (the "City"), which decreases the "Unrestricted" net position component in the statement of net position. The following summarizes these situations where the County is reporting the debt in its financial statements, while the corresponding assets are reported by the other reporting entity.

- The Board of Education and the Community College have no authority to issue bonded debt. That authority rests with the County subject to voter approval. The County had \$676.62 million of its net Consolidated Public Improvement general obligation bonds outstanding (net of unamortized premiums and deferred charges) that is related to capital facilities of the component units as of June 30, 2017.
- The Metropolitan District Act requires the City to provide water to the County's Metropolitan District. The City also treats sewage from the Metropolitan District at cost. The County has agreed to pay the City on a pro-rata basis for construction of certain City owned sewer and water capital projects that serve the Metropolitan District. The County's contributions towards these City owned facilities are funded primarily with bond proceeds. The County estimates 40.7% of its net Metropolitan District general obligation bonds outstanding or \$555.454 million is related to these facilities as of June 30, 2017.

At June 30, 2017, the County has accrued \$17.58 million of estimated closure and postclosure care costs for its one active landfill. State and federal laws require the County to place a final cover on its open landfill when it stops accepting waste in approximately 2052 and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure costs generally will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these costs as a liability in the Governmental Activities of the Statement of Net Position based on the landfill capacity used as of the end of the fiscal year. The amount included in the landfill closure and postclosure care costs liability at June 30, 2017 represents the

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cumulative unspent amount reported to date based on the use of 58.0% of the estimated landfill capacity. The County will recognize the remaining estimated cost of closure and postclosure care of \$12.72 million as the remaining estimated capacity is filled. The actual cost may differ due to inflation, changes in technology, or changes in regulations. The County intends to finance these costs primarily with bond proceeds in its Consolidated Public Improvement Construction Fund.

Financial assurance provisions of federal regulations require owners and operators of municipal solid waste landfills to demonstrate that adequate funds will be readily available for the costs of closure, post closure care, and corrective action associated with their facilities. The County had demonstrated that it met the local government financial test assurance mechanism as of December 31, 2016 and has placed appropriate documents in the operating record of its active landfill.

The County has participated in the issuance of economic development revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities. The County is not obligated in any manner for repayment of the bonds, and therefore they are not reported as liabilities in the financial statements. The aggregate outstanding principal amount as of June 30, 2017 for bonds issued prior to July 1, 1996 could not be determined, however, the original issue amounts approximate \$418.87 million. The aggregate principal amount payable for bonds issued after July 1, 1996 was 203.28 million at June 30, 2017.

The State of Maryland allows Maryland residents who earn personal income in jurisdictions outside Maryland to take a credit against their Maryland State income taxes for the income taxes paid to other jurisdictions. Maryland has not allowed this credit against Maryland County or Municipal income taxes. A suit was brought against the State, the Wynne Case, asserting that this unequal treatment violated the Federal Commerce Clause. The State lost the case before the Maryland Court of Appeals and the U.S. Supreme Court has upheld that ruling. As a result, the State must allow credits against county income taxes. The impact to the County will be a loss of current revenues, as well as refunds of overpayments for the prior tax years which the state will recoup from income tax revenue distributions to the County over 20 quarters starting in May 2019. The County has recognized an estimated \$49.969 million liability in its government-wide statements and has assigned \$25.427 million of its General Fund fund balance for these refunds.

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Long-term liability activity for the year ended June 30, 2017 is as follows (in thousands):

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
Primary Government:					
Governmental activities:					
General obligation debt					
Consolidated public improvement bonds	\$ 1,311,740	\$ 99,800	\$ (88,185)	\$ 1,323,355	\$ 94,040
Pension funding bonds	238,928	144,000	(6,187)	376,741	8,059
Bond anticipation notes	99,800	121,000	(99,800)	121,000	121,000
	<u>1,650,468</u>	<u>364,800</u>	<u>(194,172)</u>	<u>1,821,096</u>	<u>223,099</u>
Add remaining original issue premium	113,801	14,932	(20,643)	108,090	-
Less remaining original issue discount	(1,426)	-	113	(1,313)	-
Total general obligation debt	<u>1,762,843</u>	<u>379,732</u>	<u>(214,702)</u>	<u>1,927,873</u>	<u>223,099</u>
Certificates of participation	82,665	59,810	(14,780)	127,695	15,481
Add remaining original issue premium	5,901	11,950	(3,341)	14,510	-
Total certificates of participation	<u>88,566</u>	<u>71,760</u>	<u>(18,121)</u>	<u>142,205</u>	<u>15,481</u>
Other long-term liabilities					
Loan payable	10,038	1,091	(5,913)	5,216	841
Compensated absences	65,734	59,130	(56,608)	68,256	66,277
Claims payable	58,297	284,381	(276,824)	65,854	36,506
Other post employment benefits	182,217	61,801	(16,000)	228,018	-
Net pension liability	1,299,079	286,816 *	-	1,585,895	-
Disputed taxes	48,093	1,876	-	49,969	-
Estimated landfill closing costs	16,793	784	-	17,577	-
Total other long-term liabilities	<u>1,680,251</u>	<u>695,879</u>	<u>(355,345)</u>	<u>2,020,785</u>	<u>103,624</u>
Total governmental activities long-term liabilities	<u>\$ 3,531,660</u>	<u>\$ 1,147,371</u>	<u>\$ (588,168)</u>	<u>\$ 4,090,863</u>	<u>\$ 342,204</u>
Business-type activities:					
General obligation debt					
Metropolitan District bonds	\$ 993,411	\$ 150,364	\$ (52,176)	\$ 1,091,599	\$ 52,383
Pension funding bonds	9,957	6,000	(258)	15,699	336
Bond anticipation notes	99,300	225,000	(99,300)	225,000	225,000
	<u>1,102,668</u>	<u>381,364</u>	<u>(151,734)</u>	<u>1,332,298</u>	<u>277,719</u>
Add remaining original issue premium	61,482	14,945	(8,837)	67,590	-
Total general obligation debt	<u>1,164,150</u>	<u>396,309</u>	<u>(160,571)</u>	<u>1,399,888</u>	<u>277,719</u>
Certificates of participation	3,575	3,905	(625)	6,855	669
Add remaining original issue premium	300	780	(192)	888	-
Total certificates of participation	<u>3,875</u>	<u>4,685</u>	<u>(817)</u>	<u>7,743</u>	<u>669</u>
Compensated absences	1,746	1,128	(1,048)	1,826	1,749
Net pension liability	36,236	12,798 *	-	49,034	-
Total business-type activities long-term liabilities	<u>\$ 1,206,007</u>	<u>\$ 414,920</u>	<u>\$ (162,436)</u>	<u>\$ 1,458,491</u>	<u>\$ 280,137</u>

* Net increase is shown

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
Component Units:					
Board of Education:					
Compensated absences	\$ 24,184	\$ 14,746	\$ (15,091)	\$ 23,839	\$ 14,745
Capital leases	42,650	5,052	(9,026)	38,676	8,269
Claims payable	12,797	8,137	(7,407)	13,527	6,400
Net OPEB obligation	20,074	64,699	(44,068)	40,705	-
Net pension liability	126,832	-	(2,492)	124,340	-
Total Board of Education	<u>226,537</u>	<u>92,634</u>	<u>(78,084)</u>	<u>241,087</u>	<u>29,414</u>
Community College:					
Compensated absences	6,753	16	-	6,769	4,189
Capital leases	-	1,256	(306)	950	311
Net OPEB obligation	2,628	829	-	3,457	-
Net pension liability	6,803	-	(1,235)	5,568	-
Total Community College	<u>16,184</u>	<u>2,101</u>	<u>(1,541)</u>	<u>16,744</u>	<u>4,500</u>
Board of Library Trustees:					
Compensated absences	1,062	34	-	1,096	1,096
Net OPEB obligation	2,003	246	-	2,249	-
Net pension liability	2,478	-	(305)	2,173	-
Total Board of Library Trustees	<u>5,543</u>	<u>280</u>	<u>(305)</u>	<u>5,518</u>	<u>1,096</u>
Total component unit long-term liabilities	<u>\$ 248,264</u>	<u>\$ 95,015</u>	<u>\$ (79,930)</u>	<u>\$ 263,349</u>	<u>\$ 35,010</u>

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

General long-term debt currently outstanding as of June 30, 2017 is as follows:

Governmental Activities:
(in thousands)

General Obligation Debt:

Bonds

Dated	Original Maturity Range	Interest Rate Range	Issue Amount	Balance 6/30/2017	Unamortized Premium/ (Discount)	Carrying Value 6/30/2017
01/03/08	2009-2028	4.000 - 5.000	140,000	7,000	50	7,050
02/24/09	2009-2018	2.000 - 5.000	26,880 *	10,355	196	10,551
11/05/09	2010-2025	6.150 - 6.150	19,400	19,400	(1,313)	18,087
11/10/09	2010-2029	0.650 - 5.650	155,570	104,600	215	104,815
08/10/10	2011-2022	2.500 - 4.000	13,565 *	13,535	602	14,137
11/09/10	2012-2017	5.000 - 5.000	70,050	14,000	151	14,151
11/09/10	2012-2029	3.110 - 4.900	19,950	19,950	-	19,950
11/09/10	2018-2030	4.970 - 4.970	177,000	177,000	-	177,000
11/30/11	2013-2032	3.000 - 5.000	170,000	135,000	10,923	145,923
12/12/12	2013-2024	2.000 - 5.000	94,080 *	61,160	4,711	65,871
12/12/12	2013-2032	3.000 - 5.000	193,000	169,000	16,485	185,485
12/13/12	2013-2042	0.416 - 3.739	246,077 **	232,741	-	232,741
02/20/14	2016-2034	3.000 - 5.000	140,000	131,000	7,617	138,617
06/26/14	2015-2020	4.000 - 5.000	39,530 *	23,455	1,194	24,649
07/15/14	2015-2025	3.000 - 4.500	48,235 *	48,225	3,808	52,033
12/23/14	2015-2038	2.000 - 5.000	116,000	108,750	16,407	125,157
06/30/15	2016-2027	2.000 - 5.000	69,130 *	69,125	9,859	78,984
03/08/16	2018-2036	5.000 - 5.000	112,000	112,000	21,426	133,426
08/03/16	2017-2036	0.600 - 3.303	144,000 **	144,000	-	144,000
03/15/17	2019-2037	4.000 - 4.000	99,800	99,800	11,854	111,654
			<u>2,094,267</u>	<u>1,700,096</u>	<u>104,185</u>	<u>1,804,281</u>

Bond Anticipation Notes

03/15/17	2017-2018	3.000 - 3.000	121,000	121,000	2,592	123,592
			<u>121,000</u>	<u>121,000</u>	<u>2,592</u>	<u>123,592</u>

Total General Obligation Debt

\$ 2,215,267 \$ 1,821,096 \$ 106,777 \$ 1,927,873

Certificates of Participation

08/12/08	2009-2018	3.250 - 5.000	\$ 34,700	\$ 9,000	\$ 54	\$ 9,054
06/19/12	2013-2022	3.000 - 5.000	78,430	52,000	3,822	55,822
02/06/13	2013-2021	1.500 - 3.000	11,830 *	6,885	237	7,122
09/27/16	2017-2026	5.000 - 5.000	59,810	59,810	10,397	70,207
	Total Certificates of Participation		<u>\$ 184,770</u>	<u>\$ 127,695</u>	<u>\$ 14,510</u>	<u>\$ 142,205</u>

Loan Payable

08/15/13	2014-2021	7.875 - 7.875	\$ 18,617	\$ 5,216	\$ -	\$ 5,216
	Total Loan Payable		<u>\$ 18,617</u>	<u>\$ 5,216</u>	<u>\$ -</u>	<u>\$ 5,216</u>

* Refunding issue

** Taxable Issue

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

Business-type Activities:
(in thousands)

General Obligation Debt:
Bonds

Dated	Original Maturity Range	Interest Rate Range	Issue Amount	Balance 6/30/2017	Unamortized Premium	Carrying Value 6/30/2017
03/22/00	2001-2020	2.600 - 2.600	14,417	2,767	-	2,767
06/22/01	2003-2022	2.300 - 2.300	14,105	4,321	-	4,321
06/26/02	2004-2023	2.000 - 2.000	7,006	2,074	-	2,074
03/11/03	2004-2023	1.100 - 1.100	8,638	2,732	-	2,732
07/16/04	2005-2025	1.200 - 1.200	8,501	1,738	-	1,738
09/12/05	2006-2024	1.000 - 1.000	21,146	7,999	-	7,999
07/31/07	2008-2027	1.000 - 1.000	16,794	9,126	-	9,126
01/03/08	2009-2038	4.250 - 5.000	200,000	7,000	50	7,050
02/24/09	2009-2018	3.000 - 5.000	24,515 *	3,335	49	3,384
11/10/09	2010-2039	0.650 - 5.600	106,600	81,400	157	81,557
12/18/09	2011-2032	1.000 - 1.000	15,625	12,258	-	12,258
08/10/10	2011-2030	2.000 - 4.500	61,720 *	60,720	2,297	63,017
11/09/10	2012-2018	2.000 - 5.000	30,100	8,600	142	8,742
11/09/10	2019-2040	2.000 - 5.050	93,900	93,900	-	93,900
11/30/11	2013-2042	3.000 - 5.000	85,000	70,500	3,448	73,948
05/31/12	2014-2032	1.800 - 1.800	43,161	36,377	-	36,377
12/12/12	2013-2032	2.250 - 5.000	18,005 *	8,245	53	8,298
12/12/12	2013-2042	2.000 - 5.000	60,000	52,000	1,539	53,539
12/13/12	2015-2042	0.416 - 3.739	10,213 **	9,699	-	9,699
09/10/13	2013-2034	2.200 - 2.200	9,052	7,604	-	7,604
02/20/14	2016-2034	3.000 - 5.000	60,000	55,800	1,988	57,788
02/20/14	2015-2020	4.000 - 5.000	30,325 *	27,135	1,264	28,399
06/26/14	2015-2020	4.000 - 5.000	20,790 *	11,885	487	12,372
07/15/14	2015-2025	3.000 - 4.500	26,370 *	26,360	1,735	28,095
12/23/14	2015-2038	2.000 - 5.000	84,000	78,400	12,568	90,968
06/30/15	2016-2017	2.000 - 5.000	101,765 *	101,760	10,084	111,844
09/25/15	2016-2035	1.600 - 1.600	64,113	60,212	-	60,212
03/08/16	2017-2038	2.000 - 4.000	65,705 *	65,555	1,330	66,885
03/08/16	2017-2046	5.000 - 5.000	88,000	85,000	15,798	100,798
07/29/16	2017-2046	1.300 - 1.300	8,495	7,496	-	7,496
08/03/16	2017-2036	0.600 - 3.303	6,000 **	6,000	-	6,000
03/15/17	2019-2047	4.000 - 5.000	99,300	99,300	9,691	108,991
			<u>1,503,361</u>	<u>1,107,298</u>	<u>62,680</u>	<u>1,169,978</u>
Bond Anticipation Notes						
03/15/17	2017-2018	0.020 - 0.480	225,000	225,000	4,910	229,910
			<u>225,000</u>	<u>225,000</u>	<u>4,910</u>	<u>229,910</u>
Total General Obligation Debt			<u>\$ 1,728,361</u>	<u>\$ 1,332,298</u>	<u>\$ 67,590</u>	<u>\$ 1,399,888</u>

Certificates of Participation

08/12/08	2009-2018	3.250 - 5.000	\$ 2,000	\$ 400	\$ 2	\$ 402
06/19/12	2013-2022	3.000 - 5.000	4,250	2,550	207	2,757
09/27/16	2017-2026	5.000 - 5.000	3,905	3,905	679	4,584
Total Certificates of Participation			<u>\$ 10,155</u>	<u>\$ 6,855</u>	<u>\$ 888</u>	<u>\$ 7,743</u>

* Refunding issue
** Taxable issue

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

The following is a schedule of the primary government's debt service payments for certain long-term debt as of June 30, 2017:

Fiscal Year Ended June 30	Governmental Activities					
	General Obligation Debt		COPs & Other Long-term Debt		Total Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 223,099	\$ 61,862	\$ 16,322	\$ 729	\$ 239,421	\$ 62,591
2019	108,537	60,219	21,411	2,178	129,948	62,397
2020	105,761	58,199	16,941	2,761	122,702	60,960
2021	104,086	55,450	21,356	3,225	125,442	58,675
2022	103,923	50,888	16,026	2,429	119,949	53,317
2023-2027	493,952	189,692	40,855	4,307	534,807	193,999
2028-2032	375,778	97,478	-	-	375,778	97,478
2033-2037	169,477	30,844	-	-	169,477	30,844
2038-2042	88,996	16,370	-	-	88,996	16,370
2043-2047	47,487	1,271	-	-	47,487	1,271
Total	<u>\$ 1,821,096</u>	<u>\$ 622,273</u>	<u>\$ 132,911</u>	<u>\$ 15,629</u>	<u>\$ 1,954,007</u>	<u>\$ 637,902</u>

Fiscal Year Ended June 30	Business-type Activities					
	General Obligation Debt		COPs		Total Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 277,719	\$ 31,827	\$ 669	\$ 15	\$ 278,388	\$ 31,842
2019	56,602	34,941	1,054	101	57,656	35,042
2020	54,834	39,570	854	151	55,688	39,721
2021	54,305	37,836	854	192	55,159	38,028
2022	54,273	35,783	854	150	55,127	35,933
2023-2027	257,750	148,334	2,570	279	260,320	148,613
2028-2032	240,129	99,877	-	-	240,129	99,877
2033-2037	175,459	56,758	-	-	175,459	56,758
2038-2042	116,249	23,089	-	-	116,249	23,089
2043-2047	44,978	4,605	-	-	44,978	4,605
Total	<u>\$ 1,332,298</u>	<u>\$ 512,620</u>	<u>\$ 6,855</u>	<u>\$ 888</u>	<u>\$ 1,339,153</u>	<u>\$ 513,508</u>

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

9. COMMITMENTS:

Leases

The following is a schedule by years of future minimum rental payments for facilities and equipment under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2017 (in thousands):

Year ending June 30	Primary Government	Component Units
2018	\$ 579	\$ 38,924
2019	487	31,401
2020	393	18,343
2021	229	2,741
2022	85	1,741
2023-2027	345	8,781
2028-2032	266	284
2033-2037	266	-
2038-2042	216	-
	<u>\$ 2,866</u>	<u>\$ 102,215</u>

The total rental expenditures for the year ended June 30, 2017, for all leases except those with terms of a month or less that were not renewed were approximately \$6.3 million for the primary government and \$42.6 million for the component units.

Contracts and Commitments

Contract commitments in the Consolidated Public Improvement Construction Fund, the Metropolitan District Enterprise Fund, and the Gifts and Grants Fund amounted to approximately \$65.8 million, \$201.2 million, and \$15.5 million, respectively, at June 30, 2017. Such amounts will be funded by future bond proceeds, approved federal and state grants, and future assessments.

10. LITIGATION:

The County is a defendant in various suits claiming damages for personal injury and property damage in automobile and general liability cases, and various personnel actions. In addition, there are various other tort suits alleging violations of individual civil rights pending against the County as well as miscellaneous other litigation, mostly contract claims. Amounts claimed in some of these matters are substantial. In the opinion of the County Attorney, the County should prevail in most of said various tort suits, suits alleging violations of individual civil rights and in miscellaneous other litigation (although the outcome of litigation cannot be predicted with certainty). It is the further opinion of the County Attorney that the likelihood of the County incurring aggregate liability arising from such litigation in an amount that would be material in relation to its financial position is remote.

Litigation against the Employees' Retirement System of Baltimore County is addressed in its separate Comprehensive Annual Financial Report (CAFR). See note 13 for CAFR availability.

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

11. CONTINGENCIES:

The County receives significant financial assistance from the U. S. Government and the State of Maryland in the form of grants. Entitlement to grant resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal and state regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits in accordance with grantor requirements. Any disallowances as a result of these audits become a liability of the County. The County estimates that no material liabilities will result from such audits.

The County is contingently liable for loans guaranteed in the Gifts & Grants Fund that aggregate approximately \$0.849 million as of June 30, 2017. A restriction of fund balance has been made for this amount.

12. RISK MANAGEMENT:

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee health and accident; and natural disasters. The County manages its risks internally and sets aside assets for claims settlement in an Internal Service Fund, the Self-Insurance Program Fund (SIPF). The County services all claims for risk of loss to which the County is exposed except as noted below. The SIPF allocates County claims payments by charging a “premium” to each fund, or component unit, based on the actuarially determined liability and SIPF net assets.

The County purchases commercial insurance for claims that exceed 120% of projected health care claims and associated administrative expenses, and for real and personal property losses subject to policy deductibles. Settled claims have not exceeded this commercial health care excess coverage for the past three fiscal years.

SIPF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Since actual claim liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liability results in an estimate. Certain liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their actual value and are not discounted.

Changes in the balances of claim liabilities during fiscal years 2016 and 2017 were as follows (in thousands):

Fiscal Year	Balance at Beginning of Year	Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2016	54,927	290,845	(287,475)	58,297
2017	58,297	284,381	(276,824)	65,854

13. BENEFIT PLANS (in thousands):

Employees’ Retirement System

Plan Description: The Employees’ Retirement System of Baltimore County (the “System”) is a cost-sharing multiple-employer defined benefit public employee retirement system that acts as a common investment and administrative agent serving five entities including the County and certain employees of the Baltimore County Board of Education, Baltimore County Board of Library Trustees, the Community College of Baltimore County and the Baltimore County

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
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Revenue Authority. The System is not an employer. The System provides retirement and disability benefits, cost-of-living adjustments and death benefits to plan members and beneficiaries. The authority to establish and maintain the System is specified in Section 5-1-101 of the Baltimore County Code (the "Code").

On October 15, 2012, the County Council passed Bill No. 65-12 that formally closed the System for members hired prior to July 1, 2007, now known as members of "Plan A". Members hired on or after July 1, 2007 are considered members of "Plan B". Plan A and Plan B are unitized plans of the System. The System is considered part of the County's reporting entity and its financial statements are included in the County's basic financial statements as a benefit trust fund. Separate Plan A and Plan B financial statements are included in the combining fiduciary fund statements in the supplementary information section of this report. The County is obligated for the payment of all pensions, annuities, retirement allowances, refunds, reserves and other benefits. The System is fiscally dependent on the County by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. In accordance with Section 5-1-238 of the Code, responsibility for the proper operation of the System is vested in an eight-member Board of Trustees (the "Board"), the majority of which are appointed by the County Executive. The general administration of the System is vested in the Director of Budget and Finance.

The System issues a separately prepared Comprehensive Annual Financial Report that includes financial statements, note disclosures and required supplementary information. The report may be obtained by writing to the Office of Budget and Finance, Mezzanine, Historic Court House, 400 Washington Avenue, Towson, Maryland 21204, or online at <http://www.baltimorecountymd.gov>.

Funding Policy: Per Section 5-1-203 of the County Code, contribution requirements of the plan members and the participating employers are established and may be amended by the Board. System members contribute a percentage of their salary to the System. The contribution rates for members are based on employee classification.

Participating employers are required to make contributions on an actuarially determined basis. Level percentages of payroll employer contribution rates are determined using the projected unit credit actuarial funding method. The employer contributions to the System for the fiscal years ended June 30, 2017, 2016 and 2015, were \$118,156, \$105,742, \$108,191, respectively, which were equal to or greater than the required contributions for each year. The primary government's contributions for the three aforementioned fiscal years were \$108,549, \$96,042, and \$98,315, respectively.

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

Net Pension Liability: At June 30, 2017 the County reported a liability of \$1,610,549 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all the participating agencies, actuarially determined. At June 30, 2016 the County's proportion was 92.23 percent, which is an increase of 1.78 percent from its proportion as of June 30, 2015.

There have been no changes in the benefit terms that would affect the measurement of the total pension liability since the last measurement date.

Pension Expense: For the year ended June 30, 2017 the County recognized pension expense of \$210,929. At June 30, 2017 the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual experience	\$ 37,170	\$ 46,348
Changes in assumptions	84,501	-
Net difference between projected and actual earnings on pension plan investments	161,254	-
Changes in proportion and differences between County contributions and proportionate share of contributions	19,112	12,405
County contributions subsequent to the measurement date	108,549	-
Total	<u>\$ 410,586</u>	<u>\$ 58,753</u>

Deferred outflows of \$108,549 are reported as resources related to pensions resulting from County contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 68,254
2019	68,255
2020	78,858
2021	33,970
2022	(937)
Thereafter	(5,116)

Actuarial Assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 percent
Salary increases	Rates vary by participant service
Investment rate of return	6.75 percent, net of pension plan investment expense, including inflation
Actuarial cost method	Entry Age Normal
Asset valuation method	Ten-year moving market

Mortality rates were based on RP-200 Combined Mortality Table for males and females, as appropriate, with adjustments for mortality improvements based on Scale AA. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2006 through June 30, 2011. As a result of this experience study the following actuarial assumptions and method changes were made:

- Salary increase assumptions were updated to reflect recent experience and long-term anticipated inflation.

BALTIMORE COUNTY, MARYLAND
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- The mortality tables for health and disabled pensioners were updated to reflect future expected increases in life expectancy.
- The rates of withdrawal from active service due to termination of employment, death and accidental death, ordinary disability, and accidental disability were updated to reflect recent plan experience.

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 rates of return for each major asset class included in the System's target asset allocation as of June 30, 2016 are summarized in the table below:

Schedule of Long-term expected rate of return.

Asset Class	Long-Term Expected Rate of Return	Target asset Allocation
Cash	(0.25)%	0.00%
Large Cap Equities	4.25%	19.00%
Small/Mid Cap Equities	4.50%	8.00%
International Equities (Unhedged)	4.75%	13.00%
Emerging International Equities	6.25%	9.00%
Core Bonds	0.64%	9.00%
High-Yield Bonds	2.50%	1.00%
EMD (Local Currency)	3.25%	4.00%
Diversified Fixed Income	2.09%	10.00%
Private Equity	6.25%	7.00%
Real Estate (Core)	3.25%	5.00%
Hedge Funds	3.25%	0.00%
Global Asset Allocation	3.88%	10.00%
Risk Parity	3.60%	5.00%
Commodities	2.25%	0.00%

Discount Rate: The discount rate used to measure the total pension liability was the funding valuation interest rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will continue to follow the current funding policy. Based on those assumptions, the System's fiduciary net position was projected to make all 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 County's proportionate share of the net pension liability to changes in the discount rate: The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 6.75 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

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	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
County's proportionate share of the net pension liability	\$ 2,074,279	\$ 1,610,549	\$ 1,237,123

Pension Plan Fiduciary Net Position: Detail information about the System's fiduciary net position is available in its separately issued financial report.

Police, Fire and Widows' Pension Plan

Plan Description: The County administers the Police, Fire, and Widow's Pension Plan (Pension Plan) which is a single-employer defined benefit pension plan that provides pensions for policemen and firemen hired prior to October 1, 1959 and for their widows. The Pension Plan has been closed and frozen. The Pension Plan valuation was based on the plan provisions as described in the Baltimore County Code for Pensions and Retirements, Article III for Fire and Police Departments, Section 23-141 through Section 23-204. The pension allowance for retired firefighters and police officers is one-half of the salary of a current employee with the same rank the pensioner held at the time of his retirement. The pension allowance to a widow of a deceased pensioner is one-fourth of the base salary of an active member of the County Police and Fire departments.

Funding Policy: The County intends to fund the Pension Plan on a pay-as-you-go basis if Pension Plan assets are depleted. Management of the Pension Plan is vested in an eight-member Board of Trustees, comprised of ex-officio and elected representatives. The general administration of the Pension Plan is vested in the Director of Budget and Finance.

At June 30, 2016, pension plan membership consisted of 211 inactive plan members or beneficiaries currently receiving benefits with no other inactive members or beneficiaries entitled to receive benefits.

Investments: For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.4%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability: At June 30, 2017, the County reported a liability of \$24,380 for the Pension Plan. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The components of the net pension liability of the County at June 30, 2017, were as follows:

Total pension liability	\$ 56,229
Plan fiduciary net position	(31,849)
County's net pension liability	\$ 24,380

Plan fiduciary net position as a percentage of the total pension liability	56.64%
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Actuarial Assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Not applicable
Investment rate of return	3.3% blended rate
Health Mortality	RP-2000 projected by Scale AA.
Cost of living adjustments	3.0%

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 rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the table below.

Schedule of Long-term expected rate of return

Asset Class	Long-Term Expected Rate of Return	Target Asset Allocation
Domestic equity	4.25%	19%
International equity	4.75%	10%
Fixed Income	0.64%	9%
Cash	(0.25%)	0%

Discount Rate: The discount rate used to measure the total pension liability was 3.30%. The projection of cash flows used to determine the discount rate assumed that County contributions will continue to follow the current funding policy. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the year 2021. A municipal bond rate of 2.85% was used in the development of the blended GASB discount rate after that point. The 2.85% rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2016. Based on the long-term rate of return of 5.00% and the municipal bond rate of 2.85%, the blended GASB discount rate would be 3.30%. The assumed discount rate has been determined in accordance with the method prescribed by GASB Statement No. 67.

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/16	\$ 59,208	\$ 39,028	\$ 20,180
Changes for the year:			
Interest	2,255	-	2,255
Differences between expected and actual experience	620	-	620
Changes of assumptions	2,356	-	2,356
Net investment income	-	1,017	(1,017)
Benefit payments, including refunds of member contributions	(8,210)	(8,210)	-
Other	-	14	(14)
Net Changes	<u>(2,979)</u>	<u>(7,179)</u>	<u>4,200</u>
Balances at 6/30/17	<u>\$ 56,229</u>	<u>\$ 31,849</u>	<u>\$ 24,380</u>

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability, calculated using the discount rate of 3.30%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.30%) or 1-percentage-point higher (4.30%) than the current rate:

	1.00% Decrease (2.30%)	Current Discount Rate (3.30%)	1.00% Increase (4.30%)
County's net pension liability	\$ 27,645	\$ 24,380	\$ 21,436

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

Pension Expense: For the year ended June 30, 2017, the County recognized pension expense of \$3,222. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 1,132
Total	<u>\$ -</u>	<u>\$ 1,132</u>

Deferred outflows and deferred inflows of resources resulting from the difference between projected and actual earnings on pension plan investments will be recognized in pension expense as follows:

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Year ended June 30:		
2018	\$	(565)
2019		(565)
2020		(85)
2021		83

The condensed financial statements as of and for the year ended June 30, 2017 are as follows:

Statement of Fiduciary Net Position
Police, Fire, and Widows' Pension Plan
As of June 30, 2017

Assets	
Cash and cash equivalents	\$ 5
Investment securities	27,839
Interest and dividends receivable	9
Total assets	<u>27,853</u>
Liabilities	
Accounts payable	4
Total liabilities	<u>4</u>
Net position restricted for pensions	<u>\$ 27,849</u>

Statement of Changes in Fiduciary Net Position
Police, Fire and Widows' Pension Plan
For the year ended June 30, 2017

Additions	
Contributions:	
Other	\$ 13
Total contributions	<u>13</u>
Investment earnings:	
Net decrease in the fair value of plan assets	(2,365)
Interest and dividends	5,736
Investment expenses	(31)
Net investment gain	<u>3,340</u>
Total additions	<u>3,353</u>
Deductions	
Benefits	7,353
Total deductions	<u>7,353</u>
Net decrease in net position	(4,000)
Net position restricted for pensions	
Beginning of the year	31,849
End of the year	<u>\$ 27,849</u>

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Other Pension Plans

The County provides supplemental pension benefits through General Fund appropriations to certain judges, judges' widows and families of members of volunteer fire and ambulance companies killed in the line of duty. The respective costs and related net pension liability of these plans are not significant.

Substantially all employees of the component units who do not participate in the System participate in the State of Maryland Teachers' Retirement and Pension Systems. Employer contributions to these systems for the years ended June 30, 2017, 2016, 2015, of approximately \$98,351, \$93,240 and \$95,460, respectively, were made directly by the State of Maryland on behalf of the component units according to State statute. The contributions have been recognized as a revenue and an expense in the component unit statement of activities. Additionally, some professional employees of the Community College participate in an optional private retirement system.

14. OTHER POST EMPLOYMENT BENEFIT PLAN:

Plan Description and Contribution Information

Plan Description: The County's Other Post Employment Benefit Plan (OPEB Plan) is an agent multiple-employer defined benefit postemployment healthcare plan that covers retired employees of the primary government, the Baltimore County Board of Education, the Community College of Baltimore County, the Board of Library Trustees for Baltimore County and the Baltimore County Revenue Authority. The OPEB Plan was established and is maintained by the County as a trust fund as specified in Article 10, Title 14 of the County Code. The trust fund is included in these financial statements as an Other Post-Employment Benefits Trust Fund. Separate financial statements are not issued for the OPEB Plan. The OPEB Plan provides healthcare and life insurance benefits to eligible retirees and their beneficiaries who receive retirement benefits either from the Employees' Retirement System of Baltimore County under Article 5, Title 1 of the County Code or the State Retirement and Pension System of Maryland. Retiree benefits are in accordance with bargaining unit agreements negotiated between each employer's governing body/board and each employee's representative labor organization. At June 30, 2017, the date of the latest available valuation, the OPEB Plan covered a projected 32,999 members; 19,440 active plan members and 13,559 retirees receiving benefits. County employees covered at June 30, 2017 included a projected 11,285 members; 6,180 active plan members, 4,186 inactive plan members receiving benefits and 919 inactive plan members entitled to but not receiving benefits. The OPEB Plan does not have any required contributions from active employees.

Contributions: Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward healthcare based on their hire date, years of active service, the medical plan chosen and whether they are Medicare eligible (age 65). The County receives Prescription Drug Plan reimbursements on Medicare eligible retirees. Each employer is required to contribute its annual OPEB cost (AOC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Article 10, Title 14 of the County Code gives the Director of Budget and Finance the authority to determine the annual contribution to the trust fund based on the results of the actuarial valuation of the AOC. The AOC was calculated based on the ARC and the net OPEB liability. The following table shows the components of the AOC for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation (in thousands):

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	All Employers	The County
Annual required contribution (ARC)	\$ 134,061	\$ 61,938
Interest on net OPEB liability	13,149	11,616
Adjustment to ARC	(13,303)	(11,753)
Annual OPEB cost (expense)	133,907	61,801
Contributions made	(65,729)	(16,000)
Increase (decrease) in net OPEB liability	68,178	45,801
Net OPEB obligation beginning of year	206,251	182,217
Net OPEB obligation end of year	<u>\$ 274,429</u>	<u>\$ 228,018</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the fiscal year 2016 and the two preceding fiscal years were as follows (dollars in thousands):

Fiscal Year Ended June 30	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	105,067	110.78	185,854
2016	107,367	81.00	206,251
2017	133,907	49.09	274,429

Funded Status and Funding Progress

The funded status of the OPEB Plan as of the most recent actuarial valuation date is as follows (dollars in thousands):

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2017	\$ 395,955	\$ 1,832,728	\$ 1,436,773	21.60	\$1,332,066	107.86

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about future employment, mortality and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual OPEB cost of the employers are subject to continual revision as actuarial results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that will show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between employers and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of the assets, consistent with the long-term perspective of the calculations. An implicit subsidy amount is factored into the valuation for blended rates charged to retirees who should be contributing at rates much higher than active employees.

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The June 30, 2017 actuarial valuation used the projected unit credit method under which the benefits of each individual included in an actuarial valuation are allocated by a consistent formula to all valuation years. The method used to determine the actuarial value of assets was fair value. The actuarial assumptions applied were future salary increases of 3% per year and the interest was assumed to have a discount rate of 6.375%. The discount rate is the rate used to determine the present value of the future cash flows. The unfunded actuarial accrued liability is being amortized over a period of 30 years on a closed basis using level percentage of projected payroll. The remaining amortization period at June 30, 2017 was twenty one years. The initial medical trend assumption is 5.3% decreasing gradually to an ultimate rate of 3.9% after 2080. The medical trend assumption was developed using the Society of Actuaries Long-Run Medical Cost Trend Model baseline assumptions. The following assumptions were used as input variables into this model:

Rate of inflation	2.2%
Rate of growth in real income/GDP per Capita	1.6%
Extra trend due to technology and other factors	1.4%
Health share of GDP resistance point	25.0%
Year for limiting cost growth to GDP growth	2075

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The condensed financial statements as of and for the year ended June 30, 2017 are as follows (in thousands):

Statement of Fiduciary Net Position
OPEB Plan
As of June 30, 2017

Assets	
Cash and cash equivalents	\$ 6,947
Investments, at fair value	415,506
Collateral for loaned securities (net of unrealized loss)	3,394
Receivables:	
Accrued interest & dividend income	554
Receivable for investments sold	2,186
Receivables other	1,680
Total assets	<u>430,267</u>
Liabilities	
Payable for collateral for loaned securities	3,394
Investments purchased	3,929
Other	887
Total liabilities	<u>8,210</u>
Net position	
Net position restricted for benefits	<u>\$ 422,057</u>

Statement of Changes in Fiduciary Net Position
OPEB Plan
For the year ended June 30, 2017

Additions	
Contributions:	
Employer	\$ 65,729
Employee	36,409
On-behalf	15,108
Total contributions	<u>117,246</u>
Investment earnings:	
Net decrease in the fair value of plan assets	48,065
Interest and dividends	8,010
Securities lending net income	33
Investment expenses	(2,700)
Net investment gain	<u>53,408</u>
Total additions	<u>170,654</u>
Deductions	
Benefits	144,496
Administrative expenses	-
Total deductions	<u>144,496</u>
Change in net position	26,158
Net position at beginning of the year	395,899
Net position at end of the year	<u>\$ 422,057</u>

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Investments: Per Section 10-14-106 of the County Code, Other Post-Employment Benefits Trust Fund money

Pursuant to Section 5-1-247 of the Baltimore County Code, the Board of Trustees utilizes the “prudent person” standard for managing the assets of the System. The Board has established the following policies:

- 1) Assure that the System’s investment policy has been designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and minimize the risk of large losses to the System.
- 2) Employ a diversity of investment managers with different investment styles on how to obtain their investment objective.
- 3) Closely monitor the performance of all investment managers not only in relation to specific objectives, but also in relation to other fund managers following the same investment objectives.

The System is currently invested in stocks (domestic and foreign), fixed income securities, private equity funds, real estate funds, and global asset allocation funds. During FY 2016, the Board phased out the allocations to hedge fund-of-funds and eliminated the allocation of real assets. The Code provides for full power to hold, purchase, sell, assign, transfer and dispose of any of the securities and investments in any of the System’s funds. For the year ended June 30, 2017, the System has operated in all material respects in accordance with the System’s investment policy.

The System’s investment policy as of June 30, 2017, is shown below for the broad investment categories:

<i>Asset Class</i>	<i>Allocation Target</i>	<i>Allocation Range</i>
U. S. Equities	27%	22 - 32%
International Equities	22%	17 - 27%
Private Equities	7%	0 - 9%
Fixed Income	24%	19 - 29%
Real Estate	5%	0 - 7%
Global Asset Allocation	15%	10 - 20%
Cash and Cash equivalents	<u>0%</u>	0 - 5%
Total	<u>100%</u>	

For the year ended June 30, 2017, the annual money-weighted rate of return on OPEB plan investments, net of OPEB investment expense, was 13.6%.The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability (including component units): At June 30, 2017, the County has a net OPEB liability of \$1,637,692. The 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.

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The components of the net OPEB liability at June 30, 2017, were as follows:

Total OPEB liability	\$ 2,059,749
Fiduciary net position	(422,057)
County's net OPEB liability	<u>\$ 1,637,692</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 20.49%

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:

Inflation	3.0%
Salary increases	Not applicable
Investment rate of return	3.3% blended rate
Health Mortality	RP-2000 projected by Scale AA.
Cost of living adjustments	3.0%

The long-term expected rate of return on OPEB investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 are summarized in the table below.

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Asset Class	FY 2017	
	Long-Term Expected Rate of Return	Target Asset Allocation
Cash	0.25%	0.00%
Large Cap Equities	4.75	19.00
Small/Mid Cap Equities	5.00	8.00
International Equities (Unhedged)	5.00	13.00
Emerging International Equities	6.75	9.00
Core Bonds	1.25	8.00
Bank Loans	3.25	3.00
High-Yield Bonds	-	-
EMD (Local Currency)	3.75	4.00
Diversified Fixed Income	2.65	9.00
Private Equity	6.75	7.00
Real Estate (Core)	3.75	5.00
Hedge Funds	-	-
Global Asset Allocation	4.35	10.00
Risk Parity	3.43	5.00
Commodities	-	-

Discount Rate: The discount rate used to measure the total OPEB liability was the funding valuation interest rate of 6.375% as of June 30, 2017. The projection of cash flow used to determine the discount rate assumed that employer contributions will continue to follow the current funding policy. Based on those assumptions, the System's fiduciary net position was projected to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB investments was applied to all periods of projected benefit payments to determine the total OPEB liability, in accordance with the method prescribed by GASB Statement No. 74. In the event of benefit payments not covered by the System's fiduciary net position, a municipal bond rate of 3.13% for FY17, would be used to discount the benefit payments not covered by the System's fiduciary net position. The 3.13% rate equals the S&P Municipal Bond 20-Year High Grade Rate index at June 30, 2017 and 2016, respectively.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability, calculated using the discount rate of 6.375%, as well as what the County's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.375%) or 1-percentage-point higher (7.375%) than the current rate:

	1.00% Decrease (5.375%)	Current Discount Rate (6.375%)	1.00% Increase (7.375%)
Net OPEB Liability	\$ 1,924,634	\$ 1,637,692	\$ 1,400,492

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability, calculated using the healthcare trend rate of 5.30% and a trend rate that is 1-percentage-point lower (4.30%) and 1-percentage-point higher (6.30%) than the current rate:

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	1.00% Decrease (4.30%)	Healthcare Cost Trend Rate (5.30%)	1.00% Increase (6.30%)
Net OPEB Liability	\$ 1,402,322	\$ 1,637,692	\$ 1,929,429

15. INDIVIDUAL FUND DISCLOSURES:

Details of Fund Balances

The details of the Governmental Funds balances at June 30, 2017 are shown as follows (in thousands):

	General	Gifts and Grants	Consolidated Public Improvement Construction	Nonmajor Governmental Fund	Total Governmental Funds
Fund balances					
Nonspendable:					
Inventories	\$ 9,251	\$ -	\$ -	\$ -	\$ 9,251
Total Nonspendable	9,251	-	-	-	9,251
Restricted for:					
Equipment financing	59,416	-	-	-	59,416
Bond escrow	1,646	-	-	-	1,646
Loans, guarantees and grants	-	28,520	-	-	28,520
In lieu of fee arrangements	-	-	19,756	-	19,756
Total Restricted	61,062	28,520	19,756	-	109,338
Assigned to:					
Encumbrances for:					
Contractual services	3,793	-	-	-	3,793
Supplies & materials	650	-	-	-	650
Equipment & other	1,780	-	-	-	1,780
Imprest funds	75	-	-	-	75
Loans & grants	-	10,840	-	-	10,840
Subsequent year's expenditures	3,304	-	-	-	3,304
Retirement of long-term debt	18,955	-	-	-	18,955
Disputed taxes	25,427	-	-	-	25,427
Stormwater remediation	-	-	-	4,651	4,651
Liquor license regulation	-	-	-	153	153
Total Assigned	53,984	10,840	-	4,804	69,628
Unassigned:					
Revenue stabilization	99,360	-	-	-	99,360
Other	106,031	-	(134,959)	-	(28,928)
Total Unassigned	205,391	-	(134,959)	-	70,432
Total fund balances(deficit)	\$ 329,688	\$ 39,360	\$ (115,203)	\$ 4,804	\$ 258,649

Deficit Fund Balance

At June 30, 2017, the Consolidated Public Improvement Construction Fund had an unassigned fund deficit of \$134.959 million. This deficit will be eliminated by pay-as-you-go contributions from the General Fund and from bond proceeds.

BALTIMORE COUNTY, MARYLAND
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16. TAX ABATEMENTS:

As of June 30, 2017, the County provides tax abatements through four programs – Payment in Lieu of Taxes (PILOT), Historical Property County Tax Credit, Enterprise Zone Tax Credit, and Conservation Land Tax Credit. The Payment in Lieu of Taxes Program provides property tax abatements to encourage an increase in the number of senior and low income housing and is authorized under Maryland State Law, Tax – Property Article Section 7-502. Abatements are obtained through contract between property owner and the County; under the agreement, the owner pays the County a negotiated amount in lieu of property tax. The amount of abatement is deducted from the recipient's tax bill.

Historical Property Tax Credit provides property tax abatements to encourage the renovation or rehabilitation of properties listed in a historical register or in a historic district and is authorized under County Code Section 11-2-201. Abatements are obtained through application by the property owner, including proof that the improvements have been made. Commercial property tax abatements are based on the increase of the assessed value as a result of the improvements made. Residential property tax abatements are 20% of actual approved renovation or rehabilitation expenses. Both commercial and residential properties must not be altered so that it no longer complies with the rehabilitation standards by which the property obtained eligibility. The amount of abatement is deducted from the recipient's tax bill.

Enterprise Zone Tax Credit provides property tax abatements to encourage economic growth in distressed areas of the County and is authorized under Maryland State Law, Tax – Property Article Section 9-103. Abatements are obtained through an application process. Taxpayer submits application to the Baltimore County Department of Economic and Workforce Development which is forwarded to the Maryland State Department of Commerce for review and approval. Approved applications are returned to the County; award letters are sent to the taxpayer and the State Department of Assessments and Taxation (SDAT). SDAT then certifies the credit base to Baltimore County Office of Budget and Finance. Eligible companies that make improvements to real property in one of the Enterprise Zones can benefit from property tax credits over a 10 year period. For the first 5 years, the tax credit is equal to 80% of the increase in property tax owed resulting from the new investment. The tax credit declines in the remaining five years by 10% annually. The amount of abatement is deducted from the recipient's tax bill. (See page XI for more information.)

Conservation Land Tax Credit provides property tax abatements to encourage preservation of natural areas and agricultural land under County Code Section 11-2-110. Abatements are obtained through application by the property owner, accompanied by proof that the property meets the definition of "conservation land". Conservation land is defined as real property that is subject to a perpetual conservation easement that was donated to a land trust on or after July 1, 1991. Conservation land also includes real property that is owned in fee by a qualified land trust and was acquired by the trust on or after July 1, 1991. The credit is for 100% of the property tax obligation and has a duration of five years. If the property is transferred to an entity other than a government agency or another qualified trust, the credit will lapse and the property owner will become liable for all the property taxes had the credit not been granted, as well as interest on those taxes. The amount of abatement is deducted from the recipient's tax bill.

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

Property Taxes Abated
Fiscal Year 2017
(in thousands)

Payment in Lieu of Taxes	2,879
Historical Property Tax Credit	265
Enterprise Zone Tax Credit	1,228
Conservation Land Tax Credit	12
Total	4,384

17. NEW ACCOUNTING PRONOUNCEMENTS:

The County has adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The adoption of Statement No. 74 had no impact on the County's governmental fund financial statements. The adoption also resulted in no changes to the presentation of the financial statements of the County's Pension and Other Employee Benefit Trust Funds. Certain changes in Note disclosures and Required Supplementary Information (RSI) were incorporated to comply with Statement No. 74.

The County has adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 77 *Tax Abatement Disclosures*. Statement No. 77 has no material effect on the financial statements. Additional Note disclosures were provided in order to comply with this statement.

The County has adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68. There is no material impact to the County as a result of the implementation of this standard.

The County has adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 82 *Pensions Issues – an amendment of GASB Statement No. 67, No. 68 and no. 73*. This Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. There is no material impact to the County as a result of the implementation of this standard.

18. SUBSEQUENT EVENTS:

On September 15, 2017, the County and the Baltimore County Police, Fire and Widows' Pension Plan amended the Single Stream Recycling Loan Agreement so that the remaining principal of the loan will be repaid on June 30, 2021 in the amount of \$4,374,709. The interest component of the loan will continue to be repaid monthly through June 30, 2021 at an annual rate of 7.875%.

On November 16, 2017, the County sold \$31,035,000 General Obligation Metropolitan District Refunding Bonds 2017 Refunding Series (2019 Crossover) and \$60,130,000 Consolidated Public Improvement Bonds 2017 Refunding Series (2019 Crossover). The Metropolitan District Bonds were issued for the refunding of \$35,600,000

BALTIMORE COUNTY, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

principal amount of Baltimore County Metropolitan District Bonds (72nd Issue – Series B) (Federally Taxable – Issuer Subsidy – Build America Bonds). The Consolidated Public Improvement Bonds were issued for the refunding of \$63,000,000 principal amount of Baltimore County Consolidated Public Improvement Bonds (2009 – Series B) (Federally Taxable – Issuer Subsidy – Build America Bonds).

The net proceeds of the refunding were invested in State and Local Government Securities (SLGS) and deposited in an irrevocable trust with an escrow agent to provide for future debt service payments. As a result of the refunding, the aggregate difference between the refunding debt and the refunded debt was \$6,881,946 or an economic gain of \$5,943,924. The refunded bonds will be considered defeased and the liability for those bonds will be removed from the government-wide statement of net position on the Crossover Date of November 1, 2019.





Required Supplementary Information

BALTIMORE COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

Employees' Retirement System (dollars in thousands):

**Schedule of the County's Proportionate Share of the
Net Pension Liability and Related Ratios**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
County's proportionate share of the net pension liability	92.23%	90.45%	91.96%
County's proportionate share of the net pension liability	\$ 1,610,549	\$ 1,315,135	\$ 1,088,771
County's covered employee payroll	\$ 435,266	\$ 418,026	\$ 411,453
County's proportionate share of the net pension liability as a percentage of its covered employee payroll	370.02%	314.61%	264.62%
Plan fiduciary net position as a percentage of the total pension liability	57.1%	62.8%	68.2%

Notes to the Schedule:

The amounts presented for fiscal year 2017 were determined as of July 1 of two years prior, using membership data as of that day, projected to June 30 of the previous year. The County implemented GASB 68 in fiscal year 2015. Additional years will be presented as the information becomes available.

Schedule of County Contributions

The last 4 fiscal years are presented only

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 108,549	\$ 101,927	\$ 93,495	\$ 73,586
Contributions in relation to the actuarially determined contribution	108,549	97,108	93,495	73,586
Prefunding of the FY2016 contribution in FY2015	-	-	4,819	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 4,819</u>	<u>\$ (4,819)</u>	<u>\$ -</u>
Covered-employee payroll	\$ 454,797	\$ 435,266	\$ 418,026	\$ 411,453
Contributions as a percentage of covered employee payroll	23.87%	22.31%	23.52%	17.88%

BALTIMORE COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

Notes to the Schedule:

Valuation date: Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the year immediately following the fiscal year. Actuarial valuations are performed every year.

Methods and assumptions used to determine contribution:

Actuarial cost method	Projected Unit Credit
Amortization method	Level Percentage of Payroll
Amortization period	30 year layered amortization
Asset valuation method	10-year smoothed market
Inflation	3.0%
Salary increases	Rates vary by participant age and service
Investment rate of return	7.0%, net of investment expense and gain sharing, and including inflation
Retirement age	Rates vary by participant age and service
Mortality	For healthy participants and beneficiaries: For males 108% of the RP-2000 Combined Healthy male table projected to 2027 by Scale AA and for females 100% of the RP-2000 Combined Healthy female table projected to 2027 by Scale AA. For disabled members, RP-2000 Disabled Annuitant Tables projected to 2027 with Scale AA.

BALTIMORE COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

Police, Fire and Widow's Pension Plan (dollars in thousands):

The following schedules are presented for three years. Additional years will be presented as the information becomes available.

Schedule of Changes in County's Net Pension Liability and Related Ratios

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Interest	\$ 2,255	\$ 2,597	\$ 3,341
Differences between expected and actual experience	620	(3,272)	-
Changes of assumptions	2,356	(186)	3,425
Benefit payments	(8,210)	(8,657)	(9,622)
Net change in total pension liability	(2,979)	(9,518)	(2,856)
Beginning total pension liability	59,208	68,726	71,582
Ending total pension liability: (a)	<u>\$ 56,229</u>	<u>\$ 59,208</u>	<u>\$ 68,726</u>
Plan fiduciary net position			
Net investment income	1,017	2,486	4,671
Benefit payments	(8,210)	(8,657)	(9,622)
Other income	14	15	14
Net change in plan fiduciary net position	(7,179)	(6,156)	(4,937)
Beginning Plan fiduciary net position	39,028	45,184	50,121
Ending Plan fiduciary net position: (b)	<u>\$ 31,849</u>	<u>\$ 39,028</u>	<u>\$ 45,184</u>
Ending County's net pension liability: (a) - (b)	<u>\$ 24,380</u>	<u>\$ 20,180</u>	<u>\$ 23,542</u>
Plan fiduciary net position as a percentage of the total pension liability	56.64%	65.92%	65.74%
Covered-employee payroll	Not applicable	Not applicable	Not applicable
Net pension liability as a percentage of covered-employee payroll	Not applicable	Not applicable	Not applicable

Schedule of County Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	Not calculated	Not calculated	Not calculated
Contributions related to the actuarially determined contribution	\$ -	\$ -	\$ -
Contribution deficiency (excess)	Not applicable	Not applicable	Not applicable

Note to Schedule:

County contributions were not calculated because the Pension Plan has been closed since October 1, 1959 and

BALTIMORE COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

the County intends to fund the Pension Plan on a pay-as-you-go basis if the Pension Plan assets are depleted. Also, the number of pension recipients was considered insignificant and the recipients' ages are at the higher end of the mortality tables.

Schedule of Investment Returns

	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses	3.36%	5.70%	10.31%

Schedule of Funding Progress OPEB Trust (dollars in thousands):

Three year historical trend information about the OPEB Plan will be presented herewith as required supplementary information. This information is intended to help users assess the OPEB Plan's funding status on a going concern basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other public employee retirement systems' OPEB Plans.

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2015	378,135	1,522,538	1,144,403	24.83	1,247,241	91.75
2016	434,839	1,571,367	1,136,528	27.67	1,277,980	88.93
2017	395,955	1,832,728	1,436,773	21.60	1,332,066	107.86

Schedule of Employers' Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2015	103,893	112.03
2016	106,599	81.59
2017	134,061	49.03

**BALTIMORE COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

Schedule of Changes in Total Liability and Related Ratios

Total OPEB Liability

	2017
Service Cost	\$ 34,938
Interest Cost	124,086
Difference of Expected and Actual Experience	766
Benefit Payments	(92,979)
Net Change in Total OPEB Liability	66,811
Total OPEB Liability - Beginning of Year	1,992,938
Total OPEB Liability - End of Year	\$ 2,059,749

Plan Fiduciary Net Position

	2017
Contributions Employer	\$ 65,729
Net Investment Income	53,408
Benefit Payments	(92,979)
Net Change in Fiduciary net Position	26,158
Fiduciary Net Position - Beginning of Year	395,899
Fiduciary Net Position - End of Year	\$ 422,057

Net OPEB Liability	1,637,692
Fiduciary Net Position as a percentage of Total OPEB Liability	20.49%

Covered-Employee Payroll	Not Applicable
Net OPEB Liability as a percentage of Payroll (OPEB benefits do not depend on salary; therefore, salary information is not applicable)	Not Applicable

Expected Average Remaining Service Years of All Participants	7
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Money-Weighted Rate of Return	13.60%
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Notes to Schedule

Amounts in the schedule represent totals for the County, BCPS, CCBC and BCPL. Individual amounts are not available and therefore not reported. The County implemented GASB 74 during Fiscal Year 2017. Therefore, only one year information is available. There were no benefit changes or changes in assumptions.



Supplementary Information Schedules & Combining Financial Statements

The schedules provide selected budgetary information concerning the General Fund, the Stormwater Management Fund and the Liquor License Fund. The combining financial statements provide detailed information concerning financial position and results of operations for the Internal Service funds and Fiduciary funds.

Baltimore County
Schedule of Appropriations and Expenditures - Budgetary Basis
For the Year Ended June 30, 2017
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
General Government:				
Legislative:				
County Council	\$ 2,363	\$ 2,363	\$ 2,146	\$ 217
Judicial:				
Circuit Court:				
Criminal and civil adjudication	4,786	4,786	4,780	6
Orphans Court:				
Adjudication of estates	233	233	233	-
States Attorney:				
Criminal prosecution	8,907	8,907	8,814	93
County Sheriff:				
Conveying prisoners and serving summonses	5,037	5,227	5,227	-
Total	<u>18,963</u>	<u>19,153</u>	<u>19,054</u>	<u>99</u>
Executive:				
Office of the County Executive	1,108	1,108	1,104	4
County Administrative Officer:				
General administration	1,503	1,503	1,495	8
Baltimore metropolitan council	146	146	145	1
Total	<u>2,757</u>	<u>2,757</u>	<u>2,744</u>	<u>13</u>
Elections:				
Board of Supervisors of Elections	5,183	5,183	4,732	451
Financial Administration:				
Office of Budget and Finance:				
Budget formulation and administration	1,318	1,358	1,348	10
Financial operations	4,235	4,553	4,500	53
Pay systems	219	214	210	4
Investment and debt management	366	358	354	4
Insurance administration	1,061	1,061	1,059	2
Purchasing and disbursements	1,394	1,260	1,255	5
Total	<u>8,593</u>	<u>8,804</u>	<u>8,726</u>	<u>78</u>
County Auditor	1,643	1,643	1,540	103
Office of Law:				
General legal services	2,338	2,344	2,343	1
Legislative relations	328	356	355	1
Total	<u>2,666</u>	<u>2,700</u>	<u>2,698</u>	<u>2</u>
Other:				
Vehicle Operations and Maintenance	386	424	424	-
Office of Planning and Community Conservation				
General administration	2,132	2,132	2,045	87
Zoning commissioner	433	433	431	2
People's counsel	194	194	191	3
Community conservation	544	544	513	31
Office of Human Resources:				
Personnel administration	3,778	3,778	3,778	-

(continued)

Baltimore County
Schedule of Appropriations and Expenditures - Budgetary Basis
For the Year Ended June 30, 2017
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Department of Permits and Development Management:				
General administration	1,611	1,709	1,708	1
Electrical licensing and regulation	18	18	18	-
Plumbing licensing and regulation	29	29	29	-
Real estate compliance	930	939	939	-
Development processing	980	953	952	1
Code inspections and enforcement	4,823	4,782	4,775	7
Permits and licenses	777	788	787	1
Board of Appeals	234	259	223	36
Cooperative Extension Service	259	234	231	3
Office of Information Technology:				
General administration	2,649	2,779	2,777	2
Applications development	8,549	8,364	8,360	4
Computer and technical services	13,027	13,292	13,291	1
Telecommunications Services	3,325	3,415	3,413	2
Property Management				
Administration	1,361	1,361	1,353	8
Building maintenance	8,138	8,138	8,136	2
Building operation and management	16,639	16,506	16,334	172
Maintenance of grounds and recreation sites	7,691	7,441	7,438	3
Total	<u>78,507</u>	<u>78,512</u>	<u>78,146</u>	<u>366</u>
General Government Total	<u>120,675</u>	<u>121,115</u>	<u>119,786</u>	<u>1,329</u>
Public Safety:				
Police Department:				
General administration	3,700	3,960	3,958	2
Administrative & technical services	23,640	23,430	23,189	241
Criminal/forensic investigations	28,332	28,332	28,157	175
Vice/intelligence/narcotics	9,122	8,872	8,822	50
Patrol/precincts	123,137	123,737	123,664	73
Support operations	14,487	14,087	13,924	163
School safety	1,349	1,349	1,336	13
Total	<u>203,767</u>	<u>203,767</u>	<u>203,050</u>	<u>717</u>
Bureau of Corrections:				
Custodial care of prisoners	36,572	37,247	37,237	10
Fire Department:				
General administration	1,007	1,043	1,043	-
Investigative services	1,854	1,780	1,778	2
Alarm and communication system	951	856	845	11
Field operations	80,606	83,276	83,265	11
Office of emergency preparedness	119	107	107	-
Field operation administration	1,769	1,843	1,841	2
Fire/rescue academy	1,259	1,310	1,309	1
Contributions - volunteer fire companies	8,153	8,203	8,045	158
Total	<u>95,718</u>	<u>98,418</u>	<u>98,233</u>	<u>185</u>

(continued)

Baltimore County
Schedule of Appropriations and Expenditures - Budgetary Basis
For the Year Ended June 30, 2017
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Communications:				
Central communications center	13,081	13,931	13,912	19
Public Safety Total	<u>349,138</u>	<u>353,363</u>	<u>352,432</u>	<u>931</u>
Public Works:				
Office of Director of Public Works:				
General administration	614	639	633	6
Metro Financing/Petition Proc	40	45	38	7
Total	<u>654</u>	<u>684</u>	<u>671</u>	<u>13</u>
Bureau of Engineering and Construction:				
General administration	392	353	326	27
Structural design	1,734	1,614	1,589	25
General surveying	366	366	361	5
Contracts and construction inspection	1,812	1,722	1,679	43
Total	<u>4,304</u>	<u>4,055</u>	<u>3,955</u>	<u>100</u>
Bureau of Highways & Equipment Management:				
General administration	792	792	777	15
General operations and maintenance	13,293	12,343	12,097	246
Storm emergencies	5,986	5,836	5,814	22
Total	<u>20,071</u>	<u>18,971</u>	<u>18,688</u>	<u>283</u>
Bureau of Solid Waste Management:				
General administration	482	492	491	1
Refuse collection	29,823	29,998	29,977	21
Refuse disposal	36,542	37,726	37,555	171
Recycling	1,752	1,802	1,739	63
Total	<u>68,599</u>	<u>70,018</u>	<u>69,762</u>	<u>256</u>
Bureau of Traffic Engineering and Transportation Planning:				
Traffic planning	10,080	9,475	9,445	30
Traffic sign installation and maintenance	1,493	1,853	1,847	6
Traffic signal operation and maintenance	968	903	891	12
Total	<u>12,541</u>	<u>12,231</u>	<u>12,183</u>	<u>48</u>
Bureau of Utilities:				
Sewer and water maintenance	574	574	574	-
Bureau of Building and Equipment Services:				
Equipment maintenance	6,625	7,685	7,495	190
Public Works Total	<u>113,368</u>	<u>114,218</u>	<u>113,328</u>	<u>890</u>

(continued)

Baltimore County
Schedule of Appropriations and Expenditures - Budgetary Basis
For the Year Ended June 30, 2017
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Health and Human Services:				
Health:				
Department of Health:				
General administration	3,069	3,069	3,067	2
Nursing services	2,881	2,731	2,624	107
Acute communicable disease control	1,332	1,282	1,228	54
Medical environmental health	2,881	2,781	2,684	97
Medical social work service	1,108	1,179	1,161	18
Animal services	4,072	4,372	4,342	30
Developmental disabilities	1,083	1,083	1,045	38
Home health services	1,670	2,047	1,734	313
Long-term care services	991	991	978	13
Medical assistance and hospital support	1,988	1,988	1,950	38
Dental health services	1,101	1,091	1,054	37
Speech, language and hearing	892	912	908	4
Total	<u>23,068</u>	<u>23,526</u>	<u>22,775</u>	<u>751</u>
Department of Environmental Protection and Resource Management	<u>4,839</u>	<u>4,994</u>	<u>4,969</u>	<u>25</u>
Human Services:				
Department of Social Services:				
Adult foster care assistance	145	145	142	3
Welfare to work program	400	400	400	-
Human relations	147	147	145	2
Emergency funds/housing for the homeless	850	788	787	1
Battered spouse program	127	127	127	-
Day Resource Center	204	220	219	1
In-home care program	254	260	250	10
Adult services	1,348	1,348	1,333	15
General administration	1,509	1,549	1,546	3
Children's services	509	509	502	7
Income maintenance	1,108	1,129	1,125	4
Family services	1,517	1,496	1,405	91
Total	<u>8,118</u>	<u>8,118</u>	<u>7,981</u>	<u>137</u>
Aging Programs & Services:				
Department of Aging:				
General administration	755	769	767	2
Adult medical day care	50	50	50	-
Senior centers network	2,013	2,013	2,013	-
Special geriatric services	195	189	188	1
Facilities	246	239	238	1
Transportation	879	893	891	2
Program and volunteer services	220	205	204	1
Total	<u>4,358</u>	<u>4,358</u>	<u>4,351</u>	<u>7</u>
Health and Human Services Total	<u>40,383</u>	<u>40,996</u>	<u>40,076</u>	<u>920</u>

(continued)

Baltimore County
Schedule of Appropriations and Expenditures - Budgetary Basis
For the Year Ended June 30, 2017
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Culture and Leisure Services:				
Department of Recreation and Parks:				
General administration	958	958	951	7
Community & neighborhood recreation, organization, direction and development	10,049	9,876	9,816	60
Organization Contributions:				
Organization contributions	2,951	2,951	2,941	10
General grant program	5,851	5,851	5,806	45
Culture and Leisure Services Total	<u>19,809</u>	<u>19,636</u>	<u>19,514</u>	<u>122</u>
Economic and Community Development:				
Economic Development Commission	1,285	1,285	1,285	-
Economic and Community Development Total	<u>1,285</u>	<u>1,285</u>	<u>1,285</u>	<u>-</u>
Pension Plan Contributions:				
Employees' retirement contributions	104,268	104,268	104,268	-
Non-system retirement	286	326	321	5
Pension Total	<u>104,554</u>	<u>104,594</u>	<u>104,589</u>	<u>5</u>
Insurance Contributions				
Employee health & life insurance	104,082	104,082	102,764	1,318
Insurance Total	<u>104,082</u>	<u>104,082</u>	<u>102,764</u>	<u>1,318</u>
Miscellaneous:				
Social Security	18,623	18,583	18,383	200
Reserve for Contingencies	1,000	-	-	-
Local share - State & Federal	75	75	75	-
Miscellaneous Total	<u>19,698</u>	<u>18,658</u>	<u>18,458</u>	<u>200</u>
Payments to Component Units:				
Community College	44,329	44,329	44,329	-
Board of Education	805,691	805,451	805,450	1
Library	32,850	32,850	32,850	-
Payments to Component Units Total	<u>882,870</u>	<u>882,630</u>	<u>882,629</u>	<u>1</u>

(continued)

Baltimore County
Schedule of Appropriations and Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2017
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Debt Service:				
Principal retirement:				
General obligation bonds:				
Community College	5,247	5,247	5,247	-
General public facilities	51,394	51,344	51,294	50
Pension funding bonds	6,187	6,187	6,187	-
Non-general obligation debt	20,693	20,693	20,693	-
Total	<u>83,521</u>	<u>83,471</u>	<u>83,421</u>	<u>50</u>
Interest:				
General obligation bonds:				
Community College	3,486	3,486	3,426	60
General public facilities	28,128	28,068	28,029	39
Pension funding bonds	7,481	7,481	7,481	-
Non-general obligation debt	3,108	2,958	2,899	59
Total	<u>42,203</u>	<u>41,993</u>	<u>41,835</u>	<u>158</u>
Fiscal charges:				
General obligation bonds:				
General public facilities	674	424	310	114
Non-general obligation debt	10	10	2	8
Total	<u>684</u>	<u>434</u>	<u>312</u>	<u>122</u>
Debt Service Total	<u>126,408</u>	<u>125,898</u>	<u>125,568</u>	<u>330</u>
Operating Transfers Out:				
Contribution to capital budget	50,169	50,169	50,169	-
Contribution to capital budget - schools	47,209	86,149	86,149	-
Gifts and Grants	6,672	6,672	6,672	-
Operating Transfers Out Total	<u>104,050</u>	<u>142,990</u>	<u>142,990</u>	<u>-</u>
General Fund Total	<u>\$ 1,986,320</u>	<u>\$ 2,029,465</u>	<u>\$ 2,023,419</u>	<u>\$ 6,046</u>

Baltimore County, Maryland
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017
(In Thousands)

Special Revenue Funds

	<u>Liquor License</u>	<u>Owings Mills Tax District</u>	<u>Stormwater Management</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 180	\$ -	\$ 4,575	\$ 4,755
Receivables, net	-	-	158	158
Total assets	<u>\$ 180</u>	<u>\$ -</u>	<u>\$ 4,733</u>	<u>\$ 4,913</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 3	\$ -	\$ 58	\$ 61
Accrued expenditures	24	-	24	48
Total liabilities	<u>27</u>	<u>-</u>	<u>82</u>	<u>109</u>
Fund Balance				
Assigned	153	-	4,651	4,804
Total fund balances	<u>153</u>	<u>-</u>	<u>4,651</u>	<u>4,804</u>
Total liabilities and fund balances	<u>\$ 180</u>	<u>\$ -</u>	<u>\$ 4,733</u>	<u>\$ 4,913</u>

Baltimore County, Maryland
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017
(In Thousands)

Special Revenue Funds

	Liquor License	Owings Mills Tax District	Stormwater Management	Total
REVENUES				
Taxes	\$ -	\$ 940	\$ -	\$ 940
Licenses and fees	1,087	-	10,895	11,982
Charges for services	110	-	-	110
Interest revenue	-	-	206	206
Total revenues	<u>1,197</u>	<u>940</u>	<u>11,101</u>	<u>13,238</u>
EXPENDITURES				
General government	686	940	960	2,586
Total expenditures	<u>686</u>	<u>940</u>	<u>960</u>	<u>2,586</u>
Excess of revenues over expenditures	<u>511</u>	<u>-</u>	<u>10,141</u>	<u>10,652</u>
OTHER FINANCING USES				
Transfers out	(450)	-	(10,785)	(11,235)
Total other financing uses	<u>(450)</u>	<u>-</u>	<u>(10,785)</u>	<u>(11,235)</u>
Net change in fund balances	61	-	(644)	(583)
Fund balances at beginning of the year	92	-	5,295	5,387
Fund balances at end of the year	<u>\$ 153</u>	<u>\$ -</u>	<u>\$ 4,651</u>	<u>\$ 4,804</u>

Baltimore County, Maryland
Schedule of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual
Liquor License Fund
For the Year Ended June 30, 2017
(In Thousands)

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Licenses and permits	\$ 1,200	\$ 1,197	\$ (3)
Total revenues	1,200	1,197	(3)
Expenditures:			
General government:			
License sale and control	731	686	45
Total expenditures	731	686	45
Excess of revenues over expenditures	469	511	42
Other financing uses:			
Operating transfers out	(450)	(450)	-
Excess of revenues over expenditures, and other uses	\$ 19	61	\$ 42
Fund balance at beginning of year		92	
Fund balance at end of year		\$ 153	

Baltimore County, Maryland
Schedule of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual
Stormwater Management Fund
For the Year Ended June 30, 2017
(In Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Fees	\$ 10,786	\$ 10,895	\$ 109
Interest revenue	-	206	206
Total revenues	<u>10,786</u>	<u>11,101</u>	<u>315</u>
Expenditures:			
General government:			
General administration	735	718	17
Total expenditures	<u>735</u>	<u>718</u>	<u>17</u>
Excess of revenues over expenditures	<u>10,051</u>	<u>10,383</u>	<u>332</u>
Other financing uses:			
Operating transfers out	(10,785)	(10,785)	-
Excess (deficiency) of revenues over expenditures, and other uses	<u>\$ (734)</u>	<u>(402)</u>	<u>\$ 332</u>
Net change during year in reserve for encumbrances		<u>(242)</u>	
Net change in fund balance-GAAP		(644)	
Fund balance at beginning of year		<u>5,295</u>	
Fund balance at end of year		<u>\$ 4,651</u>	

Baltimore County, Maryland
Combining Statement of Net Position
Internal Service Funds
June 30, 2017
(In Thousands)

	Vehicle Operations and Maintenance	Central Printing Service	Self-Insurance Program	Total
ASSETS				
Current assets:				
Cash and investments	\$ 1,713	\$ 263	\$ 91,281	\$ 93,257
Receivables, net	27	-	3,229	3,256
Inventories	442	-	-	442
Prepaid costs	-	-	1,135	1,135
Total current assets	<u>2,182</u>	<u>263</u>	<u>95,645</u>	<u>98,090</u>
Capital assets:				
Non-depreciable	705	-	-	705
Depreciable (net of accumulated depreciation)	13,607	10	-	13,617
Total assets	<u>16,494</u>	<u>273</u>	<u>95,645</u>	<u>112,412</u>
LIABILITIES				
Current liabilities:				
Accounts payable	534	40	2,786	3,360
Accrued payroll	116	7	-	123
Compensated absences	215	10	-	225
Claims and judgments	-	-	36,506	36,506
Total current liabilities	<u>865</u>	<u>57</u>	<u>39,292</u>	<u>40,214</u>
Noncurrent liabilities:				
Claims and judgments	-	-	29,348	29,348
Total liabilities	<u>865</u>	<u>57</u>	<u>68,640</u>	<u>69,562</u>
NET POSITION				
Net investment in capital assets	14,312	10	-	14,322
Unrestricted	1,317	206	27,005	28,528
Total net position	<u>\$ 15,629</u>	<u>\$ 216</u>	<u>\$ 27,005</u>	<u>\$ 42,850</u>

Baltimore County, Maryland
Combining Statement of Revenues, Expenses,
and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2017
(In Thousands)

	Vehicle Operations and Maintenance	Central Printing Service	Self-Insurance Program	Total
OPERATING REVENUES				
Charges for services-internal	\$ 16,350	\$ 739	\$ 85,020	\$ 102,109
Charges for services-other	2,409	2	227,530	229,941
Miscellaneous	47	-	-	47
Total operating revenues	<u>18,806</u>	<u>741</u>	<u>312,550</u>	<u>332,097</u>
OPERATING EXPENSES				
Personal services	2,673	203	-	2,876
Contractual services	630	111	-	741
Rents and utilities	75	171	-	246
Supplies and maintenance	9,589	195	-	9,784
Insurance claims and expenses	-	-	299,543	299,543
Depreciation	2,680	63	-	2,743
Other expenses	660	23	-	683
Total operating expenses	<u>16,307</u>	<u>766</u>	<u>299,543</u>	<u>316,616</u>
Operating income (loss)	<u>2,499</u>	<u>(25)</u>	<u>13,007</u>	<u>15,481</u>
NONOPERATING REVENUES				
Interest on investments	-	-	877	877
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>877</u>	<u>877</u>
Income (loss) before transfers	2,499	(25)	13,884	16,358
Transfers out	-	-	(703)	(703)
Changes in net position	<u>2,499</u>	<u>(25)</u>	<u>13,181</u>	<u>15,655</u>
Net position at beginning of the year	13,130	241	13,824	27,195
Net position at end of the year	<u>\$ 15,629</u>	<u>\$ 216</u>	<u>\$ 27,005</u>	<u>\$ 42,850</u>

Baltimore County, Maryland
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2017
(In Thousands)

	Vehicle Operations and Maintenance	Central Printing Service	Self-Insurance Program	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from external customers	\$ 2,410	\$ 2	\$ 227,546	\$229,958
Receipts for interfund services	16,350	739	85,020	102,109
Payments to suppliers	(10,696)	(472)	-	(11,168)
Payments to employees	(2,705)	(196)	-	(2,901)
Payment for interfund services used	(660)	(23)	-	(683)
Claims paid	-	-	(291,750)	(291,750)
Other receipts	47	-	-	47
Net cash provided by operating activities	<u>4,746</u>	<u>50</u>	<u>20,816</u>	<u>25,612</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer out	-	-	(703)	(703)
Net cash provided by (used for) noncapital activities	<u>-</u>	<u>-</u>	<u>(703)</u>	<u>(703)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(4,553)	-	-	(4,553)
Sales of capital assets	189	-	-	189
Net cash used for capital and related financing activities	<u>(4,364)</u>	<u>-</u>	<u>-</u>	<u>(4,364)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	-	-	877	877
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>877</u>	<u>877</u>
Net increase in cash and cash equivalents	382	50	20,990	21,422
Cash and cash equivalents at beginning of the year	1,331	213	70,291	71,835
Cash and cash equivalents at end of the year	<u>\$ 1,713</u>	<u>\$ 263</u>	<u>\$ 91,281</u>	<u>\$ 93,257</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Operating income (loss)	\$ 2,499	\$ (25)	\$ 13,007	\$ 15,481
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	2,680	63	-	2,743
Effect of changes in operating assets and liabilities:				
Receivables, net	1	-	16	17
Inventories	103	-	-	103
Accounts and other payables	(505)	5	236	(264)
Accrued expenses	(32)	7	-	(25)
Claims and judgements	-	-	7,557	7,557
Net cash provided by operating activities	<u>\$ 4,746</u>	<u>\$ 50</u>	<u>\$ 20,816</u>	<u>\$ 25,612</u>

Baltimore County, Maryland
Combining Statement of Fiduciary Net Position
Benefits Trust Funds
June 30, 2017
(In Thousands)

	Employees' Retirement System Plan A	Employees' Retirement System Plan B	Police, Fire, and Widows' Pension Plan	OPEB Plan	Total
ASSETS					
Cash and cash equivalents	\$ 32,760	\$ 1,589	\$ 5	\$ 6,947	\$ 41,301
Collateral for loaned securities	21,227	648	-	3,394	25,269
Receivables:					
Accrued interest & dividend income	3,464	105	9	554	4,132
Receivable for investments sold	13,674	417	-	2,186	16,277
Receivables other	730	447	-	1,680	2,857
Total receivables	<u>17,868</u>	<u>969</u>	<u>9</u>	<u>4,420</u>	<u>23,266</u>
Investments, at fair value:					
U.S. Government and Agency securities	128,585	3,921	-	20,560	153,066
Municipal bonds	2,021	62	5,216	323	7,622
Foreign bonds	6,095	186	6,964	974	14,219
Corporate bonds	116,162	3,543	-	18,574	138,279
Stocks	529,329	16,144	-	84,635	630,108
Bond mutual funds	372,232	11,352	5,541	59,517	448,642
Stock mutual funds	803,238	24,497	10,118	128,431	966,284
Real estate equity funds	135,584	4,135	-	21,679	161,398
Hedge funds	698	21	-	112	831
Private equity funds	115,816	3,532	-	18,518	137,866
Global asset allocation	388,907	11,861	-	62,183	462,951
Total investments	<u>2,598,667</u>	<u>79,254</u>	<u>27,839</u>	<u>415,506</u>	<u>3,121,266</u>
Total assets	<u>2,670,522</u>	<u>82,460</u>	<u>27,853</u>	<u>430,267</u>	<u>3,211,102</u>
LIABILITIES					
Securities lending payable	21,227	648	-	3,394	25,269
Investments purchased	24,571	749	-	3,929	29,249
Investment expenses payable	3,429	104	4	550	4,087
Refunds payable	56	1,884	-	-	1,940
Other	12,832	-	-	337	13,169
Total liabilities	<u>62,115</u>	<u>3,385</u>	<u>4</u>	<u>8,210</u>	<u>73,714</u>
NET POSITION					
Net position restricted for benefits	<u>\$ 2,608,407</u>	<u>\$ 79,075</u>	<u>\$ 27,849</u>	<u>\$ 422,057</u>	<u>\$ 3,137,388</u>

Baltimore County, Maryland
Combining Statement of Changes in Fiduciary Net Position
Benefits Trust Funds
For the Year Ended June 30, 2017
(In Thousands)

	Employees' Retirement System Plan A	Employees' Retirement System Plan B	Police, Fire, and Widows' Pension Plan	OPEB Plan	Total
ADDITIONS					
Contributions:					
Employer	\$ 265,276	\$ 2,879	\$ -	\$ 65,729	\$ 333,884
Employees	28,445	14,799	-	36,409	79,653
Other	-	-	13	15,108	15,121
Total contributions	<u>293,721</u>	<u>17,678</u>	<u>13</u>	<u>117,246</u>	<u>428,658</u>
Investment earnings:					
Net increase (decrease) in the fair value of plan assets	299,811	8,398	(2,365)	49,758	355,602
Interest and dividends	38,870	1,065	5,736	6,317	51,988
Investment expenses	(17,105)	(496)	(31)	(2,700)	(20,332)
Net investment gain	<u>321,576</u>	<u>8,967</u>	<u>3,340</u>	<u>53,375</u>	<u>387,258</u>
Net income from securities lending:					
Securities lending income	218	5	-	36	259
Borrower rebates	55	2	-	9	66
Agent fees	(75)	(2)	-	(12)	(89)
Net income from securities lending	<u>198</u>	<u>5</u>	<u>-</u>	<u>33</u>	<u>236</u>
Total net investment gain	<u>321,774</u>	<u>8,972</u>	<u>3,340</u>	<u>53,408</u>	<u>387,494</u>
Total additions	<u>615,495</u>	<u>26,650</u>	<u>3,353</u>	<u>170,654</u>	<u>816,152</u>
DEDUCTIONS					
Benefits	272,576	83	7,353	144,496	424,508
Refunds	2,402	2,726	-	-	5,128
Administrative expense	2,350	43	-	-	2,393
Total deductions	<u>277,328</u>	<u>2,852</u>	<u>7,353</u>	<u>144,496</u>	<u>432,029</u>
Change in net position	338,167	23,798	(4,000)	26,158	384,123
Net position at beginning of the year	2,270,240	55,277	31,849	395,899	2,753,265
Net position at end of the year	<u>\$ 2,608,407</u>	<u>\$ 79,075</u>	<u>\$ 27,849</u>	<u>\$ 422,057</u>	<u>\$ 3,137,388</u>