

Financial

Section



Civil War Expo held at the Carroll County Farm Museum



Independent Auditor's Report

To the County Commissioners of Carroll County
Westminster, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Carroll County, Maryland (the County), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of Carroll County, Carroll Community College, and Carroll County Public Library which represent 94.8 percent, 96.6 percent, and 99.2 percent, respectively, of the assets, net position, and revenues, respectively, of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Board of Education of Carroll County, Carroll Community College, and Carroll County Public Library, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Carroll County, Maryland, as of June 30, 2016, 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

Correction of Error

As fully described in Note 1 to the financial statements, certain errors were noted which resulted in the restatement of prior year balances. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and on pages 16 - 29, the schedules of net pension liability and related ratios, contributions and investment returns and other post-employment benefit funding progress and employer contributions on pages 159 - 170 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carroll County, Maryland's basic financial statements. The introductory section, supplementary information section, additional information section, and statistical sections 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 accompanying schedule of expenditures of federal awards, as noted in the single audit section of the table of contents, is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The supplementary and additional information, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other

auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the supplementary and additional information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016, on our consideration of Carroll County, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carroll County, Maryland's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Baltimore, Maryland
December 22, 2016

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

As management of Carroll County, MD we offer readers of Carroll County Government's financial statements this narrative overview and analysis of the financial activities of Carroll County Government for the fiscal year ended June 30, 2016. The objective of this overview and analysis is to assist readers in focusing on significant financial issues, provide an overview of the County's financial activity, identify changes in the County's financial position, identify any material deviations from the financial plan, and identify individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 5-9 of this report.

Financial Highlights

Government-wide:

- The assets and deferred outflows of resources of Carroll County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended June 30, 2016 by \$302,570,690 (total net position), compared to \$291,175,051 at June 30, 2015, as restated. For fiscal year ended June 30, 2016, total net position was net of the \$47,726,233 deficit in unrestricted component of net position. The deficit occurred primarily because the County issues debt to fund construction costs for the Board of Education which is a component unit of the County. The assets are then recorded on the component unit's books and the related debt is recorded on the County's books. Of total net position at June 30, 2016, \$28,752,451 was restricted for specific purpose (restricted net position) in comparison to \$27,429,357, at June 30, 2015. The total net investment in capital assets was \$321,544,472 at June 30, 2016, compared to \$330,143,235 at June 30, 2015.
- The total net position increased by \$11,395,639 or 4%.

Fund level:

- At the close of the fiscal year, unassigned fund balance for the general fund (primary operating fund) was \$10,840,140 or 2.93% of general fund revenues.
- As of June 30, 2016, the County's governmental funds reported combined fund balances of \$146,497,673, an increase of \$9,710,059 from the prior year. Approximately 7.4 percent of the combined fund balance is available to meet the County's current and future needs (*unassigned*), 33.1 percent is assigned, indicating that it is not available for new spending because it has already been assigned for items such as existing purchase orders and construction contracts, 41.3 percent is committed or restricted for future use, stabilization arrangement, restricted investments and other purposes, and 18.2 percent is non spendable meaning it is in the form of loans receivable, inventory and notes receivable.

Long-term debt:

- Carroll County Government's total bonded debt increased by \$102,950, or .03% from fiscal year 2015. For fiscal year 2016, the County paid an average interest rate of 4.25%.

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Overview of the Financial Statements

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

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

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

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

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

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

Both of the government-wide financial statements distinguish functions of Carroll County Government that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Carroll County Government include general government, public safety, public works, health, human services, education, culture and recreation, libraries, conservation of natural resources, judicial and economic development. The business-type activities of Carroll County Government include water and sewer service, solid waste operations, septage treatment, firearms facility, airport facility and a fiber network.

The government-wide financial statements include not only Carroll County Government itself (known as the *primary government*), but also legally separate component units. Carroll County Government has the following component units: Carroll County Board of Education, Carroll Community College, Carroll County Public Library, and Industrial Development Authority of Carroll County. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 32 and 33 of this report.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Carroll County Government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with

**THE COUNTY COMMISSIONERS OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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finance-related legal requirements. All of the funds of Carroll County Government can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

Carroll County Government maintains five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements which can be found on pages 179 to 185 of this report.

Carroll County Government adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and can be found on page 37 of this report.

The basic governmental funds financial statements can be found on pages 34 and 35 of this report.

Proprietary funds: Carroll County Government maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Carroll County Government uses an enterprise fund to account for its Bureau of Utilities, Solid Waste, Airport, Septage, Firearms Facility and Fiber Network. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among Carroll County Government's various functions. Carroll County Government uses an internal service fund to account for risk management activities and employee health benefits. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 38 to 40 of this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Bureau of Utilities, Solid Waste, Airport, and Fiber Network which are considered to be major funds of Carroll County Government. Individual fund data for each of the two non-major proprietary funds is provided in the form of combining statements which can be found on pages 186 to 188 of this report.

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Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Carroll County Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The County has four trust funds which are the Carroll County Employee Pension Trust Fund; the Carroll County Certified Law Officers Pension Trust Fund; the Retiree Benefit Trust, Board of County Commissioner of Carroll County, Maryland "OPEB"; and the Volunteer Firemen Length of Service Award Program "LOSAP". In addition to the four trust funds the County has two agency funds which are the Carroll County Development Corporation "CCDC" and Cable Regulatory Commission. The basic fiduciary funds financial statements can be found on pages 40 and 41 of this report.

Notes to the 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 financial statements can be found on pages 43 to 158 of this report.

Required Supplementary Information: Required supplementary information is not part of the basic financial statements; however it provides additional information. Required Supplementary Information can be found on pages 159 to 171.

Financial analysis of the County as a whole

As noted earlier, net position may serve over time as a useful indicator of a government's overall financial position. In the case of Carroll County Government, total net position was \$302,570,690 at the close of the most recent fiscal year. Components for Carroll County Government's net position are divided into three categories, net investment in capital assets, restricted net position and unrestricted net position. The largest portion of the County's net position reflects its investment in capital assets net of depreciation (e.g., buildings, building improvements, water and sewer systems, vehicles, machinery, equipment, roads and bridges), less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although, the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

It is important to note that although counties in the State of Maryland issue debt for the construction of schools, school buildings are owned by each County's Public School System. Ownership reverts to the County if the local board determines that a building is no longer needed. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. The negative unrestricted net position in governmental activities of \$36,637,182 reflect the imbalance of liabilities without corresponding assets.

Restricted net position of \$28,752,451 represents 9.5 percent of total net position. Restricted net position is resources that are subject to external restrictions on how they may be used. Unrestricted net position of the total government is a deficit of \$47,726,233.

During fiscal year 2016, the County's net position increased by \$11,395,639. The increases in income tax along with the increase in investment earnings were contributing factors to the increase in net position. Another factor for the increase was due to the real property assessments increasing which increase the amount of property tax.

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Carroll County Government's Net Position

	Governmental Activities		Business-type Activities		Total Government	
	June 30, 2016	Restated as of	June 30, 2016	June 30, 2015	June 30, 2016	Restated as of
		June 30, 2015*				June 30, 2015*
Current assets	\$ 197,536,576	\$ 188,975,841	\$ 27,526,082	\$ 31,653,269	\$ 225,062,658	\$ 220,629,110
Non-current assets	29,496,149	25,979,899	-	-	29,496,149	25,979,899
Capital assets	386,410,906	384,199,871	131,141,359	128,885,883	517,552,265	513,085,754
Total assets	613,443,631	599,155,611	158,667,441	160,539,152	772,111,072	759,694,763
Deferred outflows	15,771,164	11,859,208	227,270	(29,155)	15,998,434	11,830,053
Total assets and deferred outflows	629,214,795	611,014,819	158,894,711	160,509,997	788,109,506	771,524,816
Current liabilities	88,396,637	90,048,958	6,298,581	7,051,014	94,695,218	97,099,972
Non-current liabilities	362,672,708	355,725,907	26,143,046	28,060,402	388,815,754	383,786,309
Total liabilities	451,069,345	445,774,865	32,441,627	35,111,416	483,510,972	480,886,281
Deferred inflows	1,653,649	529,864	374,195	-	2,027,844	529,864
Total liabilities and deferred inflows	452,722,994	446,304,729	32,815,822	35,111,416	485,538,816	481,416,145
Net position:						
Net investment in						
capital assets	204,983,963	218,185,521	116,560,509	111,957,714	321,544,472	330,143,235
Restricted	8,145,020	1,765,563	20,607,431	25,663,794	28,752,451	27,429,357
Unrestricted	(36,637,182)	(54,174,614)	(11,089,051)	(12,222,927)	(47,726,233)	(66,397,541)
Total net position	\$ 176,491,801	\$ 165,776,470	\$ 126,078,889	\$ 125,398,581	\$ 302,570,690	\$ 291,175,051

*The 2015 amounts have been restated to reclassify Agency Funds to the General Fund, restate beginning fund balance for Grants, and move Agricultural Transfer Tax and Impact Fees from Special Revenue Funds to the Capital Fund. Refer to Note 1.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Carroll County Government's Changes in Net Position

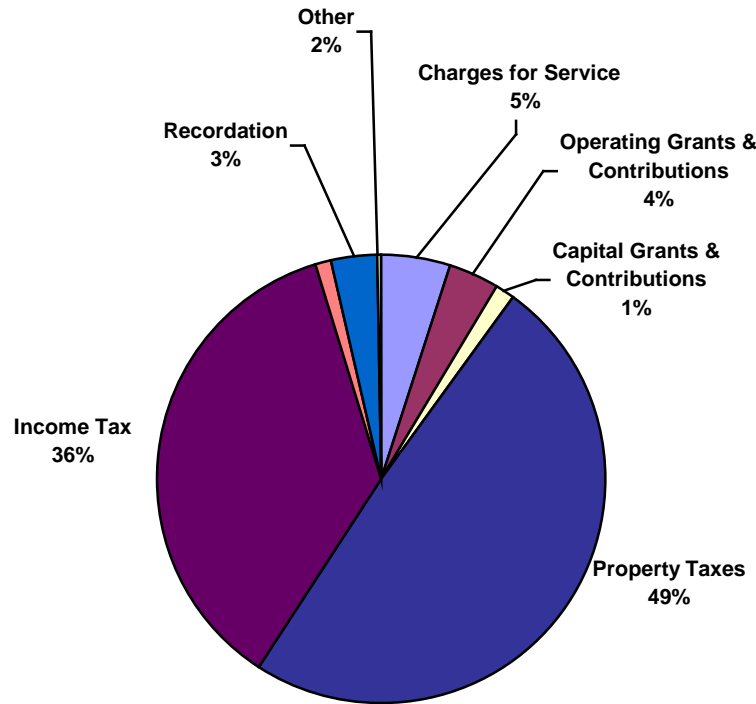
	Governmental Activities		Business-type Activities		Total Government	
	June 30, 2016	June 30, 2015*	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015*
Revenues:						
Program revenues:						
Charges for services	\$ 19,938,435	\$ 21,593,325	\$ 18,851,827	\$ 18,735,993	\$ 38,790,262	\$ 40,329,318
Operating grants & contributions	14,740,101	16,502,681	-	-	14,740,101	16,502,681
Capital grants & contributions	5,339,545	7,396,017	2,581,093	1,970,091	7,920,638	9,366,108
General revenues:						
Property taxes	199,281,166	195,465,262	-	-	199,281,166	195,465,262
Income tax	146,049,675	144,994,220	-	-	146,049,675	144,994,220
Recordation tax	14,093,918	11,888,637	-	-	14,093,918	11,888,637
Admission & amusement tax	387,725	353,937	-	-	387,725	353,937
Agricultural transfer tax	143,429	59,558	-	-	143,429	59,558
Hotel rental tax	315,319	284,101	-	-	315,319	284,101
Investment earnings	4,171,190	2,068,767	672,988	404,594	4,844,178	2,473,361
Gain on sale of capital asset	-	-	18,063	1,695	18,063	1,695
Total Revenues	404,460,503	400,606,505	22,123,971	21,112,373	426,584,474	421,718,878
Program Expenses:						
General government	41,378,683	49,409,874	-	-	41,378,683	49,409,874
Public safety	45,677,379	43,979,786	-	-	45,677,379	43,979,786
Public works	31,583,099	38,511,223	-	-	31,583,099	38,511,223
Health	4,400,381	4,280,644	-	-	4,400,381	4,280,644
Human services	14,032,995	6,875,694	-	-	14,032,995	6,875,694
Education	196,452,853	191,534,142	-	-	196,452,853	191,534,142
Culture and recreation	4,992,787	4,637,178	-	-	4,992,787	4,637,178
Libraries	14,452,299	14,145,909	-	-	14,452,299	14,145,909
Conservation of natural resources	12,140,369	8,936,174	-	-	12,140,369	8,936,174
Economic development	4,234,039	4,822,656	-	-	4,234,039	4,822,656
Judicial	8,670,838	7,283,903	-	-	8,670,838	7,283,903
Interest on long-term debt	12,894,133	11,851,872	-	-	12,894,133	11,851,872
Bureau of Utilities	-	-	11,600,209	11,046,657	11,600,209	11,046,657
Solid Waste	-	-	9,996,571	9,550,820	9,996,571	9,550,820
Airport	-	-	823,047	733,816	823,047	733,816
Septage	-	-	629,136	604,130	629,136	604,130
Firearms	-	-	113,399	106,373	113,399	106,373
Fiber Network	-	-	1,116,618	1,230,506	1,116,618	1,230,506
Total Expenses	390,909,855	386,269,055	24,278,980	23,272,302	415,188,835	409,541,357
Excess (deficiency) before transfers	13,550,648	14,337,450	(2,155,009)	(2,159,929)	11,395,639	12,177,521
Transfers	(2,835,317)	(325,053)	2,835,317	325,053	-	-
Increase (Decrease) in Net Position	10,715,331	14,012,397	680,308	(1,834,876)	11,395,639	12,177,521
Net Position - Beginning, as restated	165,776,470	151,764,073	125,398,581	127,233,457	291,175,051	278,997,530
Net Position - Ending	\$ 176,491,801	\$ 165,776,470	\$ 126,078,889	\$ 125,398,581	\$ 302,570,690	\$ 291,175,051

*The 2015 amounts have been restated to reclassify Agency Funds to the General Fund, restate beginning fund balance for Grants, and move Agricultural Transfer Tax and Impact Fees from Special Revenue Funds to the Capital Fund. Refer to Note 1.

- Governmental activities:** Overall revenue has increased by \$3,853,998, which is a 1.0 percent increase from fiscal year 2015. Property tax revenue increased by \$3,815,904 over last fiscal year due to the increase in real property assessments. Income tax increased by \$1,055,455 due to more income tax being collected. Investment earnings increased by \$2,102,423 as a result of change in market values at year end on restricted investments in U.S Treasury Strips and Bonds for Installment Purchase Agreements. Recordation increased by \$2,205,281 over last fiscal year due to increased activity in the real estate market. Capital grants and contributions decreased by \$2,056,472. Program Open Space money which is provided as a portion of the State Real Estate Transfer Tax for the acquisition and development of park facilities decreased in fiscal year 2016 compared to fiscal year 2015.

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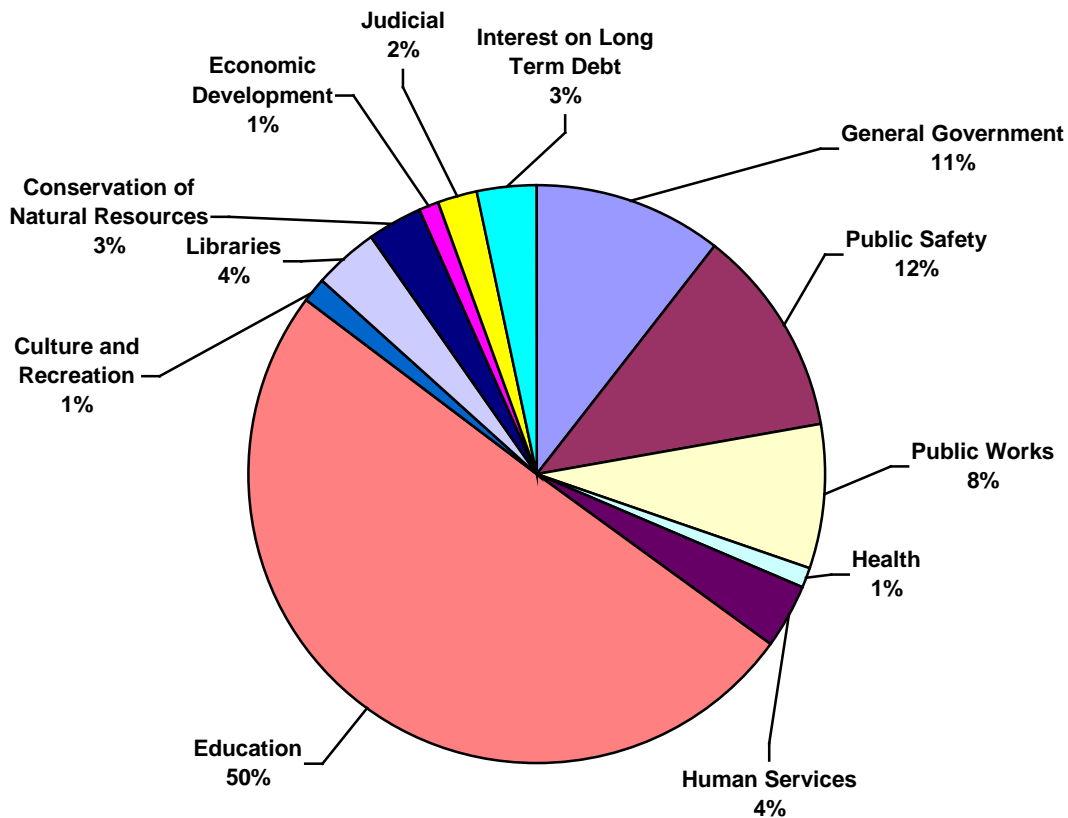
Revenues by Source - Governmental Activities



The expenses of the governmental activities have increased by \$4,640,800 or 1.2 percent from fiscal year 2015. Public Safety increased by \$1,697,593. The increase in Sheriff Services and Detention Center were due to additional costs for the Drug Enforcement Support Program, which included five additional positions. In addition, in fiscal year 2016, the Sheriff Department was in its second year of implementing its compensation plan. Conservation of Natural Resources increased \$3,204,195, primarily due to an increased amount of easements purchased for agricultural land preservation. The primary reason for the \$8,031,191 decrease in General Government in fiscal year 2016 was due to the allocating expenses into the proper function in the grants fund. This decrease is offset by the \$7,157,301 increase in Human Services. The County continues to review its process of allocating direct costs by function. Education increased by \$4,918,711 due to the Teacher Pension increase that was put into place by State legislation and the increase in Board of Education operations.

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Expenses - Governmental Activities

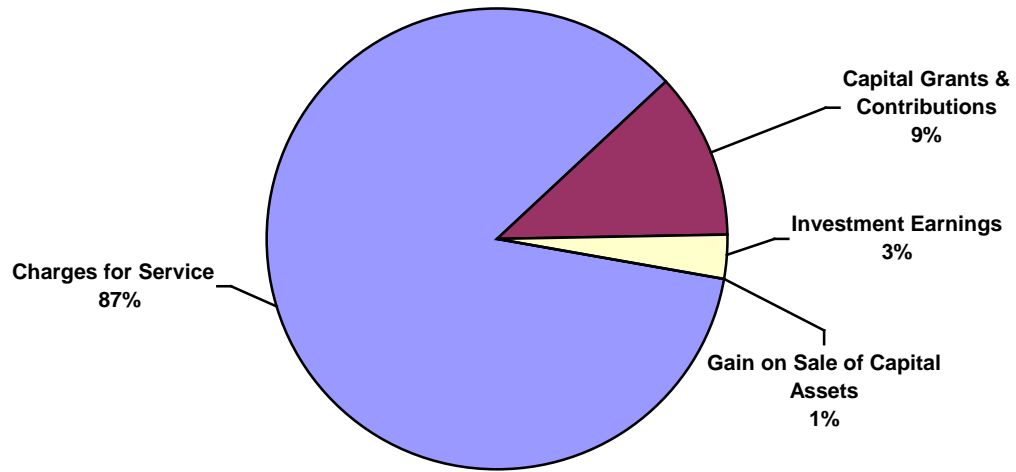


Business-type activities: There was an overall increase in revenues of \$1,011,598 or 4.8 percent from fiscal year 2015. The primary reason for the increase was due to the increased amount of area connections collected. Another contributing factor for the increase was the gains on investments. The expenses of the business-type activities have increased by \$1,006,678 or 4.3 percent from fiscal year 2015. The primary reason for the increase happened in the Bureau of Utilities and the Solid Waste funds. The overall increase in the Bureau of Utilities is due to the continuing rise in operating costs mainly due to contractual services such as the rate increases for water that is purchased from the City of Baltimore. The increase in the Solid Waste fund also was from increased amounts paid for contractual services.

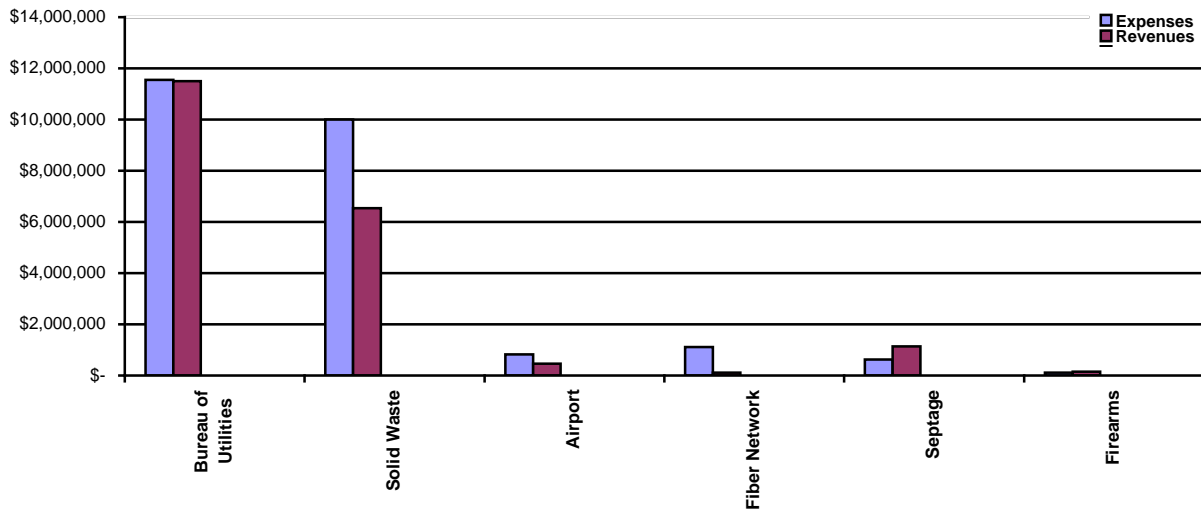
The County's transfers between governmental activities and business-type activities increased by \$2,510,264 during fiscal year 2016. This is a return to normal funding levels for transfers. In FY15, the transfers were decreased as a result of a settlement on the Waste to Energy project and no annual transfer from general fund to the Solid Waste fund occurred during that year.

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Revenues by Source-Business-Type Activities



Expenses and Program Revenues - Business-type Activities



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Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Carroll County Government's governmental funds reported combined ending fund balances of \$146,497,673, a increase of \$9,710,059. Approximately 7.4 percent of this total (\$10,840,140) constitutes *unassigned fund balance*, which is available for future appropriation. The *assigned fund balance*, at 33 percent of total fund balance is not available for new spending because it has already been assigned to encumbrances from the prior year and subsequent years expenditures. The *committed fund balance*, at 14.7 percent of total fund balance is for future use, stabilization arrangement and other purposes. The *non-spendable fund balance*, at 18.2 percent, is not available for new spending because it is not expected to be converted to cash in the near future: 1) to cover loans receivable balances (\$16,203,243), 2) dedicated for inventory and advances to Industrial Development Authority (\$2,262,304), prepaid costs (\$94,037) and money due from other funds (\$8,109,334). The remaining 26.7 percent of fund balance (\$39,071,330) constitutes *restricted fund balance*, primarily investments pledged to the repayment of agricultural preservation installment purchase agreement general obligation debt.

The general fund is the primary operating fund of Carroll County Government. At the end of the fiscal year, unassigned fund balance of the general fund was \$10,840,140, while total fund balance was \$111,836,434. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 3 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount.

A decrease in fund balance was budgeted with an appropriation of \$12,324,400 of fund balance. The anticipated decrease in fund balance was partially mitigated by conservative spending which resulted in \$2,128,386, less in expenditures than budgeted. Total assets increased \$9,463,994. Liabilities increased by \$1,672,908 due to an increase in the amount owed to the Board of Education at year-end.

The revenues in the General Fund have increased by \$19,568,510 compared to the prior fiscal year. The primary contributing factor to the increase was due the increase in income tax and the increase in Real Property Tax due to the increase of assessments. Expenditures increased by \$7,237,687 compared to the prior fiscal year. The increase was due to additional funding to the Board of Education to cover operating expenditures and costs associated with the teacher pensions. Another contributing factor to the increase was in Public Safety due the second year of implementing a compensation plan for the Sheriff's department. Vehicle maintenance, fuel and telephone expenditures were allocated across all functions. Judicial increased this year due to the addition of three employees for the Drug Enforcement Support Program, an Investigator position and reclassified positions.

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The Capital Projects Fund balance sheet shows a \$2,637,173 decrease in assets in fiscal year 2016. The increase in cash is mainly due to several projects that have not begun construction.

The Capital Projects Fund has a total fund balance of \$31,754,360, of which \$24,235,426 is assigned to liquidate purchase orders and \$7,518,934 is unspent bond proceeds which are restricted for future capital project expenditures.

The Non-Major Governmental Funds have a total fund balance of \$2,906,879, all of which is formally committed, externally restricted for specific purposes or assigned.

Proprietary funds: Carroll County Government's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The total unrestricted net position of the proprietary funds at the end of the year amounted to a deficit of \$11,089,051 and unrestricted component of net position in the Internal Service Fund totaled \$10,924,641. The total increase in net position for the proprietary funds of \$680,308 was primarily due to the County collecting more area connection charges and gains on investments in the funds. The net position for the Internal Service Fund increased by \$4,557,986. The main increase for this fund was due to moving the workers compensation liability from the general fund into the internal service fund. Other factors concerning these funds' finances have been addressed in the discussion of Carroll County Government's business-type activities.

Fiduciary funds: Carroll County Government's fiduciary fund statements provide information regarding the County's Employee Pension Plan, the Certified Law Officers Plan, the Volunteer Firemen's Length of Service Award Program "LOSAP", the Other Post Employment Benefit Trust and agency funds. Total net position for the four plans is \$151,692,989 for fiscal year 2016. The investments in the trusts totaled \$152,520,141 at the end of fiscal year 2016, which was a 9.4 percent increase from fiscal year 2015. Agency funds had an asset total of \$632,100 at the end of fiscal year 2016. Other factors concerning trust funds are discussed in the notes to these statements starting with Note 11.

General Fund Budgetary Highlights

In the original budget, the Board of Commissioners approved a reserve for contingencies of approximately 1 percent of total budget to provide funds for emergency and unforeseeable expenditures that may arise during the current fiscal year. The final budget for reserve for contingencies decreased from the original budget by \$427,238. This decrease was due to costs associated with purchasing three vehicles for the Veterans Shuttle Services and additional costs with providing this service and, adding three positions for the Sheriff's Department to provide offsite housing for inmates. Funds can only be moved to or from the reserve during the year with approval from the Board of Commissioners. Any balance left in the reserve at year-end falls to unassigned fund balance.

The budgetary statements of the General Fund show actual revenues of \$370,521,877, compared to budgeted amount of \$353,178,630, a positive variance of \$17,343,247. The major differences between the final budgeted amounts and the actual revenues are as follows:

- Local property taxes came in \$2.5 million more than the final budget due to railroad and public utility tax coming in stronger than anticipated.

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- Local other taxes came in \$8.4 million more than final budget due to income tax growth being stronger than anticipated.
- Miscellaneous revenues were \$7 million more than budget due to unbudgeted in-kind rental income associated with the Board of Education, Library, and Community College facilities.

The budgetary statements of the General Fund show actual expenditures of \$368,145,409, compared to budgeted amount of \$370,273,795, resulting in \$2,128,386 or 0.6 percent less than planned. The major differences between the final budgeted amounts and the actual expenditures are as follows:

- General Government expenditures came in \$5.7 million less than final budget primarily due to in-kind services for component units being reallocated to the correct functions, which decreased general government and increasing Education and Library costs. The County also had savings due to a drop in prices for fuel and utilities.
- The Reserve for Contingency is set up in case funds are needed to be moved into functions to address specific problems or opportunities. For fiscal year 2016, \$3.5 million was left in the Reserve for Contingency creating a positive budget variance.
- The final budgets for each function in the expenditures were reallocated from the original budget to reflect changes made throughout the year. One of the changes made was to reallocate vehicle maintenance, fuel, and telephone direct costs by function.

Capital Asset and Debt Administration

Capital assets: Carroll County Government's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$517,552,265 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, infrastructure, and construction in progress. The total increase in Carroll County Government's investment in capital assets for the current fiscal year was 0.8 percent (a 0.6 percent increase for governmental activities and a 0.2 percent increase for business-type activities). Additional information on the County's capital assets can be found on pages 76-77 of this report.

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 34,569,392	\$ 34,466,628	\$ 8,968,255	\$ 8,943,617	\$ 43,537,647	\$ 43,410,245
Construction in progress	9,727,788	38,549,035	9,174,076	4,184,831	18,901,864	42,733,866
Building and contents	135,676,793	133,371,431	14,960,618	15,446,288	150,637,411	148,817,719
Improvements						
other than buildings	47,959,931	19,254,632	6,404,386	6,836,493	54,364,317	26,091,125
Auto, machinery & equipment	13,640,300	12,294,315	18,335,267	18,720,181	31,975,567	31,014,496
Infrastructure	144,836,702	146,263,830	73,298,757	74,754,473	218,135,459	221,018,303
Total	<u>\$ 386,410,906</u>	<u>\$ 384,199,871</u>	<u>\$ 131,141,359</u>	<u>\$ 128,885,883</u>	<u>\$ 517,552,265</u>	<u>\$ 513,085,754</u>

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

- The costs associated with the security system at Carroll Community College decreased CIP by \$0.6 million and was put into service.
- The Carroll County 800MHZ radio & 911 was put into service which decreased CIP by \$19 million.
- The South Carroll Regional Park was put into service which decreased CIP by \$5 million.
- The on-going costs and completion of various watershed protection projects totaled \$0.8 million which was funded by general obligation bonds proceeds, State Highway Administration revenue, State Department of Natural Resources revenue, and general fund revenue, and resulted in an increase in CIP and Improvements.
- The on-going costs associated with various park projects for new pavilions, trails increased CIP by \$0.2.
- The start of phase 3 on the Energy Performance capital project totaled \$2.7 million which was funded by Capital Lease Agreement, and resulted in an increase in CIP.
- The on-going costs associated with various Utilities capital projects totaled \$5 million which was funded by Water/Sewer user rates and resulted in an increase in CIP of Business-Type Activities.

General obligation debt:

At the end of the fiscal year, Carroll County Government had total general obligation debt outstanding of \$346,516,142, which is debt backed by the full faith and credit of the County.

Carroll County Government's Outstanding General Obligation Debt

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds, net	\$ 299,706,818	\$ 297,878,654	\$ 15,284,816	\$ 17,483,954	\$ 314,991,634	\$ 315,362,608
General Obligation Debt	31,524,508	31,050,584	-	-	31,524,508	31,050,584
Total	<u>\$ 331,231,326</u>	<u>\$ 328,929,238</u>	<u>\$ 15,284,816</u>	<u>\$ 17,483,954</u>	<u>\$ 346,516,142</u>	<u>\$ 346,413,192</u>

During the current fiscal year, Carroll County Government's total general obligation debt increased by \$102,950. During the year, the County issued general obligation bonds totaling \$37,185,000. Of these bonds, \$28,000,000 were sold to cover capital projects in the governmental activities and \$9,185,000 were issued for refunding outstanding 2007 bonds to achieve debt service savings. The new debt issue will be repaid over 20 years. Additional information on Carroll County Government's long-term debt can be found in Note 8 of this report.

Carroll County Government was assigned an AAA credit rating in November 2015 by Fitch Ratings. Fitch cited "Carroll County's fiscal operations are well managed through long-term financial planning and frequent monitoring of revenues and expenditures, resulting in healthy reserve levels." Standard and Poor's Global Ratings assigned an AAA credit rating in November 2015, citing "We view the County's management as very strong with "strong" financial management practices under our Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable." Moody's Investors Service, Inc. has continued to assign an Aa1 rating to Carroll County Government, citing "the Aa1 rating reflects the County's sound financial position, supported by comprehensive fiscal policies, and healthy available fund balance." All three rating agencies gave the County a rating outlook of stable.

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For charter counties, state statutes limit the amount of general obligation debt a government entity may issue up to 15.0 percent of its net assessed valuation of personal and corporate property plus 6.0 percent of the total assessed valuation of real property. While Carroll County is not a charter county, and does not have a legal debt limit, it uses the state statute as a recommended guideline on debt limit. The current debt limitation for Carroll County Government is \$1,174,512,827, which is significantly in excess of the Carroll County Government's outstanding general obligation debt. Additional information on the computation of the legal debt margin can be found in Table 13 of this report.

Economic Factors and Next Year's Budgets and Rates

- The fiscal year 2017 adopted budget appropriation for the general fund is \$388,407,000, representing an increase of \$8.4 million or 2.2 percent increase over fiscal year 2016.
- Real property tax is expected to increase in fiscal year 2017 due to increasing assessments.
- Income tax is expected to be higher in fiscal year 2017. The expected increase is due to expected growth in withholdings and estimated payments.
- Recordation is expected to be higher in fiscal year 2017 due to the County starting to see positive growth in the housing market.
- For the 2016-2017 school year, the Board of Education made the decision to close three schools which are Charles Carroll Elementary, New Windsor Middle and North Carroll High School as a result of decreasing student enrollment numbers.
- Education appropriation increased in fiscal year 2017 due to additional money funding teacher's pensions.
- Public Works appropriation increased for utility costs, maintenance of the planned school closures and five new positions.
- The County income tax will be reduced \$28,901 for nine months for a total of \$260,106, beginning in September 2016 due to tax refunds for the Wynne case.

All of these factors were considered in preparing the Carroll County Government's budget for the 2017 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of Carroll County Government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of the Comptroller, Carroll County Government, 225 North Center Street, Westminster, Maryland 21157 or call 410-386-2085. This report can also be found on the County's website at <http://ccgovernment.carr.org/ccg/comp/default.asp>.

The County's component units issue their own separately audited financial statements. These statements may be obtained by directly contacting the component unit. Contact information can be found in Note 1 of this report.