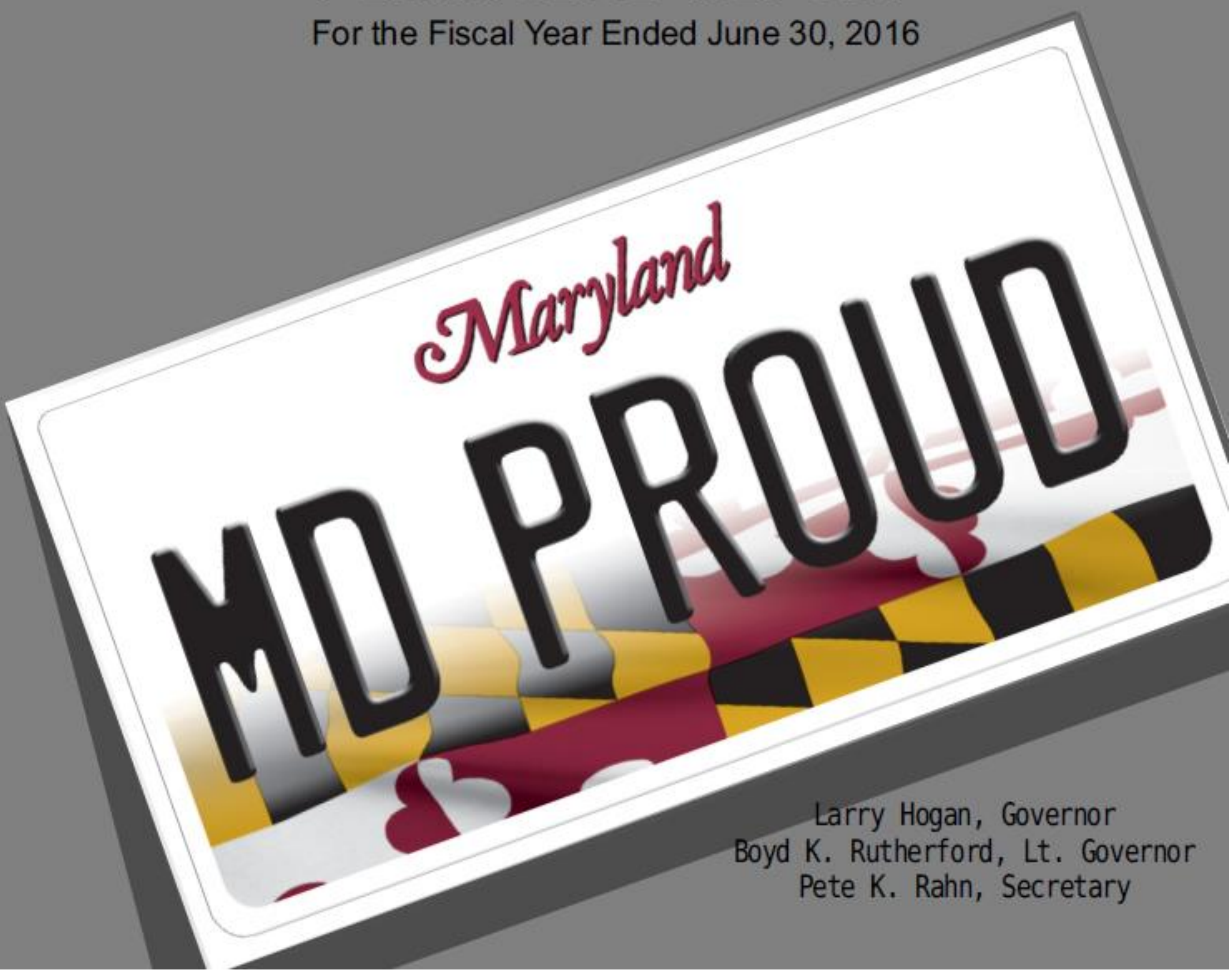
MARYLAND

DEPARTMENT OF TRANSPORTATION

A DEPARTMENT OF THE STATE OF MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016



Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor
Pete K. Rahn, Secretary

* On the cover:
Beginning in September 2016, Marylanders can display their pride in their home state as the Maryland Department of Transportation's Motor Vehicle Administration (MVA) rolled out the new *Maryland Proud* license plate. Governor Larry Hogan unveiled the new design in August, which prominently features the state flag. The new standard-issue plate is available for all passenger cars, SUV's trucks, motorcycles and multipurpose vehicles.

"From the driver's license to the license plate, Marylanders can show their state pride wherever they travel," said Transportation Secretary Pete Rahn.

The new plate meets all state standards and has passed all law-enforcement testing for readability. The *Maryland Proud* plate will replace the War of 1812 plate, but customers who want to keep their existing plates do not need to get the new plate.

MARYLAND

DEPARTMENT OF TRANSPORTATION

A DEPARTMENT OF THE STATE OF MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016

Prepared by the Secretary's Office - Office of Finance

David L. Fleming, Director/Chief Financial Officer
Steven P. Watson, Deputy Chief Financial Officer
Brandie S. Karfonta, Accounting Manager

MARYLAND DEPARTMENT OF TRANSPORTATION

Mission

The Maryland Department of Transportation is a customer-driven leader that delivers safe, sustainable, intelligent and exceptional transportation solutions in order to connect our customers to life's opportunities.

Vision

The Maryland Department of Transportation strives to achieve our vision of a world-class multimodal transportation system that supports a vibrant economy and an excellent quality of life for all Marylanders.

Goals

- Safety & Security-Enhance the safety of transportation system
- System Preservation-Preserve and maintain the State's existing transportation infrastructure and assets
- Quality of Service-Maintain and enhance the quality of the service experienced by users of Maryland's transportation system
- Environmental Stewardship-Ensure the delivery of the State's transportation infrastructure program conserves and enhances Maryland's natural, historical and cultural resources
- Community Vitality-Provide options for the movement of people and goods that support communities and quality of life
- Economic Prosperity-Support a healthy and competitive Maryland economy

MARYLAND DEPARTMENT OF TRANSPORTATION
A Department of the STATE OF MARYLAND
Comprehensive Annual Financial Report
For the Year Ended June 30, 2016

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MARYLAND DEPARTMENT OF TRANSPORTATION
Comprehensive Annual Financial Report

INTRODUCTORY SECTION

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Maryland Department of Transportation
The Secretary's Office

Larry Hogan
Governor

Boyd K. Rutherford
Lt. Governor

Pete K. Rahn
Secretary

November 28, 2016

Pete K. Rahn
Secretary
Maryland Department of Transportation
7201 Corporate Center Drive
Hanover, MD 21076

Dear Secretary Rahn:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Maryland Department of Transportation (Department) for the fiscal year ended June 30, 2016, which includes the financial statements of the Department. The data, as presented, is reported in a manner designed to present fairly the financial position and changes in financial position of the Department. All disclosures necessary to enable the reader to gain a maximum understanding of the Department's financial affairs have been included. This CAFR is a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants.

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

The Department, in conjunction with the State of Maryland (State), requires an audit of the Department's basic financial statements by a firm of licensed certified public accountants. The Department has complied with this requirement, and the independent audit report of SB & Company, LLC is presented as the first component of the financial section of this report. The goal of the independent audit was to provide reasonable assurance that the Department's financial statements for the fiscal year ended June 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; evaluating the key internal controls and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Department's basic financial statements as of and for the fiscal year ended June 30, 2016, are fairly presented in conformity with GAAP.

My telephone number is 410-865-1035
Toll Free Number 1-888-713-1414 TTY Users Call Via MD Relay
7201 Corporate Center Drive, Hanover, Maryland 21076

The independent audit of the Department's basic financial statements is part of a broader, federally mandated "Single Audit" designed to meet the special needs of the federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the basic financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the State of Maryland's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Department's MD&A can be found immediately following the report of the independent public accountants.

Profile of the Government

The Department has the responsibility for most State-owned transportation facilities and programs. This responsibility includes the planning, financing, construction, operation and maintenance of various modes of transportation and effecting various related licensing and administrative functions. The statutorily created transportation agencies or modal administrations that are encompassed by the Department are the Maryland Aviation Administration, the Maryland Port Administration, the Maryland Transit Administration, the Motor Vehicle Administration, the State Highway Administration, and the Transportation Secretary's Office.

The Secretary of Transportation is empowered, on behalf of the Department, to exercise or perform any power or duty that any of these Administrations may exercise or perform. These powers and duties involve, among others, the operation of the Baltimore Washington International Thurgood Marshall (BWI Marshall) Airport, including the power to set landing fees and to rent space to airlines and concessionaires; the operation of the various State-owned buildings and marine terminals in the Port of Baltimore, including the power to set and collect rental and other fees for the use of these facilities; the construction and maintenance of the State Highway System; the operation of all mass transit facilities in the Baltimore Metropolitan Transit District, including the operation of the rail system in this District and the power to set and collect the fares for this system; the licensing and registration of all motor vehicles and motor vehicle operations in the State; and the power to acquire any property by purchase or condemnation that is necessary to exercise or perform these powers and duties. The Secretary of Transportation is also empowered to provide grants for transportation-related purposes, including annual grants in support of the Washington Metropolitan Area Transit Authority (WMATA) for construction and operation of its facilities.

Certain transportation facilities, which are not part of the Department's financial reporting entity, are operated as toll facilities by the Maryland Transportation Authority (Authority). These toll facilities, the Chesapeake Bay Bridges, the Fort McHenry Tunnel, the Baltimore Harbor Tunnel, the Francis Scott Key Bridge, the John F. Kennedy Memorial Highway and others are included in the Authority's separately audited financial statements. The Authority also developed a 262-acre containerized-cargo marine terminal, the Seagirt Marine Terminal and an intermodal container transfer rail yard. The Maryland Port Administration manages the intermodal container transfer yard and leases the management of Seagirt Marine Terminal to an outside private entity. The Authority consists of six members who are appointed by the Governor and the Secretary, who is ex officio and serves as the Chairman.

The Department's annual budget serves as the foundation for its financial planning and control. The Governor is required, by the Maryland Constitution, to submit annually to the General Assembly a balanced budget containing a complete plan of proposed expenditures and estimated revenues for the ensuing fiscal year, including a plan of proposed expenditures and estimated revenues for the Department. The General Assembly may not amend the Budget Bill to affect payment of State debt or otherwise to change its provisions, except to increase or decrease the appropriations relating to the General Assembly or the judiciary, or to strike out or reduce other appropriations submitted by the Governor. It must, however, enact a balanced budget. The General Assembly may authorize an appropriation apart from the Budget Bill, but it may only do so by a separate supplementary appropriation bill limited to a single object or purpose and providing for levying a specific tax or taxes in that bill sufficient to fund the appropriation.

The Department's expenditures are made in accordance with appropriations provided for in the annual budget, except that the Department may submit to the Governor a budget amendment and, if the Governor approves the amendment, the Department may make disbursements in accordance with the budget amendment. By budget amendment, the Department may increase or decrease the amount of the appropriation for any project or transfer funds from one project or administration to another. A budget amendment may not, however, increase the salary or salaries of any office or position, except in certain acute emergencies, or change any language or substantive provision in the budget. All amendments approved by the Governor are required to be reported to the next session of the General Assembly. By means of a constitutional amendment in 1978, the General Assembly is permitted to enact bills that may require the Governor to provide for specific program funding in the annual budget. A schedule showing budget and actual expenditures is presented as required supplementary information at the end of the financial section of this report.

Transportation Trust Fund

The Transportation Trust Fund (TTF) was established in 1971 by Chapter 526 of the Laws of Maryland for 1970. The TTF is credited with revenues collected from motor vehicle titling and fuel taxes, a portion of the State's corporate income tax, a portion of the State's sales tax on rental vehicles, various fees, charges for services, bond proceeds, federal grants for transportation purposes and other receipts of the Department. All expenditures of the Department are made from the TTF. The Department may use the funds in the TTF for any lawful purpose related to the exercise of its powers, duties and obligations, after meeting its debt service requirements. Unexpended funds remaining in the TTF at the close of each fiscal year do not revert to the State's General Fund Account but remain in the TTF.

Accounting records for the Transportation Trust Fund (TTF) are maintained by the Comptroller of Maryland, and all cash and investments of the TTF are held by the State Treasurer, except for revolving cash accounts. Accounting records for the TTF, for operational and management purposes are maintained by the Department's Office of Finance. Although the accounts maintained by the Department on a budgetary basis generally conform to GAAP, there are certain departures from these principles that are dictated by statutory requirements and historical practices. The principal departures are the exclusion of non-budgeted activities and classification of fund-type.

Factors Affecting Financial Condition
The information presented in the Department's financial statements is best understood when it is considered from a broader perspective of the specific environment within which the Department operates. All of the Department's activities are supported by the TTF. The flexible structure of the TTF provides the Department with the ability to expand and maintain the modal administrations' operating, capital construction and maintenance programs. The condition of the State's economy influences its revenue sources. Tracking the factors that affect Maryland's economy helps in monitoring the financial health of the TTF.

Local Economy
Maryland's economy continued its recovery this year with most of Maryland's economic indicators showing positive growth. Employment growth accelerated and was broad-based with even federal funded jobs showing strength. The unemployment rate has been under 5% all year and is forecasted to come in at 4.6% for 2016.

Maryland trailed the national recovery primarily because of federal cutbacks. This fiscal drag appears to be lessening as federal policymakers address their budget issues. Maryland's outlook assumes it will now track with the U.S. economy with slow and steady improvement in employment, housing, and income growth throughout the coming year.

The Department's transportation system provides important economic benefits to the citizens and businesses throughout Maryland. The port, airports, highways, and transit systems each play a vital role in moving goods and people around and through the State. Maintaining and improving the Department's transportation network is essential for growth in Maryland's economy. Investment in the Department's transportation system results in direct economic benefits such as construction jobs and indirect benefits such as businesses choosing to relocate in Maryland, in part due to the Department's efficient and effective transportation system.

Long-term Planning
Each year the Department uses the Maryland Transportation Plan, last adopted in January 2014, as a guide to develop the draft Consolidated Transportation Program (CTP), a specific list of projects to be funded over a six-year period. The Department publishes the draft CTP in September of each year and the final CTP in January of the next calendar year. The CTP lists the capital projects that preserve and enhance our transportation system to accommodate intrastate and interstate travel, international travel, and to facilitate commerce. These projects are Maryland's investment in our highway, transit, port, and aviation facilities that ensure a safe and efficient transportation system.

Projects included in the Department's 2017 draft CTP for fiscal years 2017-2022 require about $14.4 billion in funding over the next six years. Of that amount, $7.6 billion is allocated for State Highway Administration projects, while $3.6 billion is allocated for Maryland Transit Administration projects. The remaining amount includes Maryland Port Administration projects of $852 million, Maryland Aviation Administration projects of $412 million, Motor Vehicle Administration projects of $125 million, and projects in the Transportation Secretary's Office of $14 million. Maryland also contributes $1.6 billion to the Washington Metropolitan Area Transit Authority for the fiscal years 2017-2022. Overall, the Department's capital program continues to emphasize preservation of Maryland's existing transportation infrastructure and ensures the competitiveness of the Port of Baltimore and BWI Marshall Airport.

Pension Benefits
The Department contributes to the State Retirement and Pension System of Maryland (System), established by the State of Maryland to provide pension benefits for State employees (other than employees covered by the Maryland Transit Administration Pension Plan described below) and employees of the various participating political subdivisions or other entities within the State. While the System is an agent multiple-employer public employee retirement system, the Department accounts for the plan as a cost sharing multiple-employer public employee retirement system since a separate valuation is not performed for the Department and the Department's only obligation to the plan is its annual contributions.

The Department sponsors a single-employer noncontributory benefit pension plan for all Maryland Transit Administration employees that are covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution the Department must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis.

Awards and Acknowledgements
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Maryland Department of Transportation for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This year was the sixteenth consecutive year the Department has received this prestigious award. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this CAFR would not have been possible without the efficient and dedicated services of the entire staff in the Office of Finance and assistance from various other agencies within the Department. I would like to express my appreciation to all members of the Department who assisted and contributed to the preparation of this CAFR.

Sincerely,

David L. Fleming
Chief Financial Officer

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

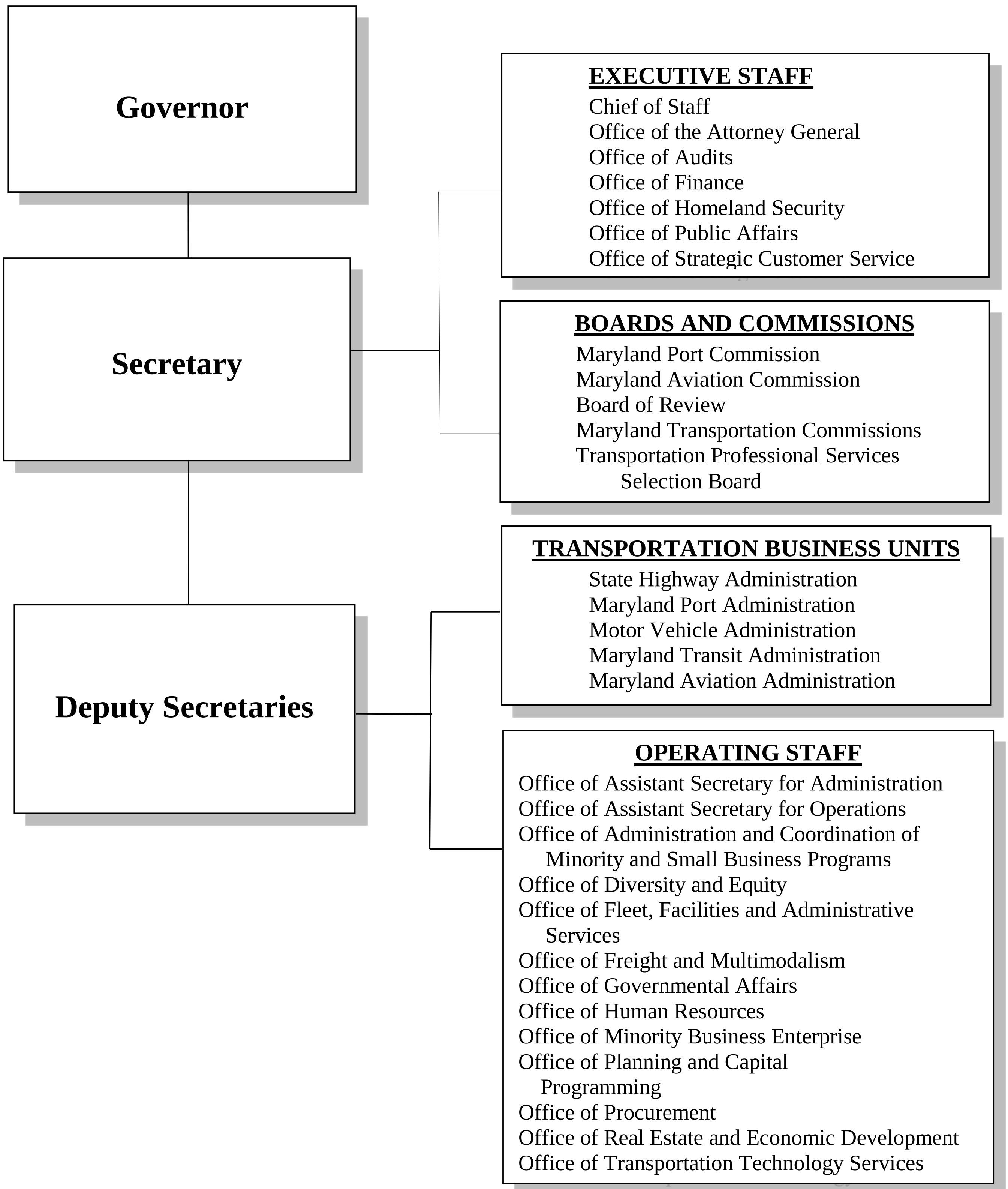
Maryland Department of Transportation

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

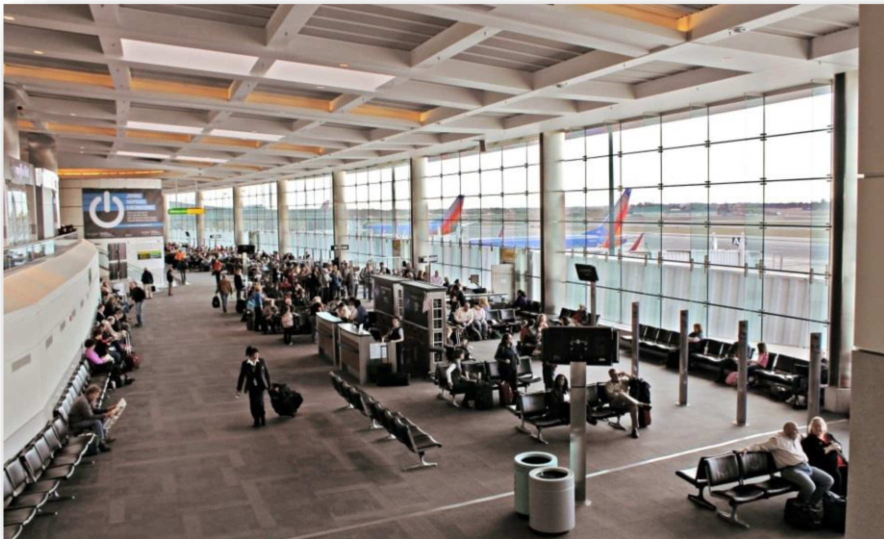
June 30, 2015

Executive Director/CEO

MARYLAND DEPARTMENT OF TRANSPORTATION
Organizational Chart



Maryland Department of Transportation Profiles
Maryland Aviation Administration



The Maryland Aviation Administration (MAA) owns and operates Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall) and Martin State Airport, and supports public-use airports across the State of Maryland. At the MAA, the core mission is the operation and support of airports in Maryland to provide residents, businesses and travelers with the highest levels of service, safety and economic benefit. BWI Marshall is the twenty-second busiest airport in the United States and serves nearly 24 million passengers per year. Air service includes an average of more than 600 daily commercial flights and nonstop service to 80 domestic and international destinations. BWI Marshall is a major transportation resource and economic development engine for the State of Maryland and the region, creating and supporting almost 98,000 regional jobs and more than $7 billion in business revenue.

Maryland Port Administration

MPA (cont.)

The Port of Baltimore is ranked as the top port among 360 U.S. ports for handling autos and light trucks, farm and construction machinery, imported sugar, imported aluminum and imported gypsum. Overall, Baltimore is ranked ninth for the total dollar value of international cargo and 13th for international cargo tonnage. With a 50-foot deep channel, 50-foot deep berth and supersized cranes, the Port of Baltimore is one of only four U.S. East Coast ports that today can handle the largest ships in the world. Baltimore is also one of the busiest cruise ports on the East Coast and is home to both Royal Caribbean and Carnival cruise lines. Business at the Port of Baltimore generates about 13,600 direct jobs, while about 127,000 jobs in Maryland are linked to port activities. The Port is responsible for $3 billion in personal wages and salary and more than $300 million in state and local taxes.

Maryland Transit Administration (MTA)

The Maryland Department of Transportation’s (MDOT) Maryland Transit Administration (MTA) is one of the largest multi-modal transit systems in the United States. MTA operates Local and Commuter buses, Light Rail, Metro Subway, Maryland Area Regional Commuter (MARC) Train service, and a comprehensive Paratransit (Mobility) system. MTA also manages the Taxi Access system, and directs funding and statewide assistance to Locally Operated Transit Systems (LOTS) in each of Maryland’s 23 counties, Annapolis, Baltimore City and Ocean City. To help achieve MTA’s goal of providing safe, efficient and reliable transit across Maryland with world-class customer service, Governor Larry Hogan in October 2015 launched Baltimore Link, a multi-phase plan to create an interconnected transit system by redesigning the entire local and express bus systems throughout Baltimore and adding 12 new high-frequency, color-coded bus routes that improve connections to jobs and to MARC, Metro Subway and Light Rail. To learn more, visit mta.maryland.gov and baltimorelink.com, check us out on Facebook at facebook.com/mtamaryland and follow us on Twitter @mtamaryland.

Motor Vehicle Administration (MVA)

The Maryland Department of Transportation's Motor Vehicle Administration (MVA) provides exceptional driver and vehicle-related customer service at 24 offices and 27 vehicle emissions inspection stations conveniently located throughout the state. Last year, the MVA processed 11 million transactions and served 3.8 million walk-in customers while safeguarding the personal information of nearly 5 million Maryland driver's license and identification (ID) card holders. With a comprehensive customer service plan in place, MVA is focused on providing more online service options and decreasing customer wait times. This year, MVA introduced the most secure driver's license and ID card in the nation, along with a beautifully redesigned new license plate. Home to the Maryland Highway Safety Office, MVA also is working to decrease traffic fatalities statewide through the implementation of a comprehensive Strategic Highway Safety Plan.

State Highway Administration (SHA)

SHA (cont.)

The Maryland State Highway Administration (SHA) operates, maintains and rebuilds the major highways (numbered, non-toll routes) in Maryland's 23 counties – more than 17,000 lane-miles and 2,572 bridges. SHA monitors traffic 24/7 and through emergency patrols assists nearly 30,000 stranded motorists and clears an average 25,000 crashes per year, collectively saving commuters more than 36 million hours of delay and enhancing safety. SHA roads carry 66% of the state's 56 billion miles of annual travel, and 85% of its truck freight, providing economic opportunity, mobility and access for people, businesses, goods and service throughout Maryland. SHA delivers nearly $1.1 billion of work annually that is competitively awarded to private entities, sustaining thousands of jobs in the highway industry for contractors, suppliers, engineering firms and small and minority businesses. The State highway system supports Marylander's quality of life by connecting communities, schools, recreation, worship and local and world travel through BWI Marshall Airport and the Port of Baltimore.

The Secretary's Office (TSO)

The Maryland Department of Transportation (MDOT) is comprised of The Secretary's Office and five business units: the Maryland Aviation Administration, the Maryland Port Administration, the Maryland Transit Administration, Maryland Motor Vehicle Administration, and the State Highway Administration. The Secretary's Office (TSO) delivers overall policy direction, guidance and support to the MDOT business units in the areas of administrative policy, governmental relations, public affairs, finance, customer service, real estate and business development, procurement, human resources and capital planning. In addition, TSO's Office of Transportation Technology Services runs centralized computing resources and general information technology services throughout MDOT. TSO also awards operating and capital grants for transit services in the Washington, D.C., metropolitan area. TSO also provides grants to other governmental agencies, such as local transportation planning agencies, for transportation-related purposes. TSO is focused on promoting better communications, customer-friendly services and smart use of resources throughout MDOT.

MARYLAND DEPARTMENT OF TRANSPORTATION
List of Principal Department Officials
For the Year Ended June 30, 2016

Title	Name
Secretary of Transportation	Pete K. Rahn
Deputy Secretary of Transportation	James F. Ports
Deputy Secretary of Transportation	R. Earl Lewis, Jr.
State Highway Administrator	Gregory C. Johnson
Maryland Port Executive Director	James J. White
Motor Vehicle Administrator	Christine E. Nizer
Maryland Transit Administrator	Paul W. Comfort
Maryland Aviation Executive Director	Ricky D. Smith, Sr.
Principal Counsel, Assistant Attorney General	Cheryl A.C. Brown-Whitfield
Chief Financial Officer	David L. Fleming

FINANCIAL SECTION

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Mr. Pete K. Rahn, Secretary
Maryland Department of Transportation
Hanover, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Maryland Department of Transportation (the Department, a special revenue fund of the State of Maryland), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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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 major fund, and the aggregate remaining fund information of the Department, as of June 30, 2016, and the respective changes in financial 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, schedules of funding progress and employer contributions of the Maryland Transit Administration Other Post-employment Benefit Plan, schedule of changes in the net position liability and related ratios and schedule of employer contributions for the Maryland Transit Administration Pension Plan, schedules of the proportionate share of the net pension liability and related ratios and employer contributions for the Maryland State Retirement and Pension System, and the special revenue funds schedules of revenue, expenditures and changes in fund balance – budget and actual, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The statement of changes in assets and liabilities – agency funds, introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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The statement of changes in assets and liabilities – agency funds 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 statements of changes in assets and liabilities – agency funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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.

SB & Company, LLC

Hunt Valley, Maryland
November 28, 2016

MARYLAND DEPARTMENT OF TRANSPORTATION
Management's Discussion and Analysis

As management of the Maryland Department of Transportation (Department), we offer the citizens of Maryland and others interested in the Department's financial statements this narrative overview and analysis of the financial activities of the Department **for the fiscal year ended June 30, 2016**. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page 7 of this report.

Financial Highlights

- The assets of the Department exceeded its liabilities at the close of the most recent fiscal year by $13,421,874,000 (net position). Of this amount, $1,826,709,000 represents the unrestricted deficit primarily due to the reporting of net pension liability and OPEB liability.
- The Department's governmental funds reported a combined ending fund balance, as of the close of the current fiscal year, of $123,474,000, a decrease of $232,791,000 in comparison with the prior fiscal year.
- The Department's Consolidated Transportation Bonds debt outstanding increased by $125,835,000 (6.2%) during the current fiscal year. The key factors in this increase were the Department continued to make its regularly scheduled debt service principal payments during the year which totaled $174,165,000 and the Department issued $300,000,000 third series bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: (1) *government-wide financial statements,* (2) *fund financial statements,* and (3) *notes to the financial statements*. This report also contains other 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 the Department's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the Department's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as one of several useful indicators of the Department's financial position. The Statement of Activities presents information showing how the Department'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 only 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 the Department that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions. The governmental activities of the Department include the Secretary's Office, the State Highway Administration (SHA), the Maryland Port Administration (MPA), the

Motor Vehicle Administration (MVA), the Maryland Transit Administration (MTA), the Maryland Aviation Administration (MAA), Washington Metropolitan Area Transit Authority Grants (WMATA), distributions to political subdivisions, distributions to other state agencies and debt service. The government-wide financial statements include only the Department (a special revenue fund of the State of Maryland), which has no component units and does not include the Maryland Transportation Authority, which is a separate enterprise fund of the State of Maryland. The government-wide financial statements can be found starting on page 36 of this report.

Fund financial statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into two categories: governmental 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 the 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 fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department maintains two individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the special revenue fund and the debt service fund. The special revenue fund is considered to be a major fund. The basic governmental fund financial statements can be found starting on page 38 of this report.

The Maryland General Assembly authorizes an annual appropriated budget for the Department's special revenue fund. A budgetary comparison schedule has been provided for the special revenue fund to demonstrate compliance with this budget. The budgetary comparison schedule can be found on page 74 of this report.

Fiduciary funds
Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on page 41 of this report.

Notes to the financial statements
The notes to the financial statements 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 starting on page 43 of this report.

Changes in Governmental Accounting Standards
The GASB has issued Statement No. 72, entitled Fair Value Measurement and Application; and Statement No. 76; entitled, The Hierarchy of Generally Accepted Accounting Principles for State and Local Government; These statements did not have a material effect on the Department's financial statements.

The GASB has also issued Statement No. 74 entitled, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans; Statement No. 75, entitled, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; and Statement No. 77; entitled, Tax Abatement Disclosures, which will require adoption in the future, if applicable. These statements may or will have a material effect on the Department's financial statements once implemented. The Department will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date. However, the Department expects GASB 75 to have a material effect on the financial statements.

Other information
In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Department's progress in funding its obligation to provide pension benefits to its employees at the MTA, as well as the budget and actual comparison schedule. Required supplementary information can be found starting on page 69 of this report.

Government-wide Financial Analysis
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the Department, assets and deferred outflows exceeded liabilities and deferred inflows by $13,421,874,000 at the close of the most recent fiscal year. By far the largest portion of the Department's net position reflects its investment in capital assets (e.g., land, buildings, equipment and infrastructure), less any still outstanding related debt used to acquire those assets. The Department uses those capital assets to provide services to the citizens of Maryland; consequently, these assets are not available for future spending. Although the Department'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.

The Department's net position increased by $399,965,000 during the current fiscal year 2016, primarily due to a slight increase in Motor Vehicle and Fuel taxes and fees even though projected revenues fell short.

The following schedule reflects the Department's Net Position Summary.

Maryland Department of Transportation
Net Position
(amounts expressed in thousands)

Governmental Activities	**2016**	**2015**
Current and other assets	$ 995,784	$ 1,075,212
Capital assets	18,305,148	17,411,981
Total assets	19,300,932	18,487,193
Deferred amount on refunding bonds	20,505	24,397
Deferred amount related to pensions	507,142	106,967
	527,647	131,364
Long-term liabilities outstanding	5,520,092	4,758,245
Other liabilities	788,448	703,898
Total liabilities	6,308,540	5,462,143
Deferred concession arrangement	49,813	50,945
Defered amount related to pensions	48,352	83,560
	98,165	134,505
Net position:		
Net Investment in capital assets	15,248,583	14,472,903
Unrestricted deficit	(1,826,709)	(1,450,994)
Total net position	$13,421,874	$13,021,909

Governmental activities

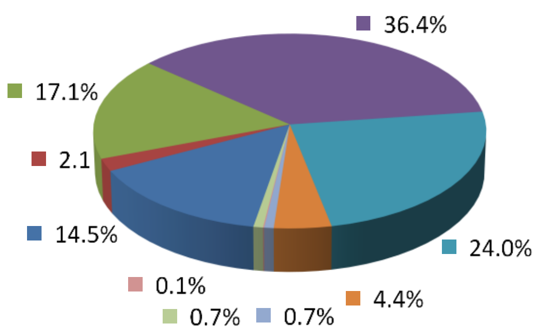
Governmental activities, which represent the Department's overall economic position, decreased the Department's net position by $399,965,000. The key elements of the Department's governmental activities are as follows:

Maryland Department of Transportation
Changes in Net Position
(amounts expressed in thousands)

Governmental Activities	2016	2015
Revenues:		
Program revenues:		
Charges for services	$ 614,821	$ 588,304
Operating grants and contributions	87,324	92,238
Capital grants and contributions	722,764	741,846
General revenues:		
Motor vehicle taxes and fees	1,541,596	1,465,022
Motor fuel taxes and fees	1,013,144	918,483
Corporation income tax share	186,803	166,051
State sales tax share	30,780	30,788
Unrestricted investment earnings	3,819	2,096
Other	31,481	64,516
Total revenues	4,232,532	4,069,344
Expenses:		
Secretary's Office	626,299	624,378
State Highway Administration	1,337,696	1,399,446
Port Administration	148,231	126,885
Motor Vehicle Administration	206,117	213,896
Transit Administration	1,058,861	937,286
Aviation Administration	374,475	337,596
Interest on long-term debt	80,888	69,902
Total expenses	3,832,567	3,709,389
Increase in net position	399,965	359,955
Net position – July 1	13,021,909	12,661,954
Net position – June 30	$13,421,874	$13,021,909

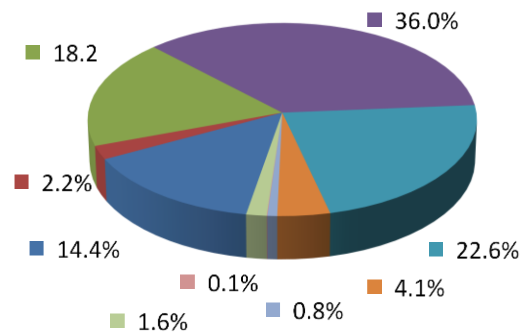
Below are the Department's Revenues by Source and Expenses by Function for Fiscal Years 2016 & 2015

Revenue 2016



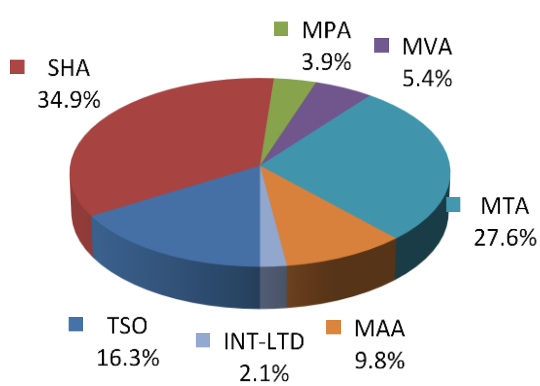
- Charges for services 14.5%
- Operating grants and contributions 2.1%
- Capital grants and contributions 17.1%
- Motor vehicle taxes and fees 36.4%
- Motor fuel taxes and fees 24.0%
- Corporation income tax share 4.4%
- State sales tax share 0.7%
- Unrestricted investment earnings 0.1%
- Other 0.7%

Revenue 2015



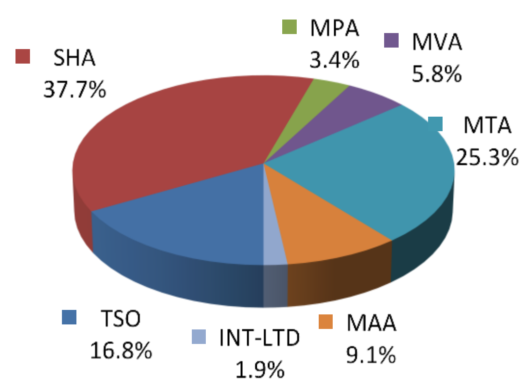
- Charges for services 14.4%
- Operating grants and contributions 2.2%
- Capital grants and contributions 18.2%
- Motor vehicle taxes and fees 36.0%
- Motor fuel taxes and fees 22.6%
- Corporation income tax share 4.1%
- State sales tax share 0.8%
- Unrestricted investment earnings 0.1%
- Other 1.6%

Expenses 2016



- Secretary's Office (TSO) 16.3%
- State Highway Administration (SHA) 34.9%
- Port Administration (MPA) 3.9%
- Motor Vehicle Administration (MVA) 5.4%
- Transit Administration (MTA) 27.6%
- Maryland Aviation Admin. (MAA) 9.8%
- Interest on Long-Term Debt (INT-LTD) 2.1%

Expenses 2015



- Secretary's Office (TSO) 16.8%
- State Highway Administration (SHA) 37.7%
- Port Administration (MPA) 3.4%
- Motor Vehicle Administration (MVA) 5.8%
- Transit Administration (MTA) 25.3%
- Maryland Aviation Admin. (MAA) 9.1%
- Interest on Long-Term Debt (INT-LTD) 1.9%

Financial Analysis of the Government's Funds

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

Governmental funds

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, the unreserved 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, the Department's governmental funds reported combined ending fund balances of $123,474,000, a decrease of $232,791,000 in comparison with the prior fiscal year. The Department's governmental funds decrease is due primarily to actual revenues falling short of estimated revenues. All of the special revenue fund balance is non-spendable, restricted, committed, and/or assigned fund balance and indicates that it is not available for new spending because it has already been committed and/or assigned for the following purposes: (1) to maintain a separate nonspendable account for inventory activity balances in the amount of $100,530,000; (2) to maintain a separate nonspendable account for prepaid expenses activity balances in the amount of $111,196,000; (3) to maintain a separate committed account for contractual transportation obligations in the amount of $23,871,000; (4) to maintain a separate unassigned account for specific agency activity balances in the amount of $(124,502,000).

The special revenue fund is the chief operating fund for the Department. As a measure of the special revenue fund's liquidity, it may be useful to compare the total fund balance of $111,095,000 to the total Department expenditures of $4,481,971,000. The total fund balance represents 0.3% of the total fund expenditures.

Capital Asset and Debt Administration

Capital assets

The Department's investments in capital assets for its governmental activities as of June 30, 2016, amounts to $18,305,148,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure and construction in progress. In the current fiscal year, the Department's investments in capital assets increased by $893,167,000.

Some of the major capital asset events during the current fiscal year included the following:

- Construction continued on the expansion and upgrading of the airport facilities at Baltimore Washington International Thurgood Marshall Airport (BWI Marshall); construction in progress at BWI Marshall at the close of the current fiscal year increased to $417,177,000 compared to $263,280,000 in the prior fiscal year, while MAA buildings increased by $22,617,000 and infrastructure increased by $54,996,000 in the current fiscal year.

- A variety of widening and/or expansion of existing and new highways and bridges were completed in fiscal year 2016; infrastructure assets for SHA at the close of the current fiscal year reached $19,816,797,000 compared to $18,934,362,000 in the prior fiscal year, a 4.7% increase.

- Various transit, port and motor vehicle administration construction projects began in fiscal year 2016; construction in progress for these administrations at the close of the current fiscal year was $2,823,490,000 compared to $2,413,288,000 in the prior fiscal year.

The following schedule reflects the Department's Capital Assets Summary.

Maryland Department of Transportation
Capital Assets
(net of depreciation)
(amounts expressed in thousands)

Governmental Activities	June 30, 2016	June 30, 2015
Land	$ 2,663,948	$ 2,591,842
Buildings and improvements	1,515,601	1,475,937
Machinery and equipment	585,197	653,176
Infrastructure	9,275,724	9,196,813
Seagirt Assets	49,813	50,945
Construction in progress	4,214,865	3,443,268
Total	**$ 18,305,148**	**$ 17,411,981**

Additional information on the Department's capital assets can be found in note 8 on page 50 of this report.

Long-term debt
At the end of the current fiscal year the Department had total bonded debt outstanding of $2,146,085,000, and represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The following schedule reflects the Department's Outstanding Debt Summary.

Maryland Department of Transportation
Outstanding Debt
(amounts expressed in thousands)

Governmental Activities	June 30, 2016	June 30, 2015
Consolidated transportation bonds	**$ 2,146,085**	**$ 2,020,250**

The Department's consolidated transportation bonds outstanding debt increased by 6.2%. The issuance of $300,000,000 in new debt in Series 2015 (Third issue), combined with the continued scheduled debt service principal payments made during the year resulted in the increase in debt outstanding in fiscal year 2016. The Department maintains an "AAA" rating with Standard & Poor's Corporation, an "AA+" rating with Fitch Ratings and an "Aa1" rating with Moody's Investors Services, Inc., for its consolidated transportation bonds. As provided by law, the maximum outstanding aggregate amount of Consolidated Transportation Bonds that may be outstanding increased from $2,600,000,000 to $4,500,000,000 effective June 1, 2013 and thereafter. The increase is pursuant to legislation enacted by the 2013 General Assembly, which also increased transportation funding. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2016 for the Department was $2,855,105,000, which is higher than the Department's outstanding transportation-related debt. Additional information on the Department's long-term debt can be found in note 10 on page 52 of this report.

Capital leases. At the end of the current fiscal year the Department had capital leases outstanding of $621,732,000. The following schedule reflects the Department's Capital Leases Summary.

Maryland Department of Transportation
Capital Leases
(amounts expressed in thousands)

Governmental Activities	June 30, 2016	June 30, 2015
Capital leases	$ 621,732	$ 628,650

The Department's capital lease obligations have decreased by $6,918,000, during the current fiscal year. This decrease is attributable to ongoing construction costs related to airport projects and continued scheduled capital lease payments at the various Department's port facilities, and transit facilities. The Department maintains an "AA+" rating with Standard & Poor's Corporation, an "Aa2" rating with Moody's Investors Services, Inc. and an "AA" with Fitch Ratings for Certificates of Participation which are included in capital lease obligations. Additional information on the Department's capital lease obligations can be found in note 12 on page 54 of this report.

Special Revenue Fund Budgetary Highlights

The Department's appropriations, between the original and final amended budget decreased by $79,530,000 for special funds and decreased by $147,650,000 for Federal funds during the current fiscal year. The decrease in special and federal fund appropriations was due to a mid-year budget evaluation analysis throughout the Department. The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual can be found on page 74 of this report.

Economic Factors and Next Year's Budgets and Rates

Maryland's economic indices showed positive direction for the State this past fiscal year. Employment growth for the State of Maryland was 2.0% for the first three quarters of this year compared to 1.5% growth in 2015. The State's personal income is continuing to rise with a growth of 4.7% through the second quarter of 2016. Nationally, personal income grew by 3.4% for the same period.

Although growth has been uncharacteristically slow for a period of economic recovery, Maryland's economy continues to grow at a slow but steady pace, and steady growth is forecasted for the next several years. The unemployment rate, which peaked at 7.6% in 2010, is estimated to be 4.6% for 2016. Job growth continues to be in professional and business services as well as the healthcare and leisure/hospitality sectors.

Maryland's economic health is heavily reliant on federal spending. The federal government sector, typically a positive driver to Maryland's economy, has in the recent past caused uncertainty and been a drag on the rate of growth. The fiscal concerns associated with federal spending, however, have improved with the passage of the Budget Act of 2015. The boost it provides to federal hiring will continue to strengthen Maryland's recovery.

During the 2013 Session of the General Assembly, the Transportation Infrastructure Investment Act of 2013 was enacted to significantly increase transportation infrastructure funding. Maryland's capital spending will be robust for the next few years as the capital projects started with this funding will be in their main construction phase.

During the current fiscal year, unassigned fund balance decreased to ($124,502,000), from $129,811,000 in the prior year primarily due to estimated revenues exceeding actual revenues.

Requests for Information

This Comprehensive Annual Financial Report is designed to provide a general overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Mr. David L. Fleming, Chief Financial Officer, Office of Finance, MDOT - Secretary's Office, 7201 Corporate Center Drive, Hanover, MD, 21076.

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BASIC FINANCIAL STATEMENTS

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Net Position
As of June 30, 2016
(amounts expressed in thousands)

		Total Governmental Activities
ASSETS:		
Cash and cash equivalents	$	105,679
Cash and cash equivalents - restricted		23,693
Taxes receivable, net		142,852
Intergovernmental receivables		328,866
Other accounts receivable		51,128
Due from other state agencies		131,840
Inventories		100,530
Prepaids		111,196
Capital assets not depreciated:		
Construction in progress		4,214,865
Land		2,663,948
Capital assets depreciated (net of depreciation):		
Buildings and improvements		1,515,601
Machinery and equipment		585,197
Infrastructure		9,275,724
Seagirt assets		49,813
Total assets		19,300,932
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount for refunding bonds		20,505
Deferred amount for pensions		507,142
		527,647
LIABILITIES:		
Salaries payable		16,344
Accounts payable and other current liabilities		543,810
Accounts payable to political subdivisions		50,791
Unearned revenue		149,013
Accrued interest payable		28,490
Noncurrent liabilities:		
Due within one year		297,684
Due in more than one year		5,222,408
Total liabilities		6,308,540
DEFERRED INFLOWS OF RESOURCES:		
Deferred concession arrangement receipts		49,813
Deferred amount for pensions		48,352
		98,165
NET POSITION:		
Net investment in capital assets		15,248,583
Unrestricted deficit		(1,826,709)
Total net position	$	13,421,874

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Activities
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Positon
FUNCTIONS/PROGRAMS	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Total Governmental Activities**
Governmental activities:					
Secretary's Office	$ 626,299	$ 3,307	$ 8,160	$ 21,641	$ (593,191)
State Highway Administration	1,337,696	52,155	10,066	533,241	(742,234)
Port Administration	148,231	55,999	-	445	(91,787)
Motor Vehicle Administration	206,117	-	9,514	1,261	(195,342)
Transit Administration	1,058,861	156,524	58,939	145,349	(698,049)
Aviation Administration	374,475	346,836	645	20,827	(6,167)
Interest on long-term debt	80,888	-	-	-	(80,888)
Total governmental activities	3,832,567	614,821	87,324	722,764	$ (2,407,658)
General revenues:					
Motor vehicle taxes and fees					1,541,596
Motor fuel taxes and fees					1,013,144
Corporation income tax share					186,803
State sales tax					30,780
Unrestricted investment earnings					3,819
Other revenue					31,481
Total general revenues					2,807,623
Change in net position					399,965
Net position, July 1, 2015					13,021,909
Net position, June 30, 2016					13,421,874

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Balance Sheet
Governmental Funds
As of June 30, 2016
(amounts expressed in thousands)

	Special Revenue	Other Governmental Fund Debt Service	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	$ 105,679	$ -	$ 105,679
Cash and cash equivalents - restricted	11,314	12,379	23,693
Taxes receivable, net	142,852	-	142,852
Intergovernmental receivable	328,866	-	328,866
Other accounts receivable	51,128	-	51,128
Due from other state agencies	128,662	-	128,662
Inventories	100,530	-	100,530
Prepaids	111,196	-	111,196
Total assets	980,227	12,379	992,606
LIABILITIES & FUND BALANCES:			
Liabilities:			
Salaries payable	16,344	-	16,344
Accounts payable	543,810	-	543,810
Accounts payable to political subdivisions	50,791	-	50,791
Unearned revenue	51,027	-	51,027
Total liabilities	661,972	-	661,972
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue	207,160	-	207,160
FUND BALANCES:			
Nonspendable fund balance:			
Inventories	100,530	-	100,530
Prepaid items	111,196	-	111,196
Restricted fund balance:			
Debt service	-	12,379	12,379
Committed fund balance:	23,871	-	23,871
Unassigned fund balance:	(124,502)	-	(124,502)
Total fund balances	111,095	12,379	123,474
Total liabilities, deferred inflows and fund balances	$ 980,227	$ 12,379	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements.			18,305,148
Energy savings assets			3,178
Accrued interest payable on bonds and capital leases			(28,490)
Long-term liabilities not due and payable in the current period and, therefore, are not reported in the fund financial statements, includes the following:			
Unavailable revenue			207,160
Advance rental payment			(97,986)
Deferred amount on refunding bonds			20,505
Bonds payable			(2,146,085)
Capital leases			(621,732)
Pollution liability			(156,161)
MTA OPEB liability			(358,244)
Net pension liability			(1,862,930)
Premium on bonds not liquidated with current financial resources			(213,367)
Workers' compensation costs			(64,799)
Energy savings liability			(46,073)
Compensated absences			(50,701)
Deferred outflows and inflows related to pensions			458,790
Deferred concession receipts			(49,813)
Net position of governmental activities			$ 13,421,874

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

	Special Revenue	Other Governmental Fund — Debt Service	Total Governmental Funds
REVENUES:			
Taxes:			
Motor vehicle taxes and fees	$ 1,541,596	$ -	$ 1,541,596
Motor vehicle fuel taxes and fees	1,013,144	-	1,013,144
Revenue sharing of state corporation income tax	186,803	-	186,803
Revenue sharing of state sales tax	30,780	-	30,780
Federal reimbursements	718,951	-	718,951
Charges for services	486,151	-	486,151
Passenger facility charges	48,056	-	48,056
Customer facility charges	13,579	-	13,579
Special parking revenues	62,582	-	62,582
Investment earnings	3,819	-	3,819
Other	63,527	1,728	65,255
Total revenues	4,168,988	1,728	4,170,716
EXPENDITURES:			
Current:			
Department administration, operating, and maintenance expenditures:			
Secretary's Office	192,081	-	192,081
State Highway Administration	282,553	-	282,553
Port Administration	109,552	-	109,552
Motor Vehicle Administration	197,815	-	197,815
Transit Administration	751,789	-	751,789
Aviation Administration	271,004	-	271,004
Intergovernmental:			
Highway user revenue distributions and federal fund pass-thru to local subdivisions	241,459	-	241,459
Washington Metropolitan Area Transit Authority Grants	448,577	-	448,577
Debt service:			
Principal repayment	-	174,165	174,165
Interest	-	90,193	90,193
Issuance expenditures	1,192	-	1,192
Capital outlay	1,985,949	-	1,985,949
Total expenditures	4,481,971	264,358	4,746,329
Excess of expenditures over revenues	(312,983)	(262,630)	(575,613)
OTHER FINANCING SOURCES (USES):			
Issuance of debt	300,000	-	300,000
Premium on bonds	26,220	15,685	41,905
Capital leases	917	-	917
Debt service transfer	(259,324)	259,324	-
Total other financing sources and uses	67,813	275,009	342,822
Net change in fund balances	(245,170)	12,379	(232,791)
Fund balances, July 1, 2015	356,265	-	356,265
Fund balances, June 30, 2016	$ 111,095	$ 12,379	$ 123,474

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

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

Net change in fund balances - total governmental funds (page 39)			$	(232,791)
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.				
Capital outlays	$	1,985,949		
Loss on disposal of assets		(19,487)		
Depreciation expense		(1,073,295)		
				893,167
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.				
Unavailable revenue	$	68,899		
Amortization of advance rental payments		4,454		
				73,353
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to government 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 positon. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.				
Net premium on bonds	$	72		
Principal repayment of bonds		174,165		
Debt Issued, transportation bonds		(300,000)		
Capital lease liability		6,918		
				(118,845)
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 the governmental funds.				
Accrued interest	$	(4,540)		
Compensated absences		1,010		
Energy savings liability		4,118		
Workers compensation		(113)		
State Net pension liability		(167,371)		
MTA Net pension liability		(434,318)		
MTA OPEB obligation		(46,328)		
				(647,542)
Deferred financing inflows (outflows)				
Pension expense	$	435,383		
Refunding bonds		(3,892)		
Amortization of assets		1,132		
				432,623
Change in net positon of governmental activities (page 37)			$	399,965

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Fiduciary Net Position
Fiduciary Funds
As of June 30, 2016
(amounts expressed in thousands)

	Maryland Transit Administration Pension Plan Trust Fund	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 6,524	$ 49,582
Investments, at fair value:		
Equity securities pool	84,945	-
Fixed income pool	53,445	-
Alternative investments pool	93,021	-
Real estate pool	8,475	-
Total investments	239,886	-
Receivables		
Accrued investment income	616	-
Investment sales proceeds	2,182	-
Total assets	249,208	49,582
LIABILITIES:		
Due to others	-	45,708
Accounts payable and accrued liabilities	7,063	3,874
Total liabilities	7,063	49,582
		$ -
NET POSITION:		
Net Postion restricted for pensions	$ 242,145	

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Change in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

		Maryland Transit Administration Pension Plan Trust Fund
ADDITIONS:		
Contributions from employer		$ 38,037
Investment earnings:		
Interest income	$12,768	
Net depreciation in fair value of investments	(9,255)	
Net investment earnings		3,513
Total additions		41,550
DEDUCTIONS:		
Benefit payments		35,283
Administrative expenses		1,967
Total deductions		37,250
Change in net postion		4,300
Net positon, July 1, 2015		237,845
Net position, June 30, 2016		$ 242,145

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Notes to the Financial Statements
For the Year Ended June 30, 2016

1. <u>Summary of Significant Accounting Policies</u>:

A. Reporting Entity:

The Maryland Department of Transportation (Department), a department of the State of Maryland, was established by statute in 1971. The Department is responsible for carrying out the Governor's policies in the area of transportation under statutory mandates, guidelines and constraints established by the State's General Assembly. The Department has the responsibility for most state-owned transportation facilities and programs, including planning, financing, construction, operation and maintenance of various modes of transportation and carrying out related licensing and administrative functions. The statutorily created transportation agencies included in the Department are the Maryland Aviation Administration (MAA), Maryland Port Administration (MPA), Motor Vehicle Administration (MVA), Maryland Transit Administration (MTA), State Highway Administration (SHA) and the Secretary's Office (TSO).

The accompanying financial statements include the Department, which has no component units. The Maryland Transportation Authority (Authority) is a separate entity with separate fiscal operations and management, and accordingly, is excluded from *The Financial Reporting Entity* of the Department, since it does not qualify for inclusion under Governmental Accounting Standards Board (GASB) Statement No. 14, because it is not financially accountable to the Department.

B. Government-Wide and Fund Financial Statements:

The Department's government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the government. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. The Department's governmental activities are supported primarily by taxes, intergovernmental revenues and charges for services. Fiduciary funds are excluded from the Department's government-wide and fund financial statements, as fiduciary assets are not available for the Department's use.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the fiduciary fund (MTA Pension Plan Trust Fund).

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements and the fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized in the financial statements as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability or obligation is incurred as a result of goods or services rendered, as under accrual accounting. However, under the modified accrual basis, debt service expenditures are recorded only when payment is due. Compensated absences, retirement and workers' compensation costs and claims, judgments and other liabilities not expected to be paid with current available resources are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Motor vehicle taxes, motor vehicle fuel taxes, charges for services, Federal reimbursements and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Department.

The Department collects and receives various types of motor vehicle taxes and fees. These taxes and fees consist primarily of a portion of the motor vehicle fuel taxes, motor vehicle titling taxes and motor vehicle registration fees. The Department accrues the June motor vehicle fuel taxes and titling taxes that are unremitted as of year-end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the Department in July and thereafter by merchants who collect these taxes. Expenditure-driven Federal grants are recognized as revenue when the qualifying expenditures have been incurred, all other grant requirements have been met and the reimbursement funding is available from the Federal government.

The Department reports the following major governmental fund:
Special Revenue Fund:
Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue fund. The special revenue fund accounts for resources used for operations (other than debt service and pension activities) of the Department, including construction and improvement of transportation facilities and mass transit operations. Fiscal resources dedicated to transportation operations include the excise taxes on motor vehicle fuel and motor vehicle titles, a portion of the State’s corporation income tax and the State’s sales tax, wharfage and landing fees, fare box revenues, bond proceeds, Federal grants for transportation purposes and other receipts of the Department’s agencies. The Department’s unexpended balances as of year-end do not revert to the State’s general fund. In addition, the various categories of transportation bonds are serviced from the resources of the Department. The particular taxes and other designated revenues are dedicated to the payment of transportation bonds and constitute the sole sources to which holders of transportation bonds may legally look for repayment.

The Department reports the following non-major governmental fund:
Debt Service Fund:
Transactions related to the resources accumulated and payments made for principal and interest on long-term transportation debt of governmental funds are accounted for in the debt service fund.

Additionally, the Department reports the following fund types:
Pension Trust Fund:
The pension trust fund accounts for the activities of the MTA Pension Plan (the MTA Plan), which accumulates resources for pension benefit payments to qualified Maryland Transit Administration

employees. The pension trust fund accounts for plan assets at their fair value. Additional information regarding the MTA Pension Plan is included in Note 15. The accounts of the pension trust fund are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded in the fiduciary fund financial statements when earned, and administrative expenses are recorded at the time the liabilities are incurred and pension benefits are recorded when paid.

Agency Fund:
The agency fund is custodial in nature and does not present the results of operations or have a measurement focus. The Department uses an agency fund to account for the receipt and disbursement of Federal grant proceeds collected by the Department for distribution to political subdivisions and the accumulation of and payment of funds for debt service issued under the alternative county transportation bond program. When both restricted and unrestricted resources are available for use, the Department's policy is to use unrestricted resources first and then restricted resources as they are needed.

D. New Pronouncements:
The GASB has issued Statement No. 72, entitled Fair Value Measurement and Application; and Statement No. 76; entitled, The Hierarchy of Generally Accepted Accounting Principles for State and Local Government; These statements did not have a material effect on the Department's financial statements.

The GASB has also issued Statement No. 74 entitled, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans; GASB Statement No. 75, entitled, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; and GASB Statement No. 77; entitled, Tax Abatement Disclosures, which will require adoption in the future, if applicable. The Department expects GASB 75 to have a material effect on the financial statements. These statements may or will have a material effect on the Department's financial statements once implemented. The Department will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

2. Summary of significant Accounting Policies-Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

A. All Funds:

1. Deposits and investments:

The Department's cash on hand, demand deposits and short-term investments maturing within 90 days from the date purchased are considered as cash and cash equivalents. The Department's investments are recorded at fair value and changes in fair value are recognized as revenue. The cash and cash equivalents and investments of the Pension Trust Fund are maintained by the State Retirement and Pension System of Maryland (System) on a pooled basis. The System, in accordance with Article 73B, Section 160 of the Annotated Code of Maryland, is permitted to make investments subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the System. The law further provides that not more than 15% of the assets that are invested in common stocks may be invested in non-dividend paying common stock. The System's investments are commingled in three combined investment funds. Two investment funds consist principally of bonds and other fixed income investments, while the other investment fund consists principally of common stocks.

2. Receivables and payables:

Amounts due to the Department from various tax revenue sharing programs are recorded as taxes receivable, while amounts due to the Department from the Federal government are reported as intergovernmental receivables. Amounts representing balances due from the Authority and the State's General Fund are reported as due from other state agencies. Amounts representing balances due to the

Authority and the State's General Fund are reported as due to other state agencies. Amounts representing balances due to political subdivisions are reported as accounts payable to political subdivisions.

3. Inventories and prepaid items:

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. In governmental fund type accounts, prepaid expenses are generally accounted for using the purchases method. Under the purchases method, prepaid expenses are treated as expenditures when purchased rather than accounted for as an asset.

4. Grants:

Revenues from Federal reimbursement type grants are recognized when the related expenditures are incurred and the revenues are both measurable and available. The government considers all grant revenues to be available if they are collected within 60 days of the current fiscal period.

5. Capital assets:

Capital assets, which include land, buildings and improvements, machinery and equipment, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of more than $50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Cost on constructed assets includes materials, labor, design and any other costs directly related to putting the asset in use. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Capital Assets	**Years**
Buildings and improvements	5-50
Transit vehicles and equipment	10-25
Other vehicles	3-10
Office equipment	3-10
Computer equipment	3-10
Computer software	5-10
Infrastructure	10-50

6. Deferred outflows/inflows of resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Department only has two items reported in this category. It is the deferred charge on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or defeased debt. The second is the pension expense that include the components for change in assumption, change in experience, change in proportionate share of net pension, contributions after measurement date, and the difference between projected and actual earnings on pension plan investments.

7. Compensated absences:

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the State. All vacation pay is accrued when earned in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee resignations and/or retirements. Principally all full-time State employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 75 days as of the end of each calendar year. Accumulated earned, but unused annual leave for the Department's employees is accounted for in the government-wide financial statements.

8. Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts adjust the carrying value of the bonds and are amortized over the life of the bonds. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the period the debt is issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. Fund balance:

The Department's Balance Sheet for the reservation of fund balance includes the following categories: (1). Nonspendable fund balance (which includes inventory of supplies and prepaid items), (2). Restricted fund balance (like for debt service items), (3). Committed fund balance (contractual obligations), and (4). Unassigned fund balance is the residual classification for the department and includes all spendable amounts not contained in the other classifications.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Department's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Department utilizes encumbrance accounting. Encumbrances, based on purchase orders or other contracts, have been classified based on the existing resources that will be used to liquidate them. Encumbrances not included in the restricted fund balance are included in the committed fund balance since these amounts do not lapse at year-end but are payable from remaining appropriations from the prior year. These amounts can only be used for specific purposes pursuant to constraints imposed by formal actions of the government's highest level of decision making authority through the budget process.

3. <u>Reconciliation of Government-wide and Fund Financial Statements</u>:

A. Explanation of the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund Balance Sheet includes reconciliation between fund balance – total governmental funds and total net position – total governmental activities as reported in the government-wide Statement of Net Position. The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes reconciliation between the net change in fund balance – total governmental funds and the change in net position of governmental activities as reported in the government-wide Statement of Activities. The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The statement of net position presents formats that displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, although a balance sheet format (assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources, plus net position) may be used. Regardless of the format used, the statement of net position should report the residual amount as net position, rather than net assets, proprietary or fiduciary fund balance, or equity. Net position represents the difference between all other elements in a statement of net position and should be displayed in three components—net investment in capital assets; restricted (distinguishing between major categories of restrictions); and unrestricted.

4. <u>Deposits and Investments</u>:

As of June 30, 2016, the Department had the following investments:

(amounts expressed in thousands)

Investment Type	Fair Value
Money Markets - Agency Funds	$ 49,582
Pooled investments - Pension Trust Fund	239,886
State Treasurer’s pooled – Special Fund	105,679
Restricted investment– Special Fund and Debt Service Fund	23,693
Total investments at fair value	$ 418,840

Interest rate risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Maryland State Treasurer (Treasurer) policy on all of the Department’s investments. The Treasurer’s investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer will not directly invest in securities maturing more than five years from the date of purchase. The Department followed this policy for all of its investments.

Credit risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department's policy for reducing its exposure to credit risk is to comply with the Treasurer’s policy, which requires that the Treasurer’s investments in repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. agency obligations. These agency obligations are rated Aa1 by Moody’s and AAA by Standard and Poor’s. State law also requires that money market mutual funds contain only U.S. Treasuries or agencies or repurchase agreements secured by U.S. Treasuries or agencies. The money market mutual funds are rated Aaa/AAA.

Concentration of credit risk:
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Department's policy for reducing this risk of loss is to comply with the Treasurer's policy, which states the investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. Other than that, there is no limit on the amount that may be invested in any one issuer.

Custodial credit risk - deposits and investments:
Custodial credit risk is the risk that, in the event of a bank failure, the Department's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Department's name. The Department does not have a formal deposit policy for custodial credit risk, but follows the Treasurer's policy that states the Treasurer may deposit in a financial institution in the State any unexpended or surplus money in which the Treasurer has custody. As of June 30, 2016, none of the Department's bank balance was uninsured or uncollateralized; none was uninsured or collateralized with securities held by the pledging financial institution; and none were uninsured or collateralized with securities held by the pledging financial institution's trust department or fiscal agent, but not in the Department's name. The Treasurer (i.e., law, regulation or formal policy) defines the types of securities authorized as appropriate investments for the Department and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

As of June 30, 2016 the Department reported a total of $23,693,000 in *Cash and cash equivalents – restricted* on the Department's balance sheet. This amount consists primarily of restricted cash for the construction retainages related to the SHA road projects.

The Treasurer authorizes the Department to invest in obligations of the U.S. Treasury including bills, notes, and bonds; obligations of U.S. agencies and instrumentalities; repurchase agreements secured by an U.S. Treasury agency; instrumentality obligations or bankers' acceptances guaranteed by a financial institution with the highest short-term debt rating by at least one nationally recognized statistical rating organization (NRSRO); commercial paper with the highest rating by at least one NRSRO; shares or certificates in a money market mutual fund as defined by the Treasurer; and Maryland local government pooled with short-term investments.

5. <u>Receivables and Unearned Revenue</u>:

The Department's receivables as of June 30, 2016 for the individual funds were as follows:

(amounts expressed in thousands)

Receivables	Special Revenue
Taxes receivable	$ 142,852
Intergovernmental receivable	328,866
Other accounts receivable	51,128
Due from other state agencies, net	128,662
Net total receivables	$ 651,508

The Department's Taxes receivable consist of receivables recorded at year-end for the Motor Vehicle Fuel Tax Division in the amount of $100,081,000 and the MVA's titling tax in the amount of $42,771,000. The Department's Intergovernmental receivables consist of receivables from the Federal government in the amount of $322,335,000 and from the local subdivisions in the amount of $6,531,000. The Department's other accounts receivable of $51,128,000 consist of miscellaneous receivables recorded at fiscal year-end across the Department.

A balance of $42,284,000 is reported as Due from other state agencies in the Special Revenue Fund for the amount due from the State Comptroller's Revenue Administration Division for cash transfers not transferred to the Department as of June 30, 2016. Also included in Due from other state agencies is the amount $72,472,000, for the amount due from the Authority for Passenger Facility Charge (PFC), Customer Facility Charge (CFC) and special parking revenue collections; $1,079,000 is reported as Due from other state agencies in the Special Revenue Fund for the amount due from the Authority for the ICC project; $12,827,000 is reported as Due from other state agencies, which is due from the Maryland Department of Budget and Management (DBM) for the health benefits refund. Also included in Due from other state agencies on the Statement of Net Position is the amount for the Department's Energy Performance Contract (EPC) as of June 30, 2016, in the amount of $3,178,000.

The Department's unearned revenue in connection with resources that have been received, but not yet earned was $149,013,000 as of June 30, 2016. The Department reported unearned revenue for customer prepayments of future airport services to be provided by the MAA in the amount of $2,436,000, $29,896,000 for revenues collected by the SHA for advanced contract payments, $18,695,000 for advance PFC collection on expenditures and $97,986,000 for advanced rental payments related to MPA's service concession agreement.

As of June 30, 2016, the Department also reported unearned revenue in the governmental funds in the amount of $51,027,000 for unearned customer prepayments. Unavailable revenue was comprised of $72,472,000 for the balance in the MAA PFC's and CFC Improvement Funds and $134,688,000 related to federal receivables that were not collectable within the period available.

6. <u>Interfund Transfers</u>:

The interfund transfers for the Department for the year ended June 30, 2016, were as follows:

(amounts expressed in thousands)

Transfers In	Transfers Out	Amount
Debt service fund	Special revenue fund	**$ 259,324**

The purpose of this interfund transfer is to record the amount of revenue transferred from the special revenue fund to the debt service fund for debt service principal and interest payments. This transfer is reported on the Statement of Revenues, Expenditures and Changes in Fund Balances for the year ended June 30, 2016 as a Debt service transfer under Other Financing Sources (Uses).

7. <u>Due to Other State Agencies</u>:

In the current year there were no monies due to the state General fund.

8. <u>Capital Assets</u>:

The Department's Capital assets activity by asset classification, including accumulated depreciation, for the year ended June 30, 2016, was as follows:

(amounts expressed in thousands)

Capital Assets - Governmental activities	Balance July 1, 2016	Increases	Decreases	Transfers In (Out)	Balance June 30, 2016
Capital Assets not depreciated:					
Land	$ 2,591,842	$ 23,767	$ -	$ 48,339	$ 2,663,948
Construction in progress	3,443,268	1,029,393	-	(257,796)	4,214,865
Total capital assets not depreciated	6,035,110	1,053,160	-	(209,457)	6,878,813
Capital assets depreciated:					
Building & improvements	2,802,109	21,111	(23)	106,017	2,929,214
Machinery & equipment	2,219,513	51,612	(97,212)	20,244	2,194,157
Infrastructure	22,137,775	860,066	(1,883)	83,196	23,079,154
Seagirt Assets	54,341	-	-	-	54,341
Total capital assets depreciated	27,213,738	932,789	(99,118)	209,457	28,256,866
Accumulated depreciation for:					
Building & improvements	(1,326,172)	(87,451)	10	-	(1,413,613)
Machinery & equipment	(1,566,337)	(121,885)	79,262	-	(1,608,960)
Infrastructure	(12,940,962)	(862,827)	359	-	(13,803,430)
Seagirt Assets	(3,396)	(1,132)	-	-	(4,528)
Total accumulated depreciation	(15,836,867)	(1,073,295)	79,631	-	(16,830,531)
Net capital assets after depreciation	11,376,871	(140,506)	(19,487)	209,457	11,426,335
Net total capital assets – governmental activities	$ 17,411,981	$ 912,654	$ (19,487)	$ -	$ 18,305,148

Depreciation expense on capital assets charged to the Department's modal administration/functions in the Statement of Activities as of June 30, 2016, was as follows:

(amounts expressed in thousands)

Depreciation Expense - Governmental Activities	
Secretary's Office	$ 5,163
State Highway Administration	824,199
Port Administration	24,955
Motor Vehicle Administration	12,489
Transit Administration	122,203
Aviation Administration	84,286
Total depreciation expense - governmental activities	$1,073,295

9. <u>Service Concession Arrangement:</u>

The Department implemented GASB Statement No. 60 'Accounting and Financial Reporting for Service Concession Arrangements' as of July 1, 2012. The Department has entered into a long-term lease with Ports America Corporation (PAC) to manage, operate and maintain the Dundalk Marine terminal. These agreements satisfy the criteria established to be considered service concession arrangements (SCAs). Under the terms of the ground lease, the Department transfers rights to PAC for a term of 50 years. After 50 years the Department has the option to buy PAC's equipment. PAC charges and collects fees from the user for container lifts, short tons of roll on-roll off, break-bulk and bulk cargo and pays the operating costs, management fee and debt service associated with the project. The Department has the ability to approve what services the operator is required to provide. As of June 30, 2016, the Capital assets, net accumulated depreciation and deferred service concession arrangement receipts were $49,813,000.

10. Long-term Liabilities:

Changes in long-term liabilities:

The Department's long-term liability activity for the year ended June 30, 2016, was as follows:

(amounts expressed in thousands)

Governmental activities:	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Due Within One Year
Transportation bonds*	$ 2,020,250	$ 300,000	$(174,165)	$ 2,146,085	$ 207,185
Capital leases*#	628,650	34,983	(41,901)	621,732	42,091
Pollution obligations	156,161	-	-	156,161	-
MTA OPEB obligations	311,916	46,328	-	358,244	-
State Employees' Plan Net pension liability	580,974	167,371	-	748,345	-
MTA Net pension liability	680,267	434,318	-	1,114,585	-
Premium on bonds*	213,439	41,905	(41,977)	213,367	25,922
Workers' compensation costs	64,686	17,007	(16,894)	64,799	9,720
EPC obligations*	50,191	-	(4,118)	46,073	4,253
Compensated absences	51,711	33,669	(34,679)	50,701	8,513
Total long-term liabilities – governmental activities	$ 4,758,245	$ 1,075,581	$(313,734)	$ 5,520,092	$ 297,684

Note: * These items are combined for the net related debt calculation on the Statement of Net Position section entitled Net Position – Net investment in capital assets. # Capital lease additions consist of the monies held by the trustee for construction costs, in the amount of $34,983,000.

The Treasurer's Office negotiated financing for the EPC obligations in the amount of $50,191,000; certain agencies have a Maryland Energy Administration (MEA) State Agency Loan Program (SALP) loan totaling $4,821,000. The current portion that is due within one year is the principal due to the Treasurer's Office in the amount of $3,723,000 and the agencies SALP portion in the amount of $530,000; see note 17 for additional program details.

The Department's long-term liabilities, other than consolidated transportation bonds, are generally liquidated through the special revenue fund. The Department estimates there are no material liabilities for arbitrage rebates as of June 30, 2016.

11. Transportation bonds:

The Department Issues Consolidated Transportation Bonds to provide funds for the acquisition and construction of major capital facilities. Consolidated Transportation Bonds are limited obligations issued by the Department for highway, port, airport, rail or mass transit facilities or any combination of such facilities. The principal must be paid within 15 years from the date of issue. As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year that does not exceed $4,500,000,000. The aggregate principal amount of those bonds that were allowed to be outstanding as of June 30, 2016, was $2,855,105,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2016, was $2,146,085,000. Consolidated Transportation Bonds are paid from the Debt Service Fund.

The Department’s Transportation Bonds outstanding as of June 30, 2016, were as follows:

(amounts expressed in thousands)

	Interest Rates	Amount
Consolidated Transportation Bonds - due serially through 2030 – for state transportation activity	2.0-5.5%	$1,782,335
Consolidated Transportation Bonds, refunding – due serially through 2030 – for state transportation activity	5.0%	363,750
Total consolidated transportation bonds		$2,146,085

Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute, a portion of the corporate income tax and a portion of the State sales tax credited to the Department. These amounts are applicable to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment. Under the terms of authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued provided, among other conditions, that (i) total receipts (excluding Federal funds for capital projects, bond and note proceeds and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and (ii) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all consolidated transportation bonds outstanding and to be issued.

County Transportation Bonds are issued by the Department and the proceeds are used by participating counties and Baltimore City to fund local road construction, reconstruction and other transportation projects and facilities and to provide local participating funds for Federally-aided highway projects. Debt service on these bonds is payable from the participating counties’ and Baltimore City’s share of highway user revenues. Legislation was enacted during the 1993 session of the General Assembly that established an alternative county transportation bond program. This new legislation provides features similar to the previous program except that the county transportation debt will be the obligation of the participating counties rather than the Department. Unexpended bond proceeds in the amount of $30,396,000 and certain debt service sinking fund amounts aggregating $16,186,000 were invested in money market accounts as of June 30, 2016. These funds are reported as restricted cash and cash equivalent in the agency funds. The two amounts are restricted for project funds and county bond debt service respectively. $120,225,000 in County Transportation Revenue Bonds was outstanding on June 30, 2016.

On December 17, 2015 consolidated transportation bonds in the amount of $300,000,000 were issued by the Department with a premium of $41,905,000. These bonds are dated December 17, 2015 with maturities ranging from December 15, 2018 to December 15, 2030 at interest rates ranging from 3.0-5.0%. As of June 30, 2016, the Department has $247,255,000 of defeased debt outstanding.

Annual debt service requirements to maturity for transportation bonds in future years are as follows:

(amounts expressed in thousands)

Years Ending June 30,		Consolidated Transportation Bonds-Principal		Consolidated Transportation Bonds-Interest		Total Transportation Bond Debt Service Requirements
2017	$	207,185	$	93,447	$	300,632
2018		221,710		83,487		305,197
2019		199,410		72,957		272,367
2020		170,250		63,454		233,704
2021		185,925		55,269		241,194
2022-2026		744,960		158,622		903,582
2027-2031		416,645		34,816		451,461
Total	$	2,146,085	$	562,052	$	2,708,137

12. Operating and Capital Leases:

Operating Leases:

The Department leases office space under various agreements that are accounted for as operating leases. Rent expense under these agreements was $3,514,000 for the year ended June 30, 2016.

The future minimum operating lease payments under these agreements as of June 30, 2016, were as follows:

(amounts expressed in thousands)

Years Ending June 30,		Operating Leases Future Minimum Payments
2017	$	2,615,280
2018		2,539,451
2019		2,463,623
2020		2,229,005
2021		2,023,142
2022-2026		1,957,492
2027-2031		346,311
Total operating leases	$	14,174,304

Capital Leases:

The Department has entered into several lease agreements for the financing of various transportation related projects. The Department has also entered into agreements with the Maryland Transportation Authority for the financing of various aviation projects. The Department has reported obligations under capital leases of $621,732,000, as of June 30, 2016. The Department's activity related to capital leases is included in the table in note 10.

The Department's capital lease obligations as of June 30, 2016, were as follows:

- $12,410,000 in obligations related to Project Certificates of Participation for the Maryland Aviation Administration Facilities, Series 2010 (refunding), issued on December 1, 2010, at annual interest rates ranging from 3.0-5.0%;

- $9,475,000 in obligations related to Project Certificates of Participation for the Maryland Transit Administration Project, Series 2010 (refunding), issued on December 1, 2010, at annual interest rates ranging from 3.0-5.0%;
- $1,200,000 in obligations related to Certificates of Participation for the BWI Marshall Airport Shuttle Bus Fleet Acquisition, Series 2004, issued on October 7, 2004, at annual interest rates ranging from 2.75-3.60%;
- $16,270,000 in obligations related to Certificates of Participation for the Maryland Port Administration Facility Project, Series 2006, issued on June 14, 2006, at annual interest rates ranging from 4.25-5.25%;
- $5,866,000 for the Authority's financing of the MPA's Masonville Automobile terminal at an annual interest rate of 5.5%;
- $157,235,000 for the Maryland Economic Development Corporation bond issuance for the Maryland Aviation Facilities, issued on April 3, 2003, at annual interest rates ranging from 4.5-5.5%;
- $14,580,000 for the Maryland Economic Development Corporation bond issuances for the financing of the Department's headquarters building, original bonds issued on June 27, 2002, refunding bonds issued May 25, 2010 at annual interest rates ranging from 3.0-4.5%;
- $136,445,000 on long-term obligations related to the financing of BWI Marshall Airport parking and roadway projects. Bonds associated with this agreement were issued by the Maryland Transportation Authority in the amount of $264,075,000 on March 5, 2002, and refunded on April 25, 2012, with annual interest rates ranging from 4.0-5.0%; the total liability is $148,055,000 (less monies the Authority's trustee is holding);
- $79,738,000 on long-term obligations related to the financing of BWI Marshall Airport Consolidated Rental Car Facility. Bonds associated with this agreement were issued by the Authority in the amount of $117,345,000 on June 18, 2002, at annual interest rates ranging from 2.74-6.65%; the total liability is $90,900,000 (less monies the Authority's trustee is holding);
- $42,166,000 minimum payments, for the financing of certain airport facilities project located at BWI Marshall Airport including construction of a connector hallway between Concourse B and C. Bonds were issued by Maryland Transportation Authority on April 25, 2012, in the amount of $50,905,000 at annual interest rates ranging from 4.0-5.0%. As of June 30, 2016, the total liability is $43,500,000 (less monies the Authority's trustee is holding);
- $110,118,000 on long-term obligations related to the financing of BWI Marshall Airport's runway safety and paving improvement projects. Bonds were issued by the Maryland Transportation Authority on December 13, 2012, in the amount of $92,070,000 fixed rate bonds with interest rates ranging from 2.0-4.0% and $43,400,000 of variable rate demand bonds. As of June 30, 2016, the interest rate on the variable rated bonds was 0.106%. Total liability is $118,760,000 (less monies the Authority's trustee is holding).
- $36,229,000 on long-term obligation related to the financing of BWI Marshall Airports construction of a connector hallway between Concourse C and D. As of June 30, 2016 the total liability was $37,985,000 (less monies the Authority's trustee is holding).

As bond proceeds are spent for construction, the Department's liability (or minimum payments) and related capital assets will increase, accordingly. Once construction is completed, the Construction in Progress asset will become a Building or Infrastructure asset.

The future minimum capital lease obligations and the net value of these minimum lease payments as of June 30, 2016, were as follows:

(amounts expressed in thousands)

Years Ending June 30,	Amount	
2017	$ 68,312	
2018	66,747	
2019	66,666	
2020	66,669	
2021	63,988	
2022-2026	297,808	
2027-2031	193,033	
2032-2036	39,975	
Total minimum lease payments	863,198	
Less: amount representing interest	206,962	(a)
Less: funds held by bond trustee	34,504	(b)
Value of minimum lease payments	$621,732	

(a) The interest represents 24% of the total minimum lease principal payments due.
(b) The reduction shown in the amount of $34,504,000 are monies held by the bond trustee on behalf of the Maryland Transportation Authority to be used for construction and Debt service reserve fund expenditures.

The capital assets acquired through capital leases as of June 30, 2016 were as follows:

(amounts expressed in thousands)

Capital Asset		Amount
Construction in progress	$	221,129
Land and improvements		16,203
Buildings and improvements		1,035,485
Machinery and equipment		23,121
Infrastructure		289,053
Total acquired capital assets		1,584,991
Less: accumulated depreciation		491,852
Total capital assets – net	$	1,093,139

13. Pollution Remediation Obligations:

The Department has recognized a pollution remediation obligation on the Statement of Net Position for governmental activities. A pollution remediation obligation is an obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, including pre-cleanup activities, cleanup activities, government oversight and enforcement, and post remediation monitoring. Obligating events that initiate the recognition of a pollution remediation liability include any of the following: (a) There is an imminent and substantial endangerment to the public; (b) The Department is in violation of a pollution prevention related permit or license; (c) The Department is identified as a responsible party or potentially responsible party by an environmental regulator; (d) The Department is named or has evidence that it will be named in a lawsuit to participate in pollution remediation; or (e) The Department voluntarily commences, or legally obligates itself to commence, cleanup activities, monitoring or operations and maintenance of pollution remediation efforts.

The pollution remediation obligation is an estimate and subject to change resulting from price increases or reductions, technology advances or from changes in applicable laws or regulations. The liability is recognized as it becomes estimable. In some cases, this may be at inception. In other cases, components of a liability are recognized as they become reasonably estimable. At a minimum, the liability is reviewed for sufficiency when various benchmarks occur and as remediation is implemented and monitored. The measurement of the liability is based on the current value of outlays to be incurred using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible potential outcomes – the estimated mean or average.

The Department's pollution remediation liability as of June 30, 2016, is estimated to be $156,161,000 for cleanup projects at the SHA, the MPA, the MTA and the MAA with no expected recoveries from third parties to reduce the liability. Included in this liability are cost estimates for site monitoring and repair excavation of road and infrastructure, and replacement of buildings as a result of contaminations by hazardous materials under Federal and State law. In these cases, either the Department has been named in a lawsuit by a State Regulator or the Department has legally obligated itself under the Environmental Article, Section 7-201, of the Annotated Code of Maryland. These cost estimates for the Department's pollution remediation, due to site contamination from hazardous materials, are based on engineering design estimates. The estimated long-term costs that the Department may be responsible for over the next 15 years include: various cleanup projects related to several MTA construction sites and projects related to cleanup of underground hazardous substances at one of the MPA's marine terminals. The MPA is only responsible for 23% of the total remediation costs. The Department did not incur any significant costs to reduce the liability or identify any new technology that would change the liability during the current fiscal year ended June 30, 2016.

14. Other Postemployment Benefits (OPEB):

State Employee and Retiree Health and Welfare Benefits Program of Maryland:

Plan Description:

The members of the Maryland State Retirement, Pension and Law Enforcement Officers' Systems and their dependents are provided postemployment health care benefits through the State Employee and Retiree Health and Welfare Benefits Program (OPEB Plan). The OPEB Plan is a single-employer defined benefit health care plan established by the State Personnel and Pensions Article, Section 2-501 through 2-516 of the Annotated Code of Maryland. The OPEB Plan is self-insured to provide medical, hospitalization, prescription drugs and dental insurance benefits to eligible State employees, retirees and their dependents. State law grants authority to establish and amend benefit provisions to the Secretary of the DBM. In addition, the Secretary of DBM shall specify by regulation the types or categories of State employees who are eligible to enroll, with or without State subsidies, or who are not eligible to enroll.

Effective June 1, 2004, the State of Maryland established the Postretirement Health Benefits Trust Fund (OPEB Trust) as a separate entity to receive appropriated funds and contributions which will be used to assist the OPEB Plan in financing the State's postretirement health insurance subsidy. The OPEB Trust is established in accordance with the State Personnel and Pensions Article, Section 34-101, of the Annotated Code of Maryland and is administered by the Board of Trustees for the State Retirement and Pension System. Financial statements of the OPEB Trust may be obtained from the Office of the Maryland Comptroller, Treasury Building, Annapolis, MD 21401. A separate valuation is not performed by the Department. The Department's only obligation to the OPEB Plan is its required annual contribution.

Funding Policy:

The contribution requirements of the OPEB Plan members and the State are established by the DBM Secretary. Each year the DBM Secretary recommends to the Maryland Governor the State's share of the costs of the OPEB Plan. Beginning in fiscal year 2008, Maryland State law requires DBM to transfer any subsidy received as a result of the Federal Medicare Prescription Drug Improvement Act of 2003 or a similar subsidy to the OPEB Trust to prefund the costs of retirees' health benefits. Also, funds may be separately appropriated in the State's budget to transfer to the OPEB Trust.

Generally, a retiree may enroll and participate in the health benefit options if the retiree retired directly from State service with at least five years of creditable service, ended State service with at least 10 years of creditable service and within five years before the age at which a vested retirement allowance normally would begin or ended State service with at least 16 years of creditable service. Based on current practice, the State subsidizes approximately 50-85% of retiree premiums to cover medical, dental, prescription and hospitalization costs, depending on the type of insurance plan. The OPEB Plan is a cost sharing plan with the State of Maryland and assesses a charge to retirees for post-employment health care benefits, which is based on health care insurance charges for current employees. The Department's share of these retirees' health insurance costs was $31,843,000 for the year ending June 30, 2016, and was included in the health care costs allocated to all participating employers.

The Schedule of MDOT's Employer Contributions for the OPEB Plan is as follows:

(amounts expressed in thousands)

Fiscal Year Ended June 30,	Annual Required Contribution	Annual Contribution Paid	Net OPEB Obligation	Percentage Contributed
2014	$ 21,798	$ 21,798	$ -	100.0 %
2015	23,419	23,419	-	100.0
2016	31,843	31,843	-	100.0

Maryland Transit Administration Pension Plan - OPEB:

Plan Description:

The members of the MTA Plan are provided post-employment health care benefits through the State Employee and Retiree Health Plan or the MTA Health Plan. The MTA currently funds retirees' health care cost on a pay-as-you-go basis. As retirees incur expenses, the MTA pays out funds based on the appropriate benefit structure. The MTA does not currently have a separate fund set aside to pay health care costs. The MTA provides health care coverage for nearly 1300 retirees. Retirees make the same contributions as active employees; however, Medicare contributions are handled separately.

Funding Policy:

The Department is required by law to provide funding each year to the OPEB Plan for the Department's share of the pay-as-you-go amount necessary to provide current benefits to retired employees and their dependents. The MTA healthcare benefits including Medical (PPO or HMO), prescription drug, dental and vision plans are provided to retirees meeting the following eligible criteria:

1. Age 65 with 5 years of service
2. Age 52 with 30 years of service
3. Age 55 with at least 30 years of service, including military and other qualifying service credits
4. Disabled with 5 years of service
5. Surviving spouse subsidized benefit for 3 years

Annual OPEB Costs and Net OPEB Obligation:

The Department's annual OPEB cost, related to the MTA Plan, is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of accounting principles generally accepted in the United States of America. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities over a period not to exceed 30 years.

The annual OPEB cost* and net OPEB obligation* for the MTA Plan as of June 30, 2016 was:

(amounts expressed in thousands)

Annual required contribution (ARC)	$ 72,624
Interest on OPEB obligations	13,256
Adjustment to the OPEB cost	(24,256)
Annual OPEB cost	61,624
Expected benefit payments	(15,296)
Increase in OPEB obligation	46,328
Net OPEB obligation beginning of fiscal year	311,916
Net OPEB obligation end of fiscal year	$ 358,244

*The post-retirement medical and life insurance benefits (OPEB) valuation is evaluated every 2 years, so on the off years we use the estimated numbers in the report from the actuary.

The three-year historical trend information for the MTA Plan is as follows:

(amounts expressed in thousands)

Fiscal Year Ended June 30,	Annual OPEB Cost	Expected Benefits Paid	Net OPEB Obligation	Percentage Contributed
2014	$ 64,444	$ 18,383	$ 267,064	28.5 %
2015	58,757	13,905	311,916	23.7
2016*	61,624	15,296	358,244	24.8

*The post-retirement medical and life insurance benefits (OPEB) valuation is evaluated every 2 years, so on the off years we use the estimated numbers in the report from the actuary.

Funded Status and Funding Progress:
The funded status of the OPEB Plan for the MTA Plan is as follows:

(amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	Percentage of UAAL over Covered Payroll
6/30/2011	$ -	$527,679	$ 527,679	$147,474	357.8 %
6/30/2013	-	670,833	670,833	137,596	487.5
6/30/2015	-	607,063	607,063	135,545	441.7

Actuarial Methods and Assumptions:
An actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future.

A projection of benefits for financial reporting purposes is based on the substantive plan and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the efforts of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial method and significant assumptions listed below were used in the actuarial valuation of the OPEB Plan for the MTA Plan as of June 30, 2016, was as follows:

Actuarial Cost Method:	Entry age normal
Amortization Method:	Closed, level dollar
Amortization Period:	20 years (as of July 1, 2014)
Asset Valuation Method:	Market value of assets
Actuarial Assumptions:	
Discount Rate:	4.25%
Medical Trend:	7.70% in FY2016 decreasing to 4.5% over 11 years
Dental/Vision Trend:	4.5% per annum

15. <u>Retirement Systems and Pension Plans</u>:

State Retirement and Pension System of Maryland:

The Department contributes to the Employees Retirement System of Maryland (System), established by the State to provide pension benefits for State employees (other than employees covered by the MTA Plan described below) and employees of various participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. While the System is an agent multiple-employer public employee retirement system, the Department accounts for the plan as a cost sharing multiple-employer public employee retirement system as a separate valuation is not performed for the Department and the Department's only obligation to the plan is its required annual contributions. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant.

Plan description:

Certain employees of the State are provided with pensions through the System. The State Personnel and Pensions Article of the Annotated Code of Maryland (the Article) grants the authority to establish and amend the benefit terms of the System to the System's Board of Trustees. The System issues a publicly available financial report that can be obtained at www.sra.state.md.us/Agency/Downloads/CAFR/.

Benefits provided:

A member of the System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's average final compensation (AFC), which is the member's highest three-year average final salary, multiplied by the number of years of accumulated creditable service.

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

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

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

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

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

Disability and Death Benefits:
Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Contributions:
The Article sets contribution requirements of the active employees and the participating governmental units which are established and may be amended by the System's Board. Employees are required to contribute 7% of their annual pay. The Department's contractually required contribution rate for the System for the year ended June 30, 2016, was approximately $56,644,000, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the System from the Department were approximately $56,644,000 for the year ended June 30, 2016.

As of June 30, 2016, the Department reported a liability of approximately $748,345,000 for its proportionate share of the Systems net pension liability. The Department's net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the Systems net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined. As of June 30, 2016, the Department's proportion for the System was 3.83%, which was substantially the same from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Board recognized pension expense for the System of approximately $72.9 million. As of June 30, 2016, the Department reported deferred outflows of resources and deferred inflows of resources related to System from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 43,764	$ -
Change in experience	-	15,325
Change in proportionate share of the net pension liability	59,786	-
Contribution after measurement date	56,644	-
Net difference between projected and actual earning on pension plan investments	18,220	-
Total	$ 178,414	$ 15,325

The amount reported as deferred outflows of resources related to System resulting from the Department's contributions subsequent to the measurement date was $56,644,000 and will be recognized as a reduction of the System net pension liability in the year ended June 30, 2017. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows: $22,173,285 for fiscal years 2017-2019; $35,970,088 for fiscal year 2020 and $3,954,328 for fiscal year 2021.

Information included in the MSRPS financial statements:
Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position are available at www.sra.state.md.us/Agency/Downloads/CAFR.

The sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate:

The Department's proportionate share of the System's net pension liability calculated using the discount rate of 7.55% is $748,345,000. Additionally, the Department's proportionate share of the System's net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (6.55%) is $1,125,094,000 or 1-percentage-point higher (8.55%) is $523,206,000.

Maryland Transit Administration Pension Plan:
Plan description:
The MTA Employee Pension Plan (the Plan) is a single employer noncontributory plan that covers all MTA employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. The Plan is part of the Department's financial reporting entity and is included in the Department's financial statements as a Pension Trust Fund. The Plan prepares separate audited Financial Statements, which can be obtained from the Plan, William Donald Schaefer Tower, 8 Saint Paul Street, Baltimore, Maryland 21202. The Plan is administered and funded in compliance with the collective bargaining agreements, which established the Plan.

As of June 30, 2016, the Department reported a liability of approximately $1,114,585,000 for its proportionate share of the Plan's net pension liability. The Department's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the Plan net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined. As of June 30, 2016, the Department's proportion for the Plan was 18.01%, which was substantially the same from its proportion measured as of July 1, 2015.

For the year ended June 30, 2016, the Plan recognized pension expense for the Plan of approximately $205.5 million. As of June 30, 2016, the Department reported deferred outflows of resources and deferred inflows of resources related to System from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	$ 26,893
Changes of Assumptions	$ 328,728	-
Net difference between projected and actual earning on pension plan investments	-	6,134
Total	$ 328,728	$ 33,027

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Plan will be recognized in pension expense as follows: Changes in assumptions: Fiscal years 2017-2021 $56,061,000 per year and in Fiscal year 2022, $48,421,000; Difference between projected and actual earnings on pension plan investments: Fiscal years 2017-2019, ($1,730,000) per year and in Fiscal year 2020, ($943,000); Difference between actual and expected experience: Fiscal years 2017-2021, ($4,949,000) and in Fiscal year 2022, ($2,416,000).

The sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate:

The Plan's net pension liability calculated using the discount rate of 3.5% is $1,114,585,000. Additionally, the Department's proportionate share of the System's net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (2.5%) is $1,343,893,000 or 1-percentage-point higher (4.5%) is $929,148,000. The Plan and the reports can be found on the MDOT website at the following link: http://www.mdot.maryland.gov/newMDOT/Finance/Index.html

16. Risk Management and Insurance:

Workers' Compensation:

The Department is self-insured for workers' compensation liabilities. The Department's workers' compensation self-insured 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. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determined payments over a long period of time are reported at their present value using a 4% discount rate. The workers' compensation costs are based upon separately determined actuarial valuations for the fiscal year ended June 30, 2016.

The Department's workers' compensation self-insurance program is administered by the Injured Worker's Insurance Fund under a contract which requires that the Department pay premiums based upon loss experience plus a proportionate share of administrative costs. In the event of termination of the contract, the Department is obligated for any premium deficiency at the time of termination. The Department's accrued workers' compensation costs, as of June 30, 2016, were $64,799,000.

The activity related to accrued workers' compensation costs is included in the table in note 10. Changes in the balances for the Department's workers' compensation liability during the past two fiscal years are as follows:

(amounts expressed in thousands)

	Fiscal Year Ended June 30, 2016	Fiscal Year Ended June 30, 2015
Unpaid claims, beginning of fiscal year	$ 64,686	$ 67,044
Incurred claims and changes in estimates	17,007	12,954
Claim payments	(16,894)	(15,312)
Total unpaid claims, end of fiscal year	$ 64,799	$ 64,686

Insurance:
The operations of the MAA, MPA and MTA are covered by commercial liability insurance policies and many claims are handled by the Department's insurance carriers. The MAA's two facilities, Baltimore Washington International Thurgood Marshall Airport and Martin State Airport, are covered by an airport owners' and operators' general liability insurance policy providing coverage per occurrence up to $750,000,000 for bodily injury and property damage. This policy contains the war, hi-jacking and other perils endorsement for $100,000,000 due to the events of September 11, 2001.

The MPA's liability insurance policies, including excess liability policies, provide insurance up to $150,000,000 per occurrence for its port operations. These policies cover liability for both injury and property damage.

MTA's operations are covered by a $495 million excess liability insurance policy over and above the MTA's $5 million self-insured retention. Bombardier and Amtrak are contractors hired to provide MTA's commuter rail service known as MARC. In addition, MTA pays a track access fee to CSX for the use of CSX's railroad tracks (MARC Brunswick Line and Camden Line) and to Amtrak for use of Amtrak's railroad tracks (MARC Penn Line). The MTA has insurance to cover its contractual obligations for the MARC rail service as well as insurance for MTA's other modes of service (bus, light rail, commuter bus, subway and mobility). The MARC operations insurance coverage provides excess liability up to $500 million. All other MTA operations insurance coverage provides excess liability limits up to $200 million. This includes a shared self-insured retention of $5,000,000. Claims under $5,000,000 are self-insured by MTA. The excess liability policies also extend punitive damages liability coverage to Bombardier, Amtrak and CSX arising from commuter rail operations for claims. All third party liability claims exceeding $10,000 for Bombardier and $20,000 for Amtrak must have prior approval of the MTA for payment/settlement. Workers' Compensation claims by Bombardier, Amtrak or CSX are exempt from the MTA's coverage because those are the responsibility of the vendors.

The amount of any settlements, within the Department, did not exceed the insurance coverage in each of the past three fiscal years. For those areas not covered by purchased insurance, the State Treasurer has a program of self-insurance for tort claims. By statute, bodily injury, personal injury or property damages are limited to claims of $200,000 per claimant under the established self-insurance program.

17. <u>Energy Performance Contract (EPC):</u>
The Department of General Services (DGS) implemented an Energy Performance Contract program for the Department in fiscal year 2011, with a goal to reduce Maryland's energy consumption through

energy efficiency projects. The Treasurer's Office secured the financing required to fund the construction of the improvements. The savings resulting from the projects are used to offset the costs of the services.

The SHA, MTA, MAA and the MPA participated in the EPC. The assets related to the project for the fiscal year ended June 30, 2016, are included on the Department's Statement of Net Position in the amount due from EPC Assets for $3,178,000. As of June 30, 2016, the total amount due in long-term liability for EPC obligations is $46,074,000.

18. Commitments:

As noted in Note 2, encumbrance accounting is used to account for outstanding commitments for open purchase orders and unfulfilled contracts in governmental funds. Amounts related to contractual transportation obligations are reported in the special revenue fund in the amount of $23,871,000 as of June 30, 2016.

The Department has active construction commitments outstanding as of June 30, 2016 of approximately $5,368,563,000 principally for construction of highway, port, motor vehicle, aviation and transit projects. Approximately 28.73% of future expenditures, related to these commitments of the Department, are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining balance will be funded by other financial resources of the Department, including the issuance of long-term debt.

As of June 30, 2016, the Department's commitments with contractors were as follows:

(amounts expressed in thousands)

Construction projects	Spent-to-date	Remaining commitment
Highway construction	$ 2,638,255	$ 2,269,342
Port construction	395,489	630,680
Motor vehicle construction	155,891	144,973
Transit construction	2,115,203	1,527,370
Aviation construction	539,616	796,198
Total projects	$ 5,844,454	$ 5,368,563

19. Related Party Transactions:

Various State of Maryland agencies provide services for the Department for which they are reimbursed from the Department. During fiscal year 2016, such reimbursements are reflected as Distributions to other state agencies in the Special Revenue Fund.

20. Federal Revenue:

Federal revenue consists principally of grants from the Federal Transit Administration for rail and bus projects for the Baltimore region and from the Federal Highway Administration in connection with highway construction projects. In addition, the Department receives Federal grants to aid in planning, design and construction of transportation facilities and to support the mass transit operations. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the Department. As of June 30, 2016, the Department estimates that no material liabilities will result from such audits.

21. Passenger Facility Charges (PFC):

The Aviation Safety and Capacity Expansion Act of 1990 (the "1990 Safety Act"), enacted by the United States Congress ("Congress"), allows a public agency to impose an airport Passenger Facility Charge for enplaned passengers. The proceeds of such PFCs are to be used to finance eligible airport-related construction projects, as approved by the Federal Aviation Administration (the "FAA"). The MAA received FAA approval in July 1992 to collect PFCs for four projects.

The Aviation Investment and Reform Act for the 21st Century, enacted by Congress in April of 2000, together with the 1990 Safety Act, increased the maximum per passenger PFC allowed to be charged by qualifying airports from $3.00 to $4.50. In June 2002, the MAA received FAA approval to increase its collection level to $4.50 to support PFC approved projects in the MAA's capital program. The FAA further allows the MAA to impose and use PFCs for the payment of debt service for bonds used to fund PFC approved projects (see note 12 Operating and Capital Leases). PFC collections not needed for debt service are used for PFC approved paygo projects.

The MAA amended its PFC program in April 1994 to increase the total to six projects. The FAA approved additional applications for PFC eligible projects in June 2006, July 2007, February 2008, September 2010, March 2012, September 2012, and October 2014.

22. Rent Revenue:

The Department leases terminal space at various marine terminals (including the Seagirt Marine Terminal), airport facilities and office space in the World Trade Center Building, Baltimore, Maryland, pursuant to various operating leases. The Department's total minimum future rental revenues totaled $709,590,000 as of June 30, 2016 and do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenues collected included in operations were approximately $181,436,000 for the year ended June 30, 2016. Assets of the Department under lessor operating lease agreements, totaling $512,415,000 are included in the Capital assets, net of accumulated depreciation in the amount of $750,218,000 on the Statement of Net Position.

Minimum future rental revenues for the Department are as follows:

(amounts expressed in thousands)

Year Ending June 30,	Operating Leases Minimum Future Rental Revenues	
2017	$	137,781
2018		135,867
2019		130,427
2020		128,018
2021		59,874
2022-2026		98,414
2026-2030		19,209
Total	$	709,590

23. Net Position/Fund Balance:

The unrestricted deficit for the governmental activities on the government-wide statement of net position is $1,826,709,000.

Nonspendable fund balance is reported for a portion of the Special Revenue Fund balance in the amount of $100,530,000 that is for inventories of supplies, while the amount of $111,196,000 is recorded for prepaid items as of June 30, 2016.

The commitment of fund balance requires formal action by a government's highest level of decision-making authority. The assignment of fund balance is based on an authorization policy established by the governing body pursuant to which that authorization is given. Committed fund balance is reported for the Department's contractual transportation obligations of $23,871,000 which requires the highest level of budgetary authority to cancel said obligations.

Unassigned fund balance was ($124,502,000) reported in the Department's Transportation Trust Fund as of June 30, 2016.

24. <u>Contingent Liabilities</u>:

The Department is party to various legal proceedings, many of which occur in the normal course of the Department's operations, including actions commenced and claims asserted for alleged property damage, personal injury, breach of contract, discrimination or other alleged violations of law. These legal proceedings are not, in the opinion of the Office of the Attorney General of the State, likely to have a material adverse impact on the Department's financial position as of June 30, 2016.

25. <u>Subsequent Events:</u>

The Department sold $385,000,000 in Consolidated Transportation Bonds with a premium of 54,767,000 on October 26, 2016. The sale was competitive. Closing on the bonds was November 10, 2016. Also on October 26, 2016, the Department sold consolidated transportation refunding bonds in the amount of $242,525,000 with a premium of $35,958,000. Closing on the bonds was November 10, 2016. The net proceeds of these refunding bonds were used to purchase State and Local Government Series Securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The refunded bonds are considered to be defeased. The aggregate difference in debt and refunding debt is $19,298,000. In December 2016, the Department plans to refund the Series 2006 Certificates of Participation.

On September 13, 2016, Moody's Investor Services, Inc. adjusted the ratings on all of the Department's Certificates of Participation to Aa1 from Aa2. On October 7, 2016, Fitch Ratings adjusted the ratings on all of the department's Certificate of Participation to AA+ from AA.

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REQUIRED SUPPLEMENTARY INFORMATION

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Funding Progress
Maryland Transit Administration OPEB Plan
(amounts expressed in thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability- Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio (percent)	Covered Payroll	Unfunded Actuarial Accrued Liability as Percentage of
2011	$ -	$ 527,679	$527,679	- %	$147,474	357.81 %
2013	-	670,833	670,833	-	137,596	487.54
2015	-	607,063	607,063	-	137,427	441.73

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Employer Contributions
Maryland Transit Administration OPEB Plan
(amounts expressed in thousands)

Year Ended June 30,	Annual Required Contribution	Annual Contribution Paid	Percentage of Required Contributions
2010	$ 45,500	$ 10,900	24.0 %
2011	51,268	14,230	27.8
2012	55,852	15,103	27.0
2013	65,864	14,147	21.5
2014	64,444	18,383	28.5
2015	58,757	13,905	23.7
2016	61,624	15,296	24.8

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Changes in the Net Pension Liability and Related Ratios
Maryland Transit Administration Pension Plan
(amounts expressed in thousands)

Fiscal Year Ended June 30	2014	2015	2016
Total Pension Liability:			
Service Cost	$ 19,438	$ 24,718	$ 48,499
Interest	43,472	39,236	31,181
Changes of benefit terms	-	-	82,510
Difference between expected and actual experience	4,025	(19,621)	(15,024)
Changes of assumptions	38,643	53,480	338,950
Benefit payments, including refunds of member contributions	(32,598)	(30,636)	(35,283)
Net change in total pension liability	$ 72,980	$ 67,177	$ 450,833
Total pension liability - beginning	768,371	841,351	908,528
Total pension liability - ending (a)	$ 841,351	$ 908,528	$ 1,359,361
Plan fiduciary net position:			
Contributions - employer	$ 39,749	$ 35,400	$ 40,997
Contributions - member	-	-	-
Net investment income	15,783	14,045	12,768
Benefit payments, including refunds of member contributions	(32,598)	(30,636)	(35,283)
Administrative expense	(1,587)	(1,851)	(1,967)
Net change in plan fiduciary net position	$ 21,347	$ 16,958	$ 16,515
Plan fiduciary net position - beginning	189,957	211,304	228,262
Plan fiduciary net position - ending (b)	$ 211,304	$ 228,262	$ 244,777
Net pension liability - ending (a)-(b)	$ 630,047	$ 680,266	$ 1,114,584
Plan fiduciary net position as a percentage of the total pension liabili	25.11%	25.12%	18.01%
Cover-employee payroll	$ 137,427	$ 135,545	$ 137,427
Net pension liability as a percentage of covered-employee payroll	457.90%	501.88%	811.04%
Expected average remaining service years of all participants	7	7	7

Source: Bolton Partners, Maryland Transit Administration Pension Plan, GASB68 Actuaruial Information Report.

(1) Information for FY2013 and earlier is not available

(2) FY15 reflects a reduction to the effective discount rate from 5.24% to 4.75%

(3) FY16 reflects a reduction to the effective discount rate from 4.75% to 3.5%

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Employer Contributions
Maryland Transit Administration Pension Plan
(amounts expressed in thousands)

Fiscal Year Ended June 30	**2014**	**2015**	**2016**
Actuarially determined contribution	39,749	$ 40,807	$ 44,736
Contribution in relation to the actuarially determined contribution	$ 39,749	35,400	40,997
Contribution deficiency (excess)	$ -	$ 5,407	$ 3,739
Cover-employee payroll (1)	$137,596	$135,545	$137,427
Contribution as a percentage of covered employee payroll	28.89%	26.12%	29.83%

Notes to Schedule:

Valuation date

Acuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the year immediately following the fiscal year. Actuarial valuation are performed every year.

methods and assumptions used to determine contribution rates are as follows:

Actuarial cost method	Level Dollar Entry Age Normal
Amortization method	Level Payments (Closed)
Remaining amortization period	Remining payments range from 5 to 25 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary increases	Rates very by participant service
Investment rate of return	7.60 percent, net of pension plan investment and administrative expenses, including inflation
Retirement age	Rates vary by participant age
Mortaility	RP-2014 Blue Collar tables with MP-2014. The RP-2014 Disabled Retiree table is used for disabled members

Source: Bolton Partners, Maryland Transit Administration Pension Plan, GASB68 Actuaruial Information Report.

(1) Information for FY2013 and earlier is not available

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Proportionate Share of the Net Pension Liability and Related Ratios
Maryland State Retirement Pension Plan
(amounts expressed in thousands)

	Fiscal Year Ended June 30	
	2015	**2016**
Proportion of the Maryland State Retirement System Net Pension	3.46%	3.83%
Proportionate share of the State net pension liability (asset)	580,974	748,345
Total	$ 580,974	$ 748,345
Covered employee payroll	$ 372,296	$ 369,543
Net pension liability as a percentage of covered employee payroll	64.08%	49.38%
Plan fiduciary net position as a percentage of the total pension	71.87%	68.78%

This schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Employer Contributions
Maryland State Retirement Pension Plan
(amounts expressed in thousands)

	Fiscal Year Ended June 30	
	2015	**2016**
Actuarially determined contribution	$ 52,723	$ 56,643
Contribution in relation to the actuarially determined contribution	(52,723)	(56,643)
Contribution deficiency (excess)	$ -	$ -
Covered employee payroll	$ 372,296	$ 369,543
Contribution as a percentage of covered employee payroll	14.16%	15.33%

This schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Special Revenue Funds
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2016
(amounts expressed in thousands)

	Special Fund				Federal Fund			
	Budgeted Amounts			Variance with Final Budget - Positive	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Actual Amounts	(Negative)	Original	Final	Amounts	(Negative)
REVENUES:								
Taxes:								
Motor vehicle taxes and fees	$ 1,548,943	$ 1,521,862	$ 1,537,708	$ 15,846	$ -	$ -	$ -	$ -
Motor vehicle fuel taxes and fees	1,022,820	1,046,285	1,017,870	(28,415)	-	-	-	-
Revenue sharing of state corporate income tax	175,626	177,605	186,803	9,198	-	-	-	-
Revenue sharing of state sales tax	63,687	31,173	30,780	(393)	-	-	-	-
Federal reimbursements	-	-	-	-	1,021,093	873,443	810,088	(63,355)
Charges for services	439,790	448,308	486,133	37,825	-	-	-	-
Investment earnings	2,000	2,000	3,819	1,819	-	-	-	-
Other	37,400	33,700	59,595	25,895	-	-	-	-
Total revenues	3,290,266	3,260,933	3,322,708	61,775	1,021,093	873,443	810,088	(63,355)
EXPENDITURES and ENCUMBRANCES:								
Current:								
General government:								
The Secretary's Office	599,733	602,415	582,483	19,932	47,713	35,826	29,801	6,025
State Highway Administration	1,282,124	1,281,103	1,277,572	3,531	539,312	592,491	543,307	49,184
Maryland Port Administration	206,086	170,180	149,246	20,934	4,049	2,596	445	2,151
Motor Vehicle Administration	216,000	212,644	208,753	3,891	13,538	14,417	10,775	3,642
Maryland Transit Administration	1,100,368	1,007,064	967,468	39,596	390,587	205,122	204,288	834
Maryland Aviation Administration	273,604	324,979	317,006	7,973	25,894	22,991	21,472	1,519
Total general government	3,677,915	3,598,385	3,502,528	95,857	1,021,093	873,443	810,088	63,355
Total expenditures and encumbrances	3,677,915	3,598,385	3,502,528	95,857	1,021,093	873,443	810,088	63,355
Excess of revenues over expenditures	(387,649)	(337,452)	(179,820)	157,632	-	-	-	-
OTHER FINANCIAL SOURCES (USES):								
Proceeds from Bonds	875,000	450,000	300,000	150,000	-	-	-	-
Transfers in (out)	(211,856)	(192,154)	(259,277)	(67,123)	-	-	-	-
Total other financing sources and uses	663,144	257,846	40,723	82,877	-	-	-	-
Net change in fund balances	275,495	(79,606)	(139,097)	240,509				
Fund balances, July 1, 2015	597,449	57,650	386,166					
Fund balances, June 30, 2016	$872,944	($21,956)	$247,069	$240,509	$ -	$ -	$ -	$ -

MARYLAND DEPARTMENT OF TRANSPORTATION
Notes to the Required Supplementary Information
For the Year Ended June 30, 2016

1. <u>Stewardship, Compliance and Accountability</u>:

Budgeting and budgetary control:
The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the Special Revenue Fund, which includes the transportation activities of the Department, shared taxes and payments of debt service on transportation bonds. The budgetary Federal fund revenue and expenditures are included in the GAAP Special Revenue Fund as federal revenues and expenditures by function. An annual budget is also prepared for the Federal funds, which accounts for all Departmental grants from the Federal government.

Each year the Department prepares its annual budget and submits it to the Governor. The Governor then presents the State's annual budget (including the Department's) to the General Assembly in accordance with Constitutional requirements. The General Assembly is required to then enact a balanced budget for the next fiscal year.

The GAAP Special Revenue Fund includes both budgetary special and federal funds.

Special fund:
The Special fund includes all transportation activities of the Department and shared taxes with the political subdivisions.

Federal fund:
The Federal fund accounts for substantially all grants from the Federal government.

Budgetary fund equities and other accounts:
The Department's legal level of budgetary control is exercised at the agency appropriation (program) and fund level (legislative spending authority level). Encumbrances and expenditures cannot exceed appropriated amounts. Appropriation transfers between or within departments and any supplemental appropriations require both executive and legislative branch approvals. Unencumbered and unexpended appropriations lapse at fiscal year-end and become available for appropriation in the subsequent year. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

All Departmental budgetary expenditures for special and federal funds are made pursuant to appropriations in the annual budget, as amended from time to time. The Department may, with the Governor's approval, amend the appropriations by modal administration within the budgetary special and federal funds. Additionally, appropriations for programs funded in whole or in part from special or federal funds may permit expenditures in excess of the original special or federal fund appropriation to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from special and federal funds may be carried over to the following year to the extent of (a) available resources and (b) encumbrances which are approved by the Department of Budget and Management. The Department did not receive any general fund appropriations in fiscal year 2016.

The Department's original and amended budget adopted by the General Assembly for special and federal funds is presented in the Required Supplementary Information - Special Revenue Funds - Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual -- For the Year Ended June 30, 2016 on page 74 of this report. The Department's budgetary fund structure and basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles (GAAP). The budgetary system's principal departures from the modified accrual basis are the classification of the Department's budgetary funds and the timing of recognition of certain revenues and expenditures. The GAAP special revenue fund is an aggregate of the special and federal budgetary funds.

A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2016, is provided in the Reconciliation of the Budgetary Special Fund, Fund Balance to the GAAP Special Revenue Fund, and Fund Balance in the Notes to the Required Supplementary Information section (see below).

MARYLAND DEPARTMENT OF TRANSPORTATION
Reconciliation of the Budgetary Special Fund, Fund Balance
to the GAAP Special Revenue Fund, Fund Balance
June 30, 2016
(amounts expressed in thousands)

Classification of budgetary fund equities and other accounts into governmental funds' fund structure:	***Special Revenue Fund***
Special fund-fund balance (page 74)	$ 247,069
Non-budgeted funds-fund balance	697
Total budgetary fund balance reclassified to GAAP fund structure	247,766
Accounting principle and timing differences :	
Assets recognized in governmental funds financial statements not recognized for budgetary purposes:	
Taxes receivable	4,487
Inventories	100,530
Due from other state funds	13,906
Liabilities recognized in governmental funds financial statements not recognized for budgetary purposes:	
Unearned Revenue-Federal revenue	134,688
Unearned Revenue-PFC revenue	18,695
Deferred inflows of resources	(408,977)
Financial statement governmental funds’ fund balance, June 30, 2016	$ 111,095

SUPPLEMENTARY INFORMATION

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2016
(amounts expressed in thousands)

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
ASSETS:				
Cash and cash equivalents	$ 15,923	$ 61,771	$ 28,112	$ 49,582
Total assets	$ 15,923	$ 61,771	$ 28,112	$ 49,582
LIABILITIES:				
Accounts payable and accrued liabilities	$ 15,923	$ 33,659	$ -	$ 49,582
Total liabilities	$ 15,923	$ 33,659	$ -	$ 49,582

STATISTICAL SECTION

MARYLAND DEPARTMENT OF TRANSPORTATION
STATISTICAL SECTION
JUNE 30, 2016

This part of the Maryland Department of Transportation's comprehensive annual financial report represents detailed information as a context for understanding what the information in the financial statements, not disclosures and required supplementary information says about the Department's overall financial health.

Table of Contents **Pages**

MARYLAND DEPARTMENT OF TRANSPORTATION
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities:										
Net Investment in capital assets	$ 13,047,662	$ 13,391,594	$ 13,349,027	$ 13,171,279	$ 13,068,635	$ 13,360,456	$ 13,819,782	$ 14,063,378	$ 14,472,903	$ 15,248,583
Restricted	4,898	2,768	9,694	3,783	-	-	-	-	-	-
Unrestricted (deficit)	188,470	2,833	(62,463)	(201,647)	(205,960)	(278,008)	(324,664)	(363,200)	(1,450,994)	(1,826,709)
Total governmental activities net assets	$ 13,241,030	$ 13,397,195	$ 13,296,258	$ 12,973,415	$ 12,862,675	$ 13,082,448	$ 13,495,118	$ 13,700,178	$ 13,021,909	$ 13,421,874
Primary government:										
Net Investment in capital assets	$ 13,047,662	$ 13,391,594	$ 13,349,027	$ 13,171,279	$ 13,068,635	$ 13,360,456	$ 13,819,782	$ 14,063,378	$ 14,472,903	$ 15,248,583
Restricted	4,898	2,768	9,694	3,783	-	-	-	-	-	-
Unrestricted (deficit)	188,470	2,833	(62,463)	(201,647)	(205,960)	(278,008)	(324,664)	(363,200)	(1,450,994)	(1,826,709)
Total primary government net position	$ 13,241,030	$ 13,397,195	$ 13,296,258	$ 12,973,415	$ 12,862,675	$ 13,082,448	$ 13,495,118	$ 13,700,178	$ 13,021,909	$ 13,421,874

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2007-2016.

MARYLAND DEPARTMENT OF TRANSPORTATION

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
Governmental activities:	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Expenses:										
Secretary's office	$ 376,217	$ 406,315	$ 419,588	$ 459,933	$ 483,410	$ 498,029	$ 515,638	$ 570,596	$ 624,378	$ 626,299
State highway administration	1,399,649	1,422,063	1,437,996	1,410,556	1,593,278	1,359,177	1,186,116	1,436,114	1,399,446	1,337,696
Port administration	187,187	152,107	189,603	186,516	107,521	115,211	87,445	99,996	126,885	148,231
Motor vehicle administration	155,700	161,796	176,300	165,933	178,529	182,839	195,803	207,342	213,896	206,117
Transit administration	617,442	683,821	782,548	818,465	1,056,590	864,702	888,137	886,966	937,286	1,058,861
Aviation administration	287,604	284,488	274,906	272,455	252,723	275,051	308,202	354,180	337,596	374,475
Interest on long-term debt	72,137	74,441	97,683	101,481	92,996	144,725	110,984	122,894	69,902	80,888
Total governmental activities expenses	3,095,936	3,185,031	3,378,624	3,415,339	3,765,047	3,439,734	3,292,325	3,678,088	3,709,389	3,832,567
Program Revenues:										
Charges for services:										
Secretary's office	23,467	(27,914)	2,291	9,447	27,503	5,336	5,630	3,262	7,133	3,307
State highway administration	35,035	48,491	51,983	40,399	44,071	38,495	59,284	40,586	46,435	52,155
Port administration	94,544	96,981	93,618	69,781	48,667	52,846	50,298	54,099	52,411	55,999
Motor vehicle administration	(133)	(236)	-	-	-	4	4	4	4	-
Transit administration	122,913	117,869	117,556	125,057	143,456	146,093	138,339	139,769	142,363	156,524
Aviation administration	236,401	244,579	241,083	282,646	291,535	297,935	418,588	328,094	339,958	346,836
Operating grants and contributions	72,597	79,228	93,729	90,762	90,732	92,739	72,397	90,574	92,238	87,324
Capital grants and contributions	710,163	667,219	668,442	714,144	709,029	830,922	779,557	800,019	741,846	722,764
Total governmental activities program revenues	1,294,987	1,226,217	1,268,702	1,332,236	1,354,993	1,464,370	1,524,097	1,456,407	1,422,388	1,424,909
Net (expense) revenue governmental activities	(1,800,949)	(1,958,814)	(2,109,922)	(2,083,103)	(2,410,054)	(1,975,364)	(1,768,228)	(2,221,681)	(2,287,001)	(2,407,658)
General Revenues and Other Changes in Net Assets:										
Taxes:										
Motor vehicle taxes	1,241,538	1,178,609	1,058,759	1,082,559	1,166,398	1,259,743	1,332,143	1,389,066	1,465,022	1,541,596
Motor fuel taxes	740,791	741,851	728,385	714,210	747,171	728,410	740,428	807,739	918,483	1,013,144
Corporation income tax share	185,557	167,102	150,554	153,275	156,758	180,653	76,746	162,609	166,051	186,803
State sales tax share	27,689	23,659	223,084	223,582	227,981	23,581	25,462	48,653	30,788	30,780
Unrestricted investment earnings	10,553	3,758	4,029	404	1,006	2,750	764	2,156	2,096	3,819
Other revenue	-	-	-	-	-	-	7,235	16,518	64,516	31,481
Loss on disposal of capital assets	-	-	-	(413,770)	-	-	-	-	-	-
Total governmental activities general revenues:	2,206,128	2,114,979	2,164,811	1,760,260	2,299,314	2,195,137	2,182,778	2,426,741	2,646,956	2,807,623
Change in Net Position:										
Governmental activities	405,179	156,165	54,889	(322,843)	(110,740)	219,773	414,550	205,060	359,955	399,965
Total primary government	$ 405,179	$ 156,165	$ 54,889	$ (322,843)	$ (110,740)	$ 219,773	$ 414,550	$ 205,060	$ 359,955	$ 399,965

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2007-2016.

MARYLAND DEPARTMENT OF TRANSPORTATION
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year Ended June 30,	Motor Vehicle Tax	Motor Fuel Tax	Corporation Income Tax	State Sales Tax (1)	Total
2007	$ 1,241,538	$ 740,791	$ 185,557	$ 27,689	$ 2,195,575
2008	1,178,609	741,851	167,102	23,659	2,111,221
2009	1,058,759	728,385	150,554	223,084	2,160,782
2010	1,082,559	714,210	153,275	223,582	2,173,626
2011	1,166,398	747,171	156,758	227,981	2,298,308
2012	1,259,743	728,410	180,653	23,581	2,192,387
2013	1,332,143	740,428	76,746	25,462	2,174,779
2014	1,389,066	807,739	162,609	48,653	2,408,067
2015	1,465,022	918,483	166,051	30,788	2,580,344
2016	1,541,596	1,013,144	186,803	30,780	2,772,323

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2007-2016.

(1) Effective July 1, 2008 thru June 30, 2011 the Department received additional Sales Tax Revenue due to the increase of 1 percent on the State Sales Tax.

MARYLAND DEPARTMENT OF TRANSPORTATION
Maryland's Ten Largest Employers
Calendar Years
(Employer Listed Alphabetically)

2016-2015	2015-2014
Exelon	Exelon
Giant Food	Giant Food
Godard Space Flight Ctr	Godard Space Flight Ctr
H&R Block	H&R Block
Johns Hopkins University	Johns Hopkins University
McDonald's	McDonald's
Northrop Grumman Corporation	Northrop Grumman Corporation
Target	Target
Walmart Associates	University of Maryland Medical System
University of Maryland Medical System	Walmart Associates

Source: Department of Labor, Licensing and Regulation: Office of Labor Market Analysis and Information - Major Employer List - March 2015
http://www.dllr.state.md.us/lmi/emplists/maryland.shtml

MARYLAND DEPARTMENT OF TRANSPORTATION

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Special revenue fund										
Nonspendable	$ 136,723	$ 152,788	$ 158,650	$ 171,094	$ 182,156	$ 181,093	$ 183,355	$ 192,871	$ 197,847	$ 211,726
Committed	25,170	23,931	861	-	12,442	8,182	11,499	26,989	27,930	23,871
Unassigned	165,144	(26,468)	169,307	164,628	137,050	37,905	108,879	135,279	130,488	(124,502)
Total special revenue fund	$ 327,037	$ 150,251	$ 328,818	$ 335,722	$ 331,648	$ 227,180	$ 303,733	$ 355,139	$ 356,265	$ 111,095
All other governmental funds										
Restricted	$ 2,381	$ -	$ 7,033	$ 1,126	$ -	$ -	$ 5,056	$ 12,331	$ -	$ 12,379
Total all other governmental funds	$ 2,381	$ -	$ 7,033	$ 1,126	$ -	$ -	$ 5,056	$ 12,331	$ -	$ 12,379

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2007-2016.

MARYLAND DEPARTMENT OF TRANSPORTATION
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues:										
Motor vehicle taxes and fees	$ 1,982,329	$ 1,920,460	$ 1,787,144	$ 1,796,769	$ 1,913,569	$ 1,988,153	$ 2,072,572	$ 2,196,805	$ 2,383,505	$ 2,554,740
Revenue sharing of state taxes	213,246	190,761	373,638	376,857	384,739	204,234	102,208	211,262	196,839	217,583
Federal reimbursements	782,760	746,447	762,171	804,906	799,761	850,631	868,121	902,719	833,040	718,951
Charges for services	407,386	376,563	399,271	419,691	431,261	439,785	579,850	452,406	460,668	486,151
Passenger facility charges and interest	42,171	45,609	40,824	44,054	45,066	46,648	48,534	43,919	44,745	48,056
Customer facility charges (2)	28,392	31,932	23,176	45,467	48,970	13,446	12,902	12,613	12,733	13,579
Special parking revenues (2)	-	-	-	-	-	38,603	28,630	54,649	52,551	62,582
Investment earnings	10,553	3,758	4,029	404	1,006	2,750	764	2,156	2,096	3,819
Other	34,278	25,666	13,260	18,118	34,734	3,481	6,103	14,255	63,384	65,255
Total revenues	3,501,115	3,341,196	3,403,513	3,506,266	3,659,106	3,587,731	3,719,684	3,890,784	4,049,561	4,170,716
Expenditures:										
Current										
Department administration, operating and maintenance expenditures	1,254,313	1,305,618	1,358,247	1,447,811	1,239,600	1,422,847	1,408,232	1,841,195	1,793,321	1,804,794
Highway user revenues and federal funds	615,458	582,335	515,722	255,164	297,145	263,981	252,574	244,448	253,401	241,459
WMATA Grants	236,158	273,001	285,309	296,522	340,852	386,648	396,094	404,995	441,964	448,577
Distributions to other state agencies (1)	75,607	87,100	59,980	401,930	481,244	343,946	127,957	23,000	19,926	-
Debt service	119,316	121,390	142,359	150,954	158,662	174,215	180,308	208,236	232,404	265,550
Capital outlays	1,369,805	1,400,238	1,261,036	1,232,890	1,182,164	1,231,241	1,491,360	1,471,040	1,746,878	1,985,949
Total expenditures	3,670,657	3,769,682	3,622,653	3,785,271	3,699,667	3,822,878	3,856,525	4,192,914	4,487,894	4,746,329
Excess (deficiency) of revenues	(169,542)	(428,486)	(219,140)	(279,005)	(40,561)	(235,147)	(136,841)	(302,130)	(438,333)	(575,613)
Other financing sources (uses):										
Capital leases	6,285	-	2,098	-	1,021	-	29,127	2,519	5,733	917
Other long-term liability	2,411	102	-	-	-	-	-	-	-	-
Other capital financing sources	-	-	-	-	34,340	-	-	-	-	-
Proceeds from bonds	102,381	249,217	402,642	140,002	-	323,967	189,323	325,000	661,250	300,000
Sale of future revenue rights	-	-	-	140,000	-	-	-	-	(331,412)	-
Payment to escrow agents	-	-	-	-	-	(193,288)	-	33,292	91,557	41,905
Transfers to the General Fund (1)	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	111,077	249,319	404,740	280,002	35,361	130,679	218,450	360,811	427,128	342,822
Net change in fund balances	(58,465)	(179,167)	185,600	997	(5,200)	(104,468)	81,609	58,681	(11,205)	(232,791)
Debt Service as a percentage of noncapital expenditures	5.19%	5.12%	6.03%	5.91%	6.30%	6.72%	7.62%	7.65%	8.48%	9.62%

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2007-2016.

(1) Customer facility charges and special parking revenues split starting in fiscal years 2012.

MARYLAND DEPARTMENT OF TRANSPORTATION
Transportation Trust Fund
Gasoline and Motor Vehicle Revenue Account
Last Ten Fiscal Years
(amounts expressed in thousands)

(unaudited)

	Fiscal Year Ended June 30,									
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Revenues:										
Motor vehicle fuel tax and fees (6)	$ 755,733	$ 755,176	$ 736,105	$ 721,295	$ 752,319	$ 733,563	$ 745,556	$ 812,915	$ 923,593	$ 1,017,870
Motor vehicle titling tax (2)	703,815	649,657	514,155	543,411	594,938	632,356	684,655	740,835	795,510	860,415
Licensing and registration	372,498	354,967	354,982	350,098	360,514	357,247	362,324	367,305	376,513	381,344
Corporation income tax (5)	185,557	167,102	151,304	154,025	157,993	180,653	76,746	162,609	166,051	186,803
Sales and use tax on rental vehicles	27,689	23,659	21,498	22,201	24,362	23,581	25,462	30,311	30,788	30,780
Total revenues	2,045,292	1,950,561	1,778,044	1,791,030	1,890,126	1,927,400	1,894,743	2,113,975	2,292,455	2,477,212
Deductions:										
1% portion -- Motor vehicle titling tax (2)	(140,763)	(129,931)	(171,385)	(181,137)	(198,313)	(210,786)	(228,218)	(246,945)	(265,170)	(286,805)
Other to the Trust Fund (6)	(8,214)	(7,526)	(6,178)	(6,615)	(6,859)	(6,797)	(9,040)	(121,401)	(180,913)	(283,832)
Other	(46,688)	(47,337)	(44,407)	(45,744)	(45,585)	(57,413)	(51,500)	(52,617)	(57,881)	(59,659)
Total deductions	(195,665)	(184,794)	(221,970)	(233,496)	(250,757)	(274,996)	(288,758)	(420,963)	(503,964)	(630,296)
Net Highway User Revenue	$ 1,849,627	$ 1,765,767	$ 1,556,074	$ 1,557,534	$ 1,639,369	$ 1,652,404	$ 1,605,985	$ 1,693,012	$ 1,788,491	$ 1,846,916
Allocations (Highway User Revenue): (3)										
Share to the Department	$ 1,294,739	$ 1,236,037	$ 1,089,252	$ 1,090,274	$ 1,122,968	$ 1,278,618	$ 1,445,386	$ 1,530,483	$ 1,616,796	$ 1,669,612
Share to the General Fund (4)	-	-	-	-	-	40,000	-	-	-	-
Share to counties and municipalities	328,309	313,564	279,232	29,593	9,836	23,134	30,514	32,167	33,981	35,091
Share to Baltimore City	226,579	216,166	187,590	133,948	129,510	123,930	130,085	130,362	137,714	142,213
Local Share to the General Fund (1)	-	-	-	303,719	377,055	186,722	-	-	-	-
Total allocations	$ 1,849,627	$ 1,765,767	$ 1,556,074	$ 1,557,534	$ 1,639,369	$ 1,652,404	$ 1,605,985	$ 1,693,012	$ 1,788,491	$ 1,846,916

Source: Maryland Department of Transportation, The Secretary's Office, Office of Finance.

(1) The 2007 Special Session of the Maryland General Assembly approved legislation to increase the State's Sales Tax and the Vehicle Excise Tax (Titling) from 5% to 6%, effective January 1, 2008. In addition, the percentage of Titling Tax to GMVRA was changed from 80% to 66 and 2/3%, effective July1, 2008.

(2) The 2010 Session of the Maryland General Assembly approved legislation (SB141) changing the allocation of Highway User Revenues. Effective July 1, 2009, the allocation is 70% to the Department, 19.5% to the General Fund, 8.6% to Baltimore City, 1.5% to the Counties, and .4% to the Municipalities. Effective July 1, 2010, the allocation is 68.5% to the Department, 23% to the General Fund, 7.9% to Baltimore City, .5% to the Counties, and .1% to the Municipalities. Pursuant to legislation enacted by the General Assembly at its 2011 Session (HB72), effective July 1, 2011, the allocation is 79.8% to the Department, 11.3% to the General Fund, 7.5% to Baltimore City, .8% to Counties, and .6% to municipalities. Effective July 1, 2012 the allocation is 90% to the Department, 8.1% to Baltimore City, 1.5% to Counties, and .4% to municipalities. Effective July 1, 2013 the allocation is 90.4% to the Department, 7.7% to Baltimore City, 1.5% to Counties, and .4% to municipalities.

(3) The 2011 Session of the Maryland General Assembly approved legislation (HB 72) requiring the transfer from the Transportation Trust Fund of $40,000,000 of the Department's share of Highway User Revenues to the Revenue Stabilization Account in fiscal year 2012.

(4) The 2011 Session of the Maryland General Assembly approved legislation (HB 72) that changed the allocation of corporate income tax revenue to the Department from 24% to 17.2%; however, effective July 1, 2012 the Department will receive 9.5%; from July 1, 2013 through June 30, 2016 the Department received 19.5%.

(5) The 2013 Session of the Maryland General Assembly approved legislation (HB 1515) that increases the motor fuel tax rate based on growth of the Consumer Price Index (CPI) and applies a sales and use tax equivalent to the price of motor fuel. The following cents per gallon (cpg) rates and effective dates apply. These revenues are retained 100% by the Department.

	SUTE	CPI		SUTE	CPI
July 1, 2013	3.1 cpg	0.4 cpg	January 1, 2015	6.0 cpg	0.8 cpg
July 1, 2014	3.1 cpg	0.8 cpg	July 1, 2015	7.5 cpg	1.1 cpg

MARYLAND DEPARTMENT OF TRANSPORTATION
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Debt limit	$ 1,248,750	$ 1,497,060	$ 1,620,850	$ 1,830,010	$ 1,791,840	$ 1,888,995	$ 1,913,290	$ 2,292,670	$ 2,530,255	$ 2,855,105
Net debt applicable to limit	1,108,692	1,266,434	1,574,902	1,643,884	1,561,840	1,562,630	1,618,290	1,812,670	2,020,250	2,146,085
Total legal debt margin	$ 140,058	$ 230,626	$ 45,948	$ 186,126	$ 230,000	$ 326,365	$ 295,000	$ 480,000	$ 510,005	$ 709,020
Net debt applicable to the limit as a percentage of debt limit	88.78%	84.59%	97.17%	89.83%	87.16%	82.72%	84.58%	79.06%	79.84%	75.17%

Legal Debt Margin Calculation for Fiscal Year 2016

Debt limit (1)	$ 2,855,105
Debt applicable to limit:	
Special revenue bonds	
Total net debt applicable to limit	2,020,250
Legal debt margin	$ 834,855

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2007-2016.

(1) The Maryland Department of Transportation's legal debt limit is established by the Maryland General Assembly on an annual basis.

MARYLAND DEPARTMENT OF TRANSPORTATION

Ratio of Annual Debt Service Expenditures For Consolidated Transportation Bonded Debt to Total General Governmental Expenditures

Last Ten Fiscal Years

(amounts expressed in thousands)

Fiscal Year Ended June 30,	Principal	Interest	Total Debt Service	Total Noncapital Governmental Expenditures	Ratio of Debt Service to Noncapital Expenditures (percent)
2007	$ 68,290	$ 51,026	$ 119,316	$ 2,300,852	5.19 %
2008	68,990	52,400	121,390	2,369,444	5.12
2009	71,325	71,031	142,356	2,361,617	6.03
2010	77,595	73,359	150,954	2,552,381	5.91
2011	83,170	75,492	158,662	2,517,503	6.30
2012	102,845	71,370	174,215	2,489,880	7.00
2013	109,340	70,968	180,308	2,365,165	7.62
2014	130,620	76,614	207,234	2,721,874	7.61
2015	122,415	109,989	232,404	2,741,016	8.48
2016	174,165	90,193	264,358	2,760,380	9.58

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2007-2016.

MARYLAND DEPARTMENT OF TRANSPORTATION

Ratio of Outstanding Debt by Type

Last Ten Fiscal Years

(amounts expressed in thousands)

Fiscal	Governmental Activities			Total		
Year Ended June 30,	Special Revenue Bonds	Capital Leases	Other Long-term Liability (2)	Governmental Activities Debt	Total Personal Income (1)	Percentage of Personal Income
2007	$ 1,111,050	$ 343,379	$ 391,029	$ 1,845,458	$ 261,066,893	0.71 %
2008	1,268,815	331,703	373,319	1,973,837	272,901,349	0.72
2009	1,582,605	673,836	-	2,256,441	283,052,530	0.80
2010	1,645,010	641,252	-	2,286,262	282,152,796	0.81
2011	1,561,840	604,662	-	2,166,502	289,653,105	0.75
2012	1,562,630	562,656	-	2,125,286	306,001,368	0.69
2013	1,618,290	591,783	-	2,210,073	316,681,620	0.70
2014	1,812,670	594,302	-	2,406,972	321,688,894	0.75
2015	2,020,250	628,650	-	2,648,900	329,559,645	0.80
2016	2,146,085	621,732	-	2,767,817	323,778,035	0.85

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2007-2016.

(1) US Department of Commerce, Bureau of Economic Analysis. Data for all years based on revised statistics of state personal income released on September 30, 2014. All estimates of state personal income are subject to BEA's flexible annual revison schedule.

http://lwd.dol.state.nj.us/labor/lpa/industry/incpov/tpi.htm

(2) Other long-term liability items were reclassified as capital leases in fiscal year 2009.

MARYLAND DEPARTMENT OF TRANSPORTATION
Transportation Trust Fund
Taxes Pledged to Bonds and Net Revenues as Defined for Purposes of the Bond Coverage Test
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal years ended June 30,									
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Revenues:										
Taxes pledged to bonds: (6)										
Corporation income tax (5)	$ 129,890	$ 116,971	$ 105,388	$ 107,293	$ 107,379	$ 143,370	$ 68,503	$ 146,113	$ 148,949	$ 167,957
Fuel tax (7)	510,735	510,630	500,114	489,004	500,801	567,431	651,196	723,249	827,830	923,216
Titling tax (2)	534,899	493,739	411,324	434,729	470,001	547,198	639,011	693,422	744,597	805,348
Sales and use tax (3)	21,044	17,981	217,924	213,254	221,842	19,770	23,425	27,983	28,424	28,416
Total taxes pledged to bonds	1,196,568	1,139,321	1,234,750	1,244,280	1,300,023	1,277,769	1,382,135	1,590,767	1,749,800	1,924,937
Fees:										
Motor vehicle licenses and registrations (6)	244,472	231,379	231,773	227,954	229,748	256,350	298,071	305,525	310,385	312,771
Other	166,142	172,703	186,961	187,455	209,909	259,211	274,823	280,989	293,315	298,488
General fund share of fees (4)						(40,000)				
Total taxes and fees	1,607,182	1,543,403	1,653,484	1,659,689	1,739,680	1,753,330	1,955,029	2,177,281	2,353,500	2,536,196
Operating revenues:										
Maryland Port Administration	94,499	96,880	93,635	69,222	49,156	57,302	49,030	52,841	49,759	49,999
Maryland Transit Administration	123,122	117,869	117,557	125,057	133,494	136,194	138,400	139,821	142,414	156,579
Maryland Aviation Administration	151,620	180,254	181,580	194,308	207,897	208,560	219,757	217,290	222,117	229,993
Total operating revenues	369,241	395,003	392,772	388,587	390,547	402,056	407,187	409,952	414,290	436,571
Other (1)	39,836	4	(3,666)	(3,600)	60,458	40,015	30,785	29,139	47,307	59,609
Investment income	10,574	3,683	3,996	394	1,004	2,750	758	2,154	2,090	3,819
Total revenues	2,026,833	1,942,093	2,046,586	2,045,070	2,191,689	2,198,151	2,393,759	2,618,526	2,817,187	3,036,195
Expenditures:										
Administration, operation and maintenance expenditures:										
The Secretary's Office	66,439	69,693	67,649	71,811	70,650	71,382	72,256	76,142	75,339	80,229
Washington Metro Transit Grants-in-Aid	170,961	193,026	210,394	215,736	228,594	256,722	263,690	268,340	284,844	318,917
State Highway Administration	236,245	240,192	240,742	296,445	253,615	226,926	251,994	326,560	301,488	297,190
Motor Vehicle Administration	140,436	145,838	148,106	146,316	157,344	161,329	171,344	184,698	194,887	199,153
Maryland Port Administration	98,718	104,887	97,901	68,237	44,454	41,612	42,157	45,504	47,867	47,521
Maryland Transit Administration	505,916	556,602	591,720	610,284	621,917	646,795	665,844	751,801	767,009	781,769
Maryland Aviation Administration	178,157	178,072	170,453	173,749	170,765	167,415	171,122	189,740	188,090	192,692
Total admin., operation and maintenance expend.	1,396,872	1,488,310	1,526,965	1,582,578	1,547,339	1,572,181	1,638,407	1,842,785	1,859,524	1,917,471
Less Federal funds:										
The Secretary's Office	(6,004)	(7,901)	(7,271)	(9,001)	(8,027)	(8,237)	(9,291)	(9,089)	(7,967)	(8,160)
State Highway Administration -- Highway Safety	(14,077)	(15,928)	(19,595)	(16,925)	(17,175)	(21,218)	(13,338)	(10,844)	(11,357)	(10,066)
Md. Transit -- Planning and program development	(52,077)	(54,392)	(65,894)	(63,775)	(64,496)	(62,430)	(42,028)	(60,631)	(59,046)	(58,940)
Motor Vehicle Administration	(90)	(351)	(313)	(404)	(379)	(150)	(7,090)	(9,348)	(10,697)	(9,514)
Maryland Aviation Administration	(350)	(656)	(656)	(656)	(656)	(702)	(650)	(655)	(776)	(645)
Total Federal funds	(72,598)	(79,228)	(93,729)	(90,761)	(90,733)	(92,737)	(72,397)	(90,567)	(89,843)	(87,325)
Total expenditures	1,324,274	1,409,082	1,433,236	1,491,817	1,456,606	1,479,444	1,566,010	1,752,218	1,769,681	1,830,146
Net revenues	$ 702,559	$ 533,011	$ 613,350	$ 553,253	$ 735,083	$ 718,707	$ 827,749	$ 866,308	$ 1,047,506	$ 1,206,049
Maximum annual principal and interest	$ 129,550	$ 153,661	$ 197,281	$ 210,714	$ 210,714	$ 219,765	$ 237,394	$ 270,527	$ 292,327	$ 305,197
Ratio of taxes pledged to principal and interest	9.24	7.41	6.26	5.91	6.17	5.81	5.82	5.88	5.99	6.31
Ratio of net revenues to principal and interest	5.42	3.47	3.11	2.63	3.49	3.27	3.49	3.20	3.58	3.95

Source: Maryland Department of Transportation, The Secretary's Office, Office of Finance.

(1) Fiscal year 2007 was the last year for the transfer of $43M from Maryland Transportation Authority to the Transportation Trust Fund.

(2) The 2007 Special Session of the Maryland General Assembly approved legislation to increase the State's Sales Tax and the Vehicle Excise Tax (Titling) from 5% to 6%, effective Jan. 1, 2008. In addition, effective July 1, 2008, the percentage of Titling Tax retained by the Department was increased from 76% to 80%. Changes to the allocation of Highway User Revenues approved during the 2010 and 2011 Sessions of the Maryland General Assembly resulted in the following percentages of Titling Tax retained by the Department: FY 2010 80%; FY2011 79%; FY 2012 86.53%; FY 2013 93.336%; and 93.6% since FY 2014.

(3) The 2007 Special Session of the Maryland General Assembly approved legislation to allocate 6.5% of the State's Sales and Use Tax (after distribution of the State's sales tax on short-term rental vehicles) to the Department effective July 1, 2008. The distribution was reduced to 5.3% during the 2008 Session of the Maryland General Assembly. This distribution ended July 1, 2011.

(4) The 2011 Session of the Maryland General Assembly approved legislation (HB 72) requiring the transfer from the Transportation Trust Fund of $40,000,000 of the Department's share of Highway User Revenues to the Revenue Stabilization Account in fiscal year 2012.

(5) The 2011 Session of the Maryland General Assembly approved legislation (HB 72) that changed the allocation of corporate income tax revenue to the Department from 24% to 17.2%. However, effective July 1, 2012 the Department received 9.5%; from July 1, 2013 through June 30, 2016 the Department received 19.5%.

(6) As a result of changes to the Highway User Revenues allocations approved during the 2010 and 2011 sessions of the Maryland General Assembly, the Department received the following distribution of Highway User Revenues: FY 2010 70%; FY 2011 68.5%; FY 2012 79.8%; FY 2013 90%, since FY 2014 90.4%.

(7) The 2013 Session of the Maryland General Assembly approved legislation (HB 1515) that increases the motor fuel tax rate based on growth of the Consumer Price Index (CPI) and applies a sales and use tax equivalent to the price of motor fuel. The following cents per gallon (cpg) rates and effective dates apply. These revenues are retained 100% by the Department.

	SUTE	CPI		SUTE	CPI
July 1, 2013	3.1 cpg	0.4 cpg	January 1, 2015	6.0 cpg	0.8 cpg
July 1, 2014	3.1 cpg	0.8 cpg	July 1, 2015	7.5 cpg	1.1 cpg

MARYLAND DEPARTMENT OF TRANSPORTATION
Schedule of Miscellaneous Statistics
Last Ten Fiscal Years
(unaudited)

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
State Highway Administration:										
Miles of State Highway (1)	5,140	5,140	5,138	5,143	5,145	5,266	5,145	5,155	5,152	5,154
Motor Vehicle Administration:										
Motor Vehicle Titles Issued	1,166,195	1,096,692	930,858	939,209	994,235	995,247	1,018,200	1,001,118	1,090,530	1,156,244
Motor Vehicle Registration Transactions	3,580,933	3,378,435	3,345,546	3,336,752	4,100,604	3,889,667	4,044,217	4,106,227	4,259,000	4,292,948
Motor Vehicle Fuel - Gallons Sold	3,238,848,801	3,223,523,234	3,139,151,697	2,862,255,721	3,178,835,403	3,149,605,108	3,250,923,911	3,211,359,630	3,283,767,170	3,313,813,008
Maryland Port Administration:										
Port of Baltimore (2):										
Export Commerce (2,000 lbs.)	11,291,633	15,052,545	10,216,952	17,596,350	23,852,386	23,757,853	19,396,664	16,750,213	17,646,014	N/A
Import Commerce (2,000 lbs.)	19,490,995	17,965,267	12,145,939	15,243,578	13,991,505	12,929,929	10,878,770	12,759,986	14,748,432	N/A
Total Foreign Commerce (2,000 lbs.)	30,782,628	33,017,812	22,362,891	32,839,928	37,843,891	36,687,782	30,274,105	29,510,199	32,394,446	N/A
General Cargo (2,000 lbs.) (included above)	8,893,780	8,905,872	7,155,595	8,373,255	9,126,585	9,557,401	9,939,751	10,230,365	10,683,470	N/A
Maryland Aviation Administration:										
Passenger Traffic	20,643,685	21,321,252	20,103,443	21,313,033	22,488,838	22,611,988	22,530,342	22,238,226	22,761,893	24,669,946
Commercial Air Carrier Operations	267,517	260,970	243,453	247,391	258,639	256,992	245,367	232,609	224,246	231,354
Total Aircraft Operations	303,721	290,945	266,273	272,997	277,435	273,966	263,360	251,305	243,255	248,271
Maryland Transit Administration:										
Buses (4)	840	895	895	869	828	903	929	964	1,008	964
Route Miles	1,809	2,146	2,111	2,088	2,364	2,088	2,136	2,222	2,222	4,645
Vehicle Miles (7)	23,448,056	23,873,643	24,703,842	24,248,825	23,016,156	20,823,391	24,973,730	24,003,000	20,487,566	26,426,536
Trips	72,611,252	75,575,573	79,239,334	78,188,577	72,520,531	73,627,843	73,404,275	75,780,350	79,035,332	79,828,737
Subway Cars	100	100	100	100	100	100	98	98	98	98
Route Miles	15	15	15	15	15	15	15	15	15	15
Car Miles	4,735,303	5,193,972	5,285,406	4,480,709	4,706,797	4,764,148	5,103,781	5,072,282	5,010,750	5,003,458
Trips	13,225,843	13,955,325	13,566,823	1,363,903	14,002,609	15,199,117	15,208,352	14,632,401	13,900,813	12,221,949
Light Rail Cars (5)	53	53	53	53	53	53	53	53	53	53
Route Miles	29	29	29	29	29	29	29	29	29	29
Car Miles	2,797,732	2,789,820	2,780,098	3,179,325	3,169,421	3,257,117	3,254,629	3,106,134	2,961,645	3,147,949
Trips	7,121,516	7,962,979	8,712,179	8,076,249	8,752,463	8,796,346	9,371,791	8,105,752	7,657,256	7,475,005
MARC Commuter Rail Cars	157	153	157	157	177	177	177	177	177	180
Number of Trains Daily	85	89	83	87	110	100	93	142	106	96
Number of Stations Served (6)	42	42	42	42	42	42	41	42	42	42
Car Miles (7)	5,030,652	5,124,244	5,706,147	5,651,786	5,270,162	5,821,508	6,924,056	5,863,504	6,268,474	6,383,099
Trips	7,505,226	7,897,602	8,081,155	8,095,577	8,232,729	8,532,214	9,030,039	8,979,468	9,245,588	8,961,892
Number of MDOT State Employees (3)	6,518	6,572	6,638	6,463	6,007	5,963	5,885	8,387	8,485	8,454

Source: Maryland Department of Transportation modal administrations.

(1) As of January 1.

(2) Calendar year basis.

(3) 2006-2013 does not include union employees.

(4) Bus service statistics have been restated to include transportation provided by contractual bus companies.

(5) Service initiated in May, 1992; service extended to Hunt Valley in September, 1997, and to BWI Airport in December, 1997.

(6) Service initiated to Frederick and Monocacy on December 17, 2001.

(7) Vehicle and car miles have been restated to accurately reflect the revenue service miles.

MARYLAND DEPARTMENT OF TRANSPORTATION

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