

SECONDARY MARKET DISCLOSURE

Community Development Administration Maryland Department of Housing and Community Development Local Government Infrastructure Finance Program

The following financial information is being provided by the Community Development Administration (“the Administration”), a unit in the Division of Development Finance of the Department of Housing and Community Development, a principal department of the government of the State of Maryland (“the Department”).

Questions concerning this release should be directed to Investor Relations at (301) 429-7898, or cdabonds_mailbox.dhcd@maryland.gov

The Administration

Annual Information. The Administration has agreed, in accordance with the provisions of Rule 15c2-12 (the “Rule”), adopted by the Securities and Exchange Commission (the “Commission”) under the Securities and Exchange Act of 1934, as amended, to provide, or cause to be provided, to each nationally recognized municipal securities information repository and to the appropriate state information depository, if any, for the State, in accordance with the Rule, when and if available, but in any event within nine months after the end of each fiscal year of the Administration, the following annual financial information and operating data (the “Annual Information”):

1. a copy of the annual financial statements of the Administration’s Local Government Infrastructure Bonds prepared in accordance with generally accepted accounting principles and audited by a certified public accountant;
2. a copy of the annual financial statement of each Local Government having, as of the end of such fiscal year, an aggregate outstanding unpaid principal balance of Infrastructure Loans under the Program equal to or greater than 10% of the outstanding principal amount of all Infrastructure Loans financed under the Program (and, if such Infrastructure Loans are guaranteed by a Political Subdivision, the annual financial statement of the Guarantor Political Subdivision), prepared and audited in accordance with law (which currently requires that such statements be prepared in accordance with generally accepted accounting principles and audited by a certified public accountant); and
3. an update of the financial information in this Official Statement contained in Appendix B – “LOCAL GOVERNMENTS AND LOCAL OBLIGATIONS” for each Local Government or Guarantor Political Subdivision meeting the criteria described in paragraph 2 immediately above.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

**COMMUNITY DEVELOPMENT ADMINISTRATION
LOCAL GOVERNMENT INFRASTRUCTURE BONDS**

JUNE 30, 2015 AND 2014

Community Development Administration
Local Government Infrastructure Bonds

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INDEPENDENT AUDITOR'S REPORT

Office of the Secretary
Department of Housing and Community Development

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Development Administration Local Government Infrastructure Bonds (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2015 and 2014, and the changes in its respective financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the financial statements present only the Community Development Administration Local Government Infrastructure Bonds and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland as of and for the years ended June 30, 2015 and 2014, and the changes in its net position and its cash flows, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Baltimore, Maryland
September 30, 2015

Community Development Administration
Local Government Infrastructure Bonds

STATEMENTS OF NET POSITION
(in thousands)

June 30, 2015 and 2014

	2015	2014
RESTRICTED ASSETS		
Restricted current assets		
Cash and cash equivalents on deposit	\$ 62,659	\$ 39,542
Community facilities loans	5,645	4,085
Accrued interest receivable	303	211
	68,607	43,838
Restricted long-term assets		
Community facilities loans, net of current portion	102,005	69,375
	\$ 170,612	\$ 113,213
LIABILITIES AND NET POSITION		
Current liabilities		
Accrued interest payable	\$ 272	\$ 183
Bonds payable	5,705	4,145
Due to local governments	58,940	37,165
	64,917	41,493
Long-term liabilities		
Bonds payable, net of current portion	104,613	71,060
Advance trustee fees	20	16
	104,633	71,076
Total liabilities	169,550	112,569
NET POSITION		
Restricted	1,062	644
Total liabilities and net position	\$ 170,612	\$ 113,213

See notes to financial statements

Community Development Administration
Local Government Infrastructure Bonds

STATEMENTS OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION
(in thousands)

Years ended June 30, 2015 and 2014

	2015	2014
Operating revenue		
Interest on community facilities loans	\$ 3,338	\$ 2,220
Fee income	197	105
Other operating revenue	16	95
	3,551	2,420
Operating expenses		
Interest expense on bonds	3,127	2,045
Professional fee expense	6	-
	3,133	2,045
Operating income	418	375
CHANGE IN NET POSITION	418	375
Net position - restricted at beginning of year	644	269
Net position - restricted at end of year	\$ 1,062	\$ 644

See notes to financial statements

Community Development Administration
Local Government Infrastructure Bonds

STATEMENTS OF CASH FLOWS
(in thousands)

Years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Principal and interest received on community facilities loans	\$ 8,501	\$ 6,177
Origination of community facilities loans	(17,670)	(10,411)
Advance trustee fees received	40	32
Trustee fees paid	(36)	(28)
Loan fees received	197	105
Professional fee expense	(6)	-
Other operating revenue	16	34
	<u>(8,958)</u>	<u>(4,091)</u>
Cash flows from investing activities		
Interest received on cash equivalents	-	-
	<u>-</u>	<u>-</u>
Cash flows from noncapital financing activities		
Proceeds from sale of bonds	40,435	21,379
Payments on bond principal	(5,315)	(4,080)
Interest on bonds	(3,045)	(1,986)
	<u>32,075</u>	<u>15,313</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS ON DEPOSIT	23,117	11,222
Cash and cash equivalents on deposit at beginning of year	<u>39,542</u>	<u>28,320</u>
Cash and cash equivalents on deposit at end of year	<u>\$ 62,659</u>	<u>\$ 39,542</u>

(continued)

Community Development Administration
Local Government Infrastructure Bonds

STATEMENTS OF CASH FLOWS - CONTINUED
(in thousands)

Years ended June 30, 2015 and 2014

	2015	2014
Reconciliation of operating income to net cash used in operating activities		
Operating income	\$ 418	\$ 375
Adjustments to reconcile operating income to net cash used in operating activities		
Increase in community facilities loans	(34,190)	(16,915)
Increase in accrued interest receivable	(92)	(63)
Increase in accrued interest payable	89	59
Decrease in accounts payable	-	(61)
Increase in due to local governments and other liabilities	21,779	10,528
Amortization of bond original issue premiums	(7)	-
Interest on bonds	3,045	1,986
Net cash used in operating activities	\$ (8,958)	\$ (4,091)

See notes to financial statements

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS
(in thousands)

June 30, 2015 and 2014

NOTE 1 - AUTHORIZING LEGISLATION AND PROGRAM DESCRIPTION

The Community Development Administration (CDA) is authorized to issue Local Government Infrastructure Bonds pursuant to Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland to provide a mechanism for financing the infrastructure needs of local governments. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

The accompanying financial statements only include CDA's Local Government Infrastructure Bonds (the Fund) (resolution adopted August 1, 2010). CDA's other Funds are not included.

The Fund was established to issue bonds to provide funds for construction and permanent financing to local governments for public facilities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Local Government Infrastructure Bonds is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (GAAP).

Generally Accepted Accounting Principles

CDA reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). Consequently, CDA applies all applicable GASB pronouncements.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with accounting guidance issued by GASB, net position should be reported as restricted when constraints placed on net position use is either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation. Accordingly, the net position of the Fund is restricted as to its use as the net position is pledged to bondholders.

The Annual Financial Report may include a Management's Discussion and Analysis. Since CDA is an enterprise fund included in the State of Maryland's Comprehensive Annual Financial Report, a separate Management's Discussion and Analysis is not required in these financial statements. CDA prepares a Management's Discussion and Analysis for the General Accounting Division of the State of Maryland that is not part of these financial statements.

Cash and Cash Equivalents on Deposit

Cash equivalents may include money market funds, repurchase agreements, investment agreements and any other investments, primarily obligations of the U.S. Treasury and U.S. Government Agencies, which have maturities of 90 or less days at the time of purchase. As of June 30, 2015 and 2014, all of the Fund's cash equivalents were invested in a money market mutual fund which is more fully described in Note 3.

Community Facilities Loans

Community facilities loans are carried at their unpaid principal balances. See Note 4 for additional information on community facilities loans.

Allowance for Loan Losses

Community facilities loans are secured by the full faith and credit of the applicable local government. Therefore, CDA has determined that no allowance for loan losses was necessary as of June 30, 2015 and 2014.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Interest Receivable

Accrued interest includes both interest on cash deposits and interest on loans. As of June 30, 2015 and 2014, all loans were current. Therefore, all accrued interest on loans was recorded during the year.

Bonds Payable

Bonds payable are carried at their unpaid principal balances, net of unamortized bond premiums and discounts. See Notes 5, 6 and 7 for additional information.

Due to Local Governments

CDA records the total loan amount when the loan closes and collects interest from the local government on this full loan amount from the date of closing. Due to local governments represents the undrawn loan amount which is held by CDA as an escrow until the funds are needed by the local government.

Fee Income

CDA receives financing fees at loan origination. These fees are recognized as revenue in the period received as fee income.

Administrative Support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. Support services and the operating expenses of CDA have been allocated to CDA's General Bond Reserve Fund and are reported in the financial statements of CDA's Revenue Obligation Funds. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

The employees of CDA are covered by the Maryland State Retirement and Pension System. See Note 8 for additional information.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expenses

CDA distinguishes operating revenue and expenses from non-operating items in accordance with accounting guidance issued by GASB. Operating revenue and expenses are identified as those activities that are directly related to financing public facilities for local governments. All of the Fund's activities are considered to be operating.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains and losses during the reporting periods. Actual results could differ from these estimates.

NOTE 3 - CASH AND CASH EQUIVALENTS ON DEPOSIT

Proceeds from bonds and revenues from loans are invested in authorized investments as defined in the Local Government Infrastructure Bonds Resolution (the Resolution) and in CDA's Investment Policy until required for financing projects, redeeming outstanding bonds, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. Government Agencies, investment agreements, money market funds and any other investment as defined by the Resolution.

As of June 30, 2015 and 2014, the Fund had \$62,659 and \$39,542, respectively, invested in a money market mutual fund (Federated Prime Cash Obligations Fund) which is classified as cash and cash equivalents. The following represents the GASB evaluation of this asset for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 3 - CASH AND CASH EQUIVALENTS ON DEPOSIT (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses from rising interest rates, CDA's Investment Policy requires that the maturities of the investment portfolio are scheduled to meet the cash requirements for bond debt service, projected loan originations and ongoing operations.

The Federated Prime Cash Obligations Fund invests primarily in short-term, high-quality, fixed-income securities issued by banks, corporations and the U.S. Government. It is operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. It can reasonably be expected to have a fair value that will be unaffected by interest rate changes because the interest rates are variable and the principal can be recovered on demand. As noted above, as of June 30, 2015 and 2014, the cost of the money market mutual fund approximated fair value and its maturity is less than one year.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither CDA's Investment Policy nor the Resolution requires investment agreements or deposits to be collateralized. CDA's Investment Policy places no limit on the amount that CDA may invest in any one issuer or counterparty. According to the Resolution, securities must be rated at the highest investment grade by any national rating agency. U.S. dollar denominated accounts and bankers' acceptances which have a rating on their short-term certificates of deposit must be in the two highest ratings by any nationally recognized rating agency. Accounting guidance issued by GASB requires disclosure by amount and investment issuer if investments in any one issuer represent 5 percent or more of total investments. Investments in mutual funds are excluded from this requirement.

As of June 30, 2015 and 2014, the Federated Prime Cash Obligations Fund was rated AAAM by Standard and Poor's and Aaa by Moody's Investors Service.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 3 - CASH AND CASH EQUIVALENTS ON DEPOSIT (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, CDA will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. As of June 30, 2015 and 2014, the Fund's investments were not subject to custodial credit risk under accounting guidance issued by GASB. The money market mutual fund is held in trust by the trustee, kept separate from the assets of the bank and from other trust accounts and is held in CDA's name.

NOTE 4 - COMMUNITY FACILITIES LOANS

Community facilities loans are secured by the full faith and credit of the applicable local government. As such, no allowance for loan losses was necessary as of June 30, 2015 and 2014. As of June 30, 2015 and 2014, interest rates on such loans range from 1.76% to 5.09% and 1.77% to 5.09% and remaining loan terms range from less than 3 years to 28 years and less than 1 year to 29 years, respectively.

NOTE 5 - BONDS PAYABLE

The bonds issued by CDA are special obligations of CDA and are payable from the revenue and special funds of the Resolution. These bonds do not constitute debt of and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision.

The provisions of the Resolution require or allow for the special redemption of bonds at par through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of community facilities loans. All outstanding bonds are subject to redemption at the option of CDA, in whole or in part at any time, after certain dates, as specified in the respective series resolutions, at a redemption price equal to the principal amount thereof to be redeemed. All bonds have fixed interest rates and all bonds are tax-exempt.

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 5 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2015 and the bonds payable as of June 30, 2015:

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2014	Bond Activity			Debt Outstanding at June 30, 2015	Bond premium /discount deferred	Bonds payable at June 30, 2015
					New bonds issued	Scheduled maturity payments	Bonds redeemed			
Local Government Infrastructure Bonds										
2010 Series A-1	08/25/10	2.00% - 4.00%	2015 - 2030	\$ 15,870	\$ -	\$ (920)	\$ -	\$ 14,950	\$ -	\$ 14,950
2010 Series A-2	08/25/10	2.00% - 4.00%	2015 - 2030	6,985	-	(395)	-	6,590	-	6,590
2012 Series A-1	05/17/12	1.00% - 3.50%	2015 - 2032	8,245	-	(675)	-	7,570	-	7,570
2012 Series A-2	05/17/12	1.00% - 3.60%	2015 - 2032	3,835	-	(300)	-	3,535	-	3,535
2012 Series B-1	12/19/12	0.75% - 3.125%	2015 - 2032	13,465	-	(725)	-	12,740	-	12,740
2012 Series B-2	12/19/12	0.80% - 3.125%	2015 - 2032	6,205	-	(330)	-	5,875	-	5,875
2013 Series A-1	10/03/13	0.65% - 5.00%	2015 - 2043	14,110	-	(560)	-	13,550	-	13,550
2013 Series A-2	10/03/13	0.70% - 5.05%	2015 - 2043	6,485	-	(240)	-	6,245	-	6,245
2014 Series A-1	08/28/14	0.20% - 3.50%	2015 - 2034	-	27,605	(820)	-	26,785	-	26,785
2014 Series A-2	08/28/14	0.20% - 5.00%	2015 - 2034	-	12,720	(350)	-	12,370	108	12,478
Total				\$ 75,200	\$ 40,325	\$ (5,315)	\$ -	\$ 110,210	\$ 108	\$ 110,318

The following is a summary of the bond activity for the period ended June 30, 2014 and the bonds payable as of June 30, 2014:

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2013	Bond Activity			Debt Outstanding at June 30, 2014	Bond premium /discount deferred	Bonds payable at June 30, 2014
					New bonds issued	Scheduled maturity payments	Bonds redeemed			
Local Government Infrastructure Bonds										
2010 Series A-1	08/25/10	1.90% - 4.00%	2014 - 2030	\$ 16,765	\$ -	\$ (895)	\$ -	\$ 15,870	\$ -	\$ 15,870
2010 Series A-2	08/25/10	1.20% - 4.00%	2014 - 2030	7,375	-	(390)	-	6,985	3	6,988
2012 Series A-1	05/17/12	1.00% - 3.50%	2014 - 2032	8,905	-	(660)	-	8,245	-	8,245
2012 Series A-2	05/17/12	1.00% - 3.60%	2014 - 2032	4,135	-	(300)	-	3,835	-	3,835
2012 Series B-1	12/19/12	0.55% - 3.125%	2014 - 2032	14,185	-	(720)	-	13,465	-	13,465
2012 Series B-2	12/19/12	0.60% - 3.125%	2014 - 2032	6,535	-	(330)	-	6,205	3	6,208
2013 Series A-1	10/03/13	0.65% - 5.00%	2015 - 2043	-	14,660	(550)	-	14,110	-	14,110
2013 Series A-2	10/03/13	0.70% - 5.05%	2015 - 2043	-	6,720	(235)	-	6,485	(1)	6,484
Total				\$ 57,900	\$ 21,380	\$ (4,080)	\$ -	\$ 75,200	\$ 5	\$ 75,205

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 6 - DEBT SERVICE REQUIREMENTS

As of June 30, 2015, the required principal payments for bonds (including mandatory sinking fund payments and excluding the effect of unamortized bond premiums and discounts) and interest payments for each of the next five years and in 5-year increments thereafter, are as follows:

<u>Years ended June 30,</u>	<u>Interest</u>	<u>Principal</u>
2016	\$ 3,264	\$ 5,705
2017	3,201	5,785
2018	3,115	5,895
2019	3,012	5,955
2020	2,898	6,335
2021 - 2025	12,082	31,300
2026 - 2030	7,219	31,265
2031 - 2035	1,933	16,460
2036 - 2040	322	610
2041 - 2045	114	900
Total	<u>\$ 37,160</u>	<u>\$ 110,210</u>

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 6 - DEBT SERVICE REQUIREMENTS (Continued)

As of June 30, 2014, the required principal payments for bonds (including mandatory sinking fund payments and excluding the effect of unamortized bond premiums and discounts) and interest payments for each of the next five years and in 5-year increments thereafter, were as follows:

Years ended June 30,	Interest	Principal
2015	\$ 2,199	\$ 4,145
2016	2,149	4,200
2017	2,093	4,275
2018	2,018	4,365
2019	1,932	4,300
2020 - 2024	8,039	21,130
2025 - 2029	4,814	20,550
2030 - 2034	1,345	10,600
2035 - 2039	352	600
2040 - 2044	166	1,035
Total	\$ 25,107	\$ 75,200

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Bonds payable		
Beginning balance	\$ 75,205	\$ 57,906
Additions	40,325	21,379
Reductions	(5,315)	(4,080)
Change in deferred amounts for issuance premiums / discounts	<u>103</u>	<u>-</u>
Ending balance	110,318	75,205
Less due within one year	<u>(5,705)</u>	<u>(4,145)</u>
Total long-term bonds payable	<u>104,613</u>	<u>71,060</u>
Other liabilities - advance trustee fees		
Beginning balance	16	12
Additions	40	32
Reductions	<u>(36)</u>	<u>(28)</u>
Ending balance	<u>20</u>	<u>16</u>
Total long-term other liabilities - advance trustee fees	<u>20</u>	<u>16</u>
Total long-term liabilities	<u>\$ 104,633</u>	<u>\$ 71,076</u>

Community Development Administration
Local Government Infrastructure Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED
(in thousands)

June 30, 2015 and 2014

NOTE 8 - PENSION AND OTHER POST-RETIREMENT BENEFITS

Eligible employees of CDA and employees of the State of Maryland are covered under the retirement plans of the State Retirement and Pension System of Maryland (the System) and are also entitled to certain healthcare benefits upon retirement. CDA's only obligation for retirement and post-employment benefits is its required annual contribution, which was paid in full by CDA to the State of Maryland prior to year end. The liability for the employees is recorded by the general fund of the State of Maryland and is not allocated to CDA. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202 or by visiting the website at www.sra.state.md.us.

NOTE 9 - SUBSEQUENT EVENTS

Events that occur after the date of the statement of net position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of net position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the statement of net position require disclosure in the accompanying notes. Management evaluated the activity of CDA through September 30, 2015 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements except for the following activity that occurred subsequent to June 30, 2015.

Subsequent to the year ended June 30, 2015, CDA issued \$18,865 of 2015 Series A bonds on August 27, 2015.

Local Government Infrastructure Program Indenture (2010-Present)

Infrastructure Loans Financed with the Proceeds of the Bonds

(Outstanding Loans as of June 30, 2015)

Local Government	Location by County	Series of Bonds	Amount of Loan (\$)	Remaining Loan Term (in years)	Purpose
Aberdeen	Harford	2010A	\$4,078,400.00	15	Water capital purchase
Berlin	Worcester	2012A	\$479,000.00	3	Refinance existing debt
			\$403,000.00	6	Refinance existing debt
			\$1,529,800.00	13	Refinance existing debt
			\$1,218,500.00	14	Refinance existing debt
Centreville	Queen Anne's	2012A	\$2,251,400.00	17	Street improvements, water distribution system, refi loan
Charlestown	Cecil	2012A	\$592,200.00	14	Refinance existing debt
			\$91,100.00	17	Drainage and water basin installation
Charlestown	Cecil	2014A	\$128,000.00	19	Shoreline protection
Chesapeake Beach	Calvert	2010A	\$1,736,300.00	15	Water storage tank and production
Chestertown	Kent	2012A	\$1,801,500.00	17	Purchase marina property
Cumberland	Allegany	2012B	\$1,322,900.00	17	Capital improvements
Cumberland	Allegany	2014A	\$1,356,000.00	9	Vehicle and equipment , IT
			\$873,500.00	14	Ambulance, ERP System, Vacuum truck
			\$4,985,000.00	19	Facility, street, water and sewer improvements
Federalsburg	Caroline	2013A	\$1,056,300.00	13	Street improvements
Hyattsville	Prince George's	2010A	\$2,908,500.00	10	Street and sidewalk improvements
Hyattsville	Prince George's	2012B	\$2,045,500.00	12	Parking facility improvements, parking meters field renovations, street improvements
Laurel	Prince George's	2012A	\$2,056,500.00	7	Fleet purchases, pool improvements, facility maintenance, street improvements, IT purchases

Local Government Infrastructure Program Indenture (2010-Present)

Infrastructure Loans Financed with the Proceeds of the Bonds

(Outstanding Loans as of June 30, 2015)

Local Government	Location by County	Series of Bonds	Amount of Loan (\$)	Remaining Loan Term (in years)	Purpose
Middletown	Frederick	2010A	\$227,000.00	8	Refinance FHA ¹ loan
Mount Airy	Carroll & Frederick	2012B	\$6,113,300.00	17	Refinance existing debt, water main replacements, water pump station
Myersville	Frederick	2014A	\$478,000.00	9	Street improvements
North East	Cecil	2014A	\$1,951,500.00	19	Road way improvements
Oakland	Garrett	2010A	\$684,000.00 \$1,301,500.00	5 15	Community Center and street improvements Refinance bank loans and USDA ² loans
Riverdale Park	Prince George's	2013A	\$770,700.00 \$2,459,700.00	13 28	
Snow Hill	Worcester	2012A	\$377,000.00	5	Refinance existing loan
Somerset County Sanitary Comm.	Somerset	2013A	\$77,500.00 \$248,400.00	6 20	Refinance USDA ² loan Refinance USDA ² loan
St. Mary's Metropolitan Commission	St. Mary's	2010A	\$10,099,300.00	15	Water and sewer system improvements
St. Mary's Metropolitan Commission	St. Mary's	2012B	\$7,609,900.00	17	Water and sewer system improvements
St. Mary's Metropolitan Commission	St. Mary's	2013A	\$14,737,400.00	18	Water and sewer system improvements
St. Mary's Metropolitan Commission	St. Mary's	2014A	\$21,345,500.00	19	Water and sewer system improvements
Taneytown	Carroll	2014A	\$6,356,973.72 \$800,526.28	17 19	Refinance bank loan Wastewater treatment plant improvements
Westminster	Carroll	2012B	\$1,098,400.00	7	Refinance existing debt
Total:			\$107,650,000.00		

Note:

¹ Farmer's Home Administration

² United States Department of Agriculture

Financial Information of Local Governments

Each County, Municipality, and taxing district in the State is required (i) to maintain the uniform system of financial reports (“Uniform Financial Reports”) provided by the State’s Department of Legislative Services; (ii) pursuant to Article 19, §40 of the Annotated Code of Maryland, to have its books, accounts, records and reports examined at least once each fiscal year by a certified public accountant and to file a copy of the audit report with the Legislative Auditor, and (iii) pursuant to Article 19, §37 of the Annotated Code of Maryland, to file with the State Department of Legislative Services not later than November 1 of each year the Uniform Financial Report (Forms F-65(MD-2) or F-65(MD-2A)) for the fiscal year ending on the immediately preceding June 30. The State Department of Legislative Services extracts information from the Uniform Financial Reports and publishes such information annually in a report to the Governor and General Assembly of Maryland.

The Uniform Financial Reports and the annual report of the Department of Legislative Services are available for public inspection in the offices of the Department of Legislative Services, 90 State Circle, Annapolis, Maryland. Copies of the Uniform Financial Reports or the annual report of the Department of Legislative Services may be obtained by writing to the State Department of Legislative Services, 90 State Circle, Room 226, Annapolis, Maryland 21401, or by calling (410) 841-3761.

The following information contains an update, as of June 30, 2015, of information concerning the Local Governments that have received Infrastructure Loans from the proceeds of the Bonds. This information was originally set forth in Appendix B to the Official Statement for the 2010 Series A Bonds dated August 25, 2010. This information has been certified by each Local Government as to its accuracy. This information does not represent all of the information contained in the Uniform Financial Reports, which are available as noted in the preceding paragraph. The Administration has not verified the information on the following pages and makes no representation as to the accuracy or completeness thereof or the financial condition of any Local Government, County, or Municipality described in this Appendix.

ST. MARY'S COUNTY

POPULATION (July 2015 Est.): 111,292

YEAR	2015	2014	2013
ASSESSED VALUE OF TAXABLE PROPERTY:	\$11,649,914,444	\$11,421,670,984	\$11,264,525,685

Summary of General Fund, Year Ended June 30, ____

	2015	2014	2013
REVENUES:			
Taxes	\$ 192,939,503	\$ 188,075,156	\$ 185,199,950
Highway user revenues	\$ 762,266	\$ 721,923	\$ 683,079
Licenses & permits	\$ 1,581,154	\$ 1,504,387	\$ 1,497,437
Intergovernmental	\$ 10,364,668	\$ 10,418,326	\$ 9,581,499
Charges for services	\$ 3,048,393	\$ 2,790,407	\$ 3,519,566
Fines and forfeitures	\$ 264,853	\$ 208,573	\$ 227,571
Other revenues	\$ 469,855	\$ 312,298	\$ 273,236
Pass-throughs	\$ -	\$ 200,000	\$ -
Total Revenues	\$ 209,430,692	\$ 204,231,070	\$ 200,982,338

EXPENDITURES:			
General government	\$ 20,662,550	\$ 20,288,779	\$ 19,559,509
Public safety	\$ 38,266,497	\$ 39,631,748	\$ 44,072,846
Public works	\$ 9,076,657	\$ 10,202,985	\$ 8,401,057
Health	\$ 7,038,830	\$ 6,605,425	\$ 6,495,400
Social services	\$ 4,114,893	\$ 4,135,430	\$ 3,826,738
Primary and secondary education	\$ 95,846,940	\$ 91,990,408	\$ 87,616,703
Post-secondary education	\$ 3,995,506	\$ 3,873,943	\$ 3,781,289
Parks, recreation, and culture	\$ 3,800,521	\$ 3,621,272	\$ 3,680,293
Libraries	\$ 2,498,064	\$ 2,476,561	\$ 2,404,204
Conservation of natural resources	\$ 491,408	\$ 437,638	\$ 399,618
Housing	\$ -	\$ -	\$ 1,100,256
Economic development	\$ 1,515,675	\$ 1,505,754	\$ 1,570,887
Debt service (P & I)	\$ 9,787,899	\$ 9,959,968	\$ 10,884,872
Other	\$ 7,036,710	\$ 6,867,002	\$ 7,422,174
Pass-throughs	\$ -	\$ 200,000	\$ -
Total Expenditures	\$ 204,132,150	\$ 201,796,913	\$ 201,215,846

	2015	2014	2013
ASSETS:			
Cash & cash equivalents	\$ 71,645,582	\$ 94,659,233	\$ 94,724,233
Restricted cash and investments	\$ 1,580,054	\$ -	\$ -
Taxes receivable	\$ 3,361,759	\$ 3,734,110	\$ 3,602,765
Income tax reserve	\$ 8,610,524	\$ 4,074,955	\$ 3,261,805
Accounts receivable	\$ 11,666,667	\$ 11,148,777	\$ 11,309,714
Inventory	\$ 1,277,090	\$ 1,006,510	\$ 921,024
Other	\$ 361,102	\$ 343,267	\$ 390,376
Due from fiduciary fund	\$ -	\$ 12,797	\$ 51,975
Total Assets	\$ 98,502,778	\$ 114,979,649	\$ 114,261,892

ST. MARY'S COUNTY Cont.

Year Ended June 30, ____

	2015	2014	2013
LIABILITIES:			
Accounts payable	\$ 3,095,234	\$ 2,918,767	\$ 2,649,850
Compensated-related liabilities	\$ 9,151,399	\$ 8,106,471	\$ 6,988,442
Deferred income tax distribution	\$ -	\$ 4,074,955	\$ 3,261,805
Unearned revenue	\$ 295,530	\$ 531,432	\$ 202,375
Other liabilities	\$ 5,336,828	\$ 5,217,285	\$ 4,767,183
Due to other funds	\$ 23,188,241	\$ 47,497,109	\$ 42,019,665
Due to other governments	\$ 191,654	\$ 193,054	\$ 194,554
Unavailable income tax distribution	\$ 8,610,524	\$ -	\$ -
Total Liabilities	\$ 49,869,410	\$ 68,539,073	\$ 60,083,874

FUND BALANCES:			
Undesignated/Unassigned	\$ 16,680,164	\$ 22,872,005	\$ 23,487,185

	2015	2014	2013
LONG-TERM LIABILITIES:			
Governmental activities	\$ 79,000,091	\$ 87,549,638	\$ 96,594,103
Business-type activities	\$ 492,375	\$ 342,218	\$ 453,317
Total L-T Liabilities	\$ 79,492,466	\$ 87,891,856	\$ 97,047,420

Property Taxes and Taxes Receivable: Real Property

	Total assessed Value of Real Property	General tax rate/\$100	Actual Tax Levy	Amount Collected
2015	\$11,583,094,282	0.857	\$99,267,118	\$96,889,546
2014	\$11,405,959,743	0.857	\$97,749,075	\$95,663,568
2013	\$11,165,511,319	0.857	\$95,688,432	\$92,937,512
2012	\$11,146,118,320	0.857	\$95,522,234	\$93,250,697
2011	\$11,099,978,764	0.857	\$94,764,053	\$91,727,350

ST. MARY'S COUNTY

Property Taxes and Taxes Receivable: Personal Property

	Total assessed Value of Personal Property	General tax rate/\$100	Actual Tax Levy	Amount Collected
2015	\$7,073,559	2.1425	\$151,551	\$151,551
2014	\$4,415,333	2.1425	\$94,599	\$75,196
2013	\$6,741,377	2.1425	\$144,434	\$144,434
2012	\$7,261,470	2.1425	\$155,577	\$155,577
2011	\$5,214,049	2.1425	\$111,711	\$111,711

Property Taxes and Taxes Receivable: Railroads & Public Utilities Property

	Total assessed Value of Railroads & Public Utilities Property	General tax rate/\$100	Actual Tax Levy	Amount Collected
2015	\$115,765,351	2.1425	\$2,480,273	\$2,480,273
2014	\$122,631,170	2.1425	\$2,627,373	\$2,627,373
2013	\$108,240,840	2.1425	\$2,319,060	\$2,319,060
2012	\$105,237,293	2.1425	\$2,254,709	\$2,254,709
2011	\$108,995,379	2.1425	\$2,335,226	\$2,335,226

ST. MARY'S COUNTY

State-aid Intercept Pledge : Analysis

Jurisdiction	Available funds received (Period : CY-2014)	Available funds received (Period : CY-2015)	Average of funds received (Period : CY-2006 thru CY-2015)	Maximum Annual Debt Service (MADS) on pledged indebtedness ¹
St. Mary's County	\$107,200,874	\$118,098,241	\$96,225,147	\$8,853,413

¹ Total of all existing pledged indebtedness as of December 31, 2015.

**COMMISSIONERS OF
ST. MARY'S COUNTY**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2015



Murphy & Murphy, CPA, LLC

The County Commissioners for St. Mary's County

June 30, 2015

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The County Commissioners for St. Mary's County

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of St. Mary's County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commissioners of St. Mary's County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commissioners of St. Mary's County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the St. Mary's County Public Schools, which represent 65.15 percent, 66.31 percent and 88.77 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the St. Mary's County Public Schools, is based solely on the report of the other auditors. We did not audit the financial statements of the St. Mary's County Building Authority, which represent .05 percent, .06 percent and 0 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were unaudited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the Public Schools, Library, and Metropolitan Commission, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County's as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Component unit information of the St. Mary's County Building Authority is part of the primary government financial statements and was included within the basic financial statements presented by the County. We did not audit the information and express no opinion on it.

Emphasis of Matter

As described in Note 8 and Note 15 to the financial statements, the Commissioners of St. Mary's County adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the year ended June 30, 2015. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension and OPEB information on pages 4 - 15 and 101 - 105 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commissioners of St. Mary's County's basic financial statements. The combining and individual nonmajor fund financial statements, budget schedules and unexpended appropriations for capital projects are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The detailed budget schedules and unexpended appropriations for capital projects have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015, on our consideration of the Commissioners of St. Mary's County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commissioners of St. Mary's County's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
November 25, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Financial Report of St. Mary's County, Maryland presents a narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2015. We encourage readers to use the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets and deferred outflows of the County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$271 million (*net position*). Approximately \$18.2 million, or 6.7%, is attributable to the County's enterprise funds, which include business-type activities for Solid Waste and Recycling (SW&R), Recreation and Parks recreation activities, and the Wicomico Golf Course. Approximately 24% of the total net position, or \$65.4 million (*unrestricted net position*), may be used to meet ongoing obligations to citizens and creditors. Other components of the net position are \$23.3 million of restricted net position and approximately \$182.3 million of net investment in capital assets. The net investment in capital assets represents the capitalized assets, net of accumulated depreciation and outstanding debt.
- The Government's overall net position reflects a decrease of \$9.4 million over the prior year.
- Governmental activities' total indebtedness decreased by \$9,019,832 during the fiscal year ended June 30, 2015. There was an increase in exempt financing of \$1,580,026 and payments on the debt totaled \$10,129,573. The estimated post-closure costs of the landfill decreased by \$624,000 and there was a net increase in the accrual for compensated absences of \$153,715.
- As of June 30, 2015, the County's governmental funds reported combined fund balances of \$69.8 million, a decrease of \$22.1 million from the prior year. The general fund reflected an increase of \$2,192,792. The capital projects fund reflected a decrease of \$23.5 million. The fund balance for the non-major funds decreased \$761,696. The County's governmental fund balances at June 30, 2015 include \$19 million for capital projects, \$48.6 million in general funds, and \$2.2 million for the other non-major funds. The general fund balance of \$48.6 million includes: \$2.2 million that is nonspendable as well as \$26.4 million which is committed to the following: \$12.9 million for the Bond Rating Reserve, and \$11,872,008 budgeted for use in the Approved FY2016 Budget, and \$1.625 million for County's Rainy Day Fund. In addition, the general fund reflects assigned designations of approximately \$1.5 million which includes encumbrances.
- With the FY2015 budget, the State's allocations/funding to the County continue to be lower than past years. Cost shifts continue and this budget continues to focus on funding recurring expenses with recurring revenues. There remains uncertainty with respect to the federal budget situation, with the possibility that federal budget balancing efforts may disproportionately affect St. Mary's County, given the federal presence in the County – directly through federal installations such as the Patuxent River Naval Air Station (Pax River), and also the related impacts on the contractor community which is also a significant employment sector for the County. The County deems it prudent to stay the course with respect to basic government services, while maintaining reserves adequate to cushion against changes over which it has little influence. As a part of the FY2015 budget process, the County approved a plan for the use of fund balance that included FY2016 and is maintaining significant balances that can be used to mitigate the impact or at least allow the County to transition to the potential new levels of economic activity, without undue and/or unnecessary disruption to citizen services.
- The non-major funds are special purpose funds that correspond to special assessments, the Emergency Services Support Fund, and a revolving loan fund set up to assist volunteer fire and rescue squads in financing their acquisition of capital assets.
- The business-type operating activities reflect a total increase in net position of \$324,633. Fee-based recreation activities posted a decrease of \$33,310, though a principal component of that is related to personal services,

with the increase of minimum wage. This fund is an accumulation of a large number of recreation activities, and fees are adjusted so that the fund, over the long term, breaks even, with no significant net position being accumulated. Fee-based solid waste and recycling activities posted an increase of \$418,683. The general fund subsidy for this activity was \$950,000 for FY2015. Any additional changes in funding needed will come through expenditure adjustment or revenue enhancement. The Wicomico Golf Course reflects a decrease of \$60,740 which reflects a decline in charges from the prior year, for the third year. The enterprise funds are reviewed for sustainability, as a part of the annual budget process. At the same time, increased costs for personal, utilities and general operating costs has been realized. During FY2016, consideration will continue to be given to the fee schedules as well as cost control, to restore this activity to a balanced budget.

- At June 30, 2015, the unassigned fund balance for the general fund (primary operating fund) was \$16.7 million, or 8.2% of general fund expenditures. Assigned fund balance of the general fund was \$1.5 million, or 3.1% of the general fund total fund balance.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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 County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, public works, health, social services, economic development, agricultural land preservation and recreation and parks, community services, planning and zoning, and permits and inspections. The business-type activities of the County in FY2015 include Wicomico Golf Course, Solid Waste and Recycling Activities and the Recreation Activities.

The government-wide financial statements include not only the Commissioners of St. Mary's County itself (known as the *primary government*), but also legally separate component units. The County has the following component units: St. Mary's County Public Schools, St. Mary's County Library, the Metropolitan Commission, and the Building Authority. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 16 to 19 of this report.

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

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

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

The Commissioners of St. Mary's County maintains five individual governmental funds: general, capital projects, special assessments, fire and rescue revolving funds, and emergency support. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general, capital projects and non-major funds (special assessments, fire and rescue revolving, and emergency support funds). The detail for the non-major funds is presented as part of supplementary information following the notes to the financial statements. The basic governmental fund financial statements can be found on pages 20 to 21 of this report.

The Commissioners of St. Mary's County adopts an annual appropriated budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, the County's primary fund. The budget to actual statement can be found on page 101 of this report.

Proprietary funds: Proprietary funds, also known as *Enterprise funds*, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Commissioners of St. Mary's County uses enterprise funds to account for Wicomico Golf Course, and fee-based Solid Waste and Recycling Activities and Recreation Activities. The proprietary fund financial statements can be found on pages 23 to 25 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 Commissioners of St. Mary's County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary Funds are established for retiree benefit trusts, specifically the Sheriff's Office Retirement plan and the Retiree Benefit Trust of St. Mary's County, Maryland, which addresses the County's retiree health benefits. Length of Service Awards was added in FY2015. The basic fiduciary fund financial statements can be found on pages 26 to 31 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 32 to 100 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Commissioners of St. Mary's County's progress in funding its obligations to retiree benefits. Required supplementary information can be found on pages 101 to 105 of this report. Other supplementary information can be found on pages 106 to 116.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's overall financial condition and position. In the case of St. Mary's County, assets exceeded liabilities by \$271 million at the close of the current fiscal year. The County's net position is divided into three categories: net investment in capital assets, restricted net position; and unrestricted net position. Approximately 67% of the County's net position reflects its net investment in capital assets (e.g., land and easements, buildings, machinery, equipment, infrastructure and improvements), less any outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net position represents 8.6% of total net position. Restricted net position is resources that are subject to external restrictions on how they may be used. Unrestricted net position of the government has a balance of \$65.4 million (24.1% of total net position) which may be used to meet the government's ongoing obligations to citizens and creditors.

Net Position June 30, 2015 and 2014

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
ASSETS						
Current Assets	\$125,038,989	\$140,002,069	\$ 2,905,737	\$ 1,921,748	\$127,944,726	\$141,923,817
Other Non-Current Assets	2,278,749	1,684,248	-	-	2,278,749	1,684,248
Capital Assets, net of accumulated depreciation	259,708,769	238,741,446	16,923,227	17,200,491	276,631,996	255,941,937
DEFERRED OUTFLOW OF RESOURCES						
Pension	240,756	-	-	-	240,756	-
Bond refunding	<u>2,303,585</u>	<u>2,575,858</u>	<u>-</u>	<u>-</u>	<u>2,303,585</u>	<u>2,575,858</u>
Total Assets & Deferred Outflow of Resources	<u>\$389,570,848</u>	<u>\$383,003,621</u>	<u>\$ 19,828,964</u>	<u>\$ 19,122,239</u>	<u>\$409,399,812</u>	<u>\$402,125,860</u>
LIABILITIES						
Current Liabilities	\$ 24,472,479	\$ 22,155,184	\$ 1,017,391	\$ 802,739	\$ 25,489,870	\$ 22,957,922
Non-current Liabilities	101,816,715	94,193,430	661,059	493,619	102,477,774	94,687,050
DEFERRED INFLOW OF RESOURCES						
Pension	1,821,698	-	-	-	1,821,698	-
Unavailable income tax distribution	<u>8,610,524</u>	<u>4,074,955</u>	<u>-</u>	<u>-</u>	<u>8,610,524</u>	<u>4,074,955</u>
Total Liabilities & Deferred Inflow of Resources	<u>136,721,416</u>	<u>120,423,569</u>	<u>1,678,450</u>	<u>1,296,358</u>	<u>138,399,866</u>	<u>121,719,927</u>
NET POSITION						
Net investment in Capital Assets	179,507,678	152,328,264	2,837,416	16,503,423	182,345,094	168,831,687
Restricted	23,295,813	43,767,714	-	-	23,295,813	43,767,714
Unrestricted	<u>50,045,941</u>	<u>66,484,074</u>	<u>15,313,098</u>	<u>1,322,458</u>	<u>65,359,039</u>	<u>67,806,532</u>
Total Net Position	<u>252,849,432</u>	<u>262,580,052</u>	<u>18,150,514</u>	<u>17,825,881</u>	<u>270,999,946</u>	<u>280,405,933</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$389,570,848</u>	<u>\$383,003,621</u>	<u>\$ 19,828,964</u>	<u>\$ 19,122,239</u>	<u>\$409,399,812</u>	<u>\$402,125,860</u>

At June 30, 2015, the Commissioners of St. Mary's County reports positive balances in all three categories of net position as a whole.

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

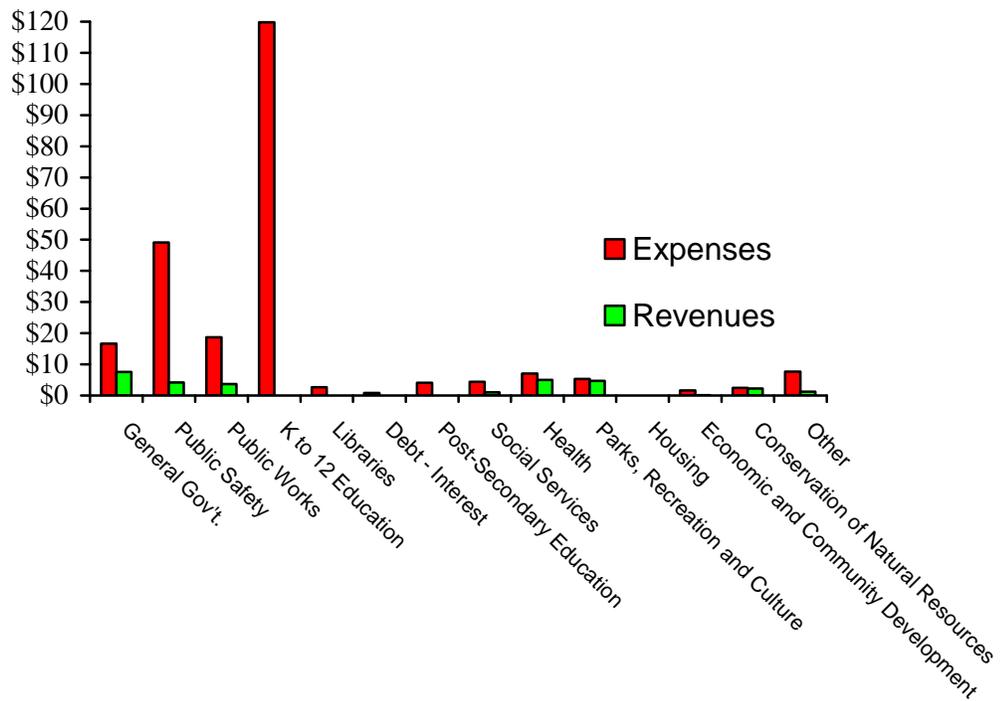
CHANGES IN NET POSITION
Years Ended June 30, 2015 and 2014

	<u>Governmental Activities</u>		<u>Business –Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Program Revenues:						
Charges for Services	\$ 6,479,642	\$ 6,355,495	\$ 3,539,082	\$ 3,376,782	\$ 10,018,724	\$ 9,732,277
Environment/Solid Waste Fees	-	-	2,938,948	2,887,242	2,938,948	2,887,242
Operating Grants and Contributions	11,887,785	12,788,756	29,781	32,061	11,917,566	12,820,817
Capital Grants and Dedicated Fees or Taxes	11,243,351	1,565,659	-	-	11,243,351	1,565,659
General Revenues:						
Property Taxes	104,543,652	103,014,068	-	-	104,543,652	103,014,068
Income Taxes	81,002,813	77,384,719	-	-	81,002,813	77,384,719
Other Taxes	15,112,462	14,672,233	-	-	15,112,462	14,672,233
Investment Earnings	107,103	54,945	29,206	39,624	136,309	94,569
Subsidies to Enterprise Funds	(950,000)	(1,000,000)	950,000	1,000,000	-	-
Roads Constructed by Third Parties	11,226,666	6,061,227	-	-	11,226,666	6,061,227
Capital Transfer	-	(103,010)	-	103,010	-	-
Miscellaneous, principally Capital Projects Funding	<u>7,853,542</u>	<u>14,511,011</u>	<u>-</u>	<u>-</u>	<u>7,853,542</u>	<u>14,511,011</u>
Total Revenues	<u>\$248,507,016</u>	<u>\$235,305,103</u>	<u>\$ 7,487,017</u>	<u>\$ 7,438,719</u>	<u>\$255,994,033</u>	<u>\$242,743,822</u>
Program Expenses:						
General Government	16,690,077	16,790,502	-	-	16,690,077	16,790,502
Public Safety	49,157,196	46,043,586	-	-	49,157,196	46,043,586
Public Works	18,690,775	16,933,853	3,497,818	3,556,520	22,188,593	20,490,373
Health	7,038,830	6,605,425	-	-	7,038,830	6,605,425
Social Services	4,372,071	4,364,022	-	-	4,372,071	4,364,022
Primary and Secondary Education	119,750,654	107,005,644	-	-	119,750,654	107,005,644
Post-Secondary Education	4,054,715	3,951,949	-	-	4,054,715	3,951,949
Parks, Recreation, and Culture	5,343,231	4,753,559	3,664,566	3,594,616	9,007,797	8,348,175
Libraries	2,680,245	2,658,741	-	-	2,680,245	2,658,741
Conservation of Natural Resources	2,468,972	1,867,646	-	-	2,468,972	1,867,646
Economic Development and Opportunity	1,661,458	1,599,234	-	-	1,661,458	1,599,234
Interest on Debt	799,904	2,584,714	-	-	799,904	2,584,714
Other, principally Retirees' Health	<u>7,180,392</u>	<u>7,728,565</u>	<u>-</u>	<u>-</u>	<u>7,180,392</u>	<u>7,728,565</u>
Total Expenses	<u>\$239,888,520</u>	<u>\$222,887,440</u>	<u>\$ 7,162,384</u>	<u>\$ 7,151,136</u>	<u>\$247,050,904</u>	<u>\$230,038,576</u>
Increase/(Decrease) in Net position	8,618,496	12,417,663	324,633	287,583	8,943,129	12,705,246
Net Position – Beginning, as Previously Stated	262,580,052	249,186,987	17,825,881	17,538,298	280,405,933	266,725,285
Change in Accounting Principle	-	(329,598)	-	-	-	(329,598)
Prior Period Adjustment	(18,349,116)	1,305,000	-	-	(18,349,116)	1,305,000
Net Position – Beginning, as Restated	<u>244,230,936</u>	<u>250,162,389</u>	<u>17,825,881</u>	<u>17,538,298</u>	<u>262,056,817</u>	<u>267,700,687</u>
Net Position - Ending	<u>\$252,849,432</u>	<u>\$262,580,052</u>	<u>\$ 18,150,514</u>	<u>\$ 17,825,881</u>	<u>\$270,999,946</u>	<u>\$280,405,933</u>

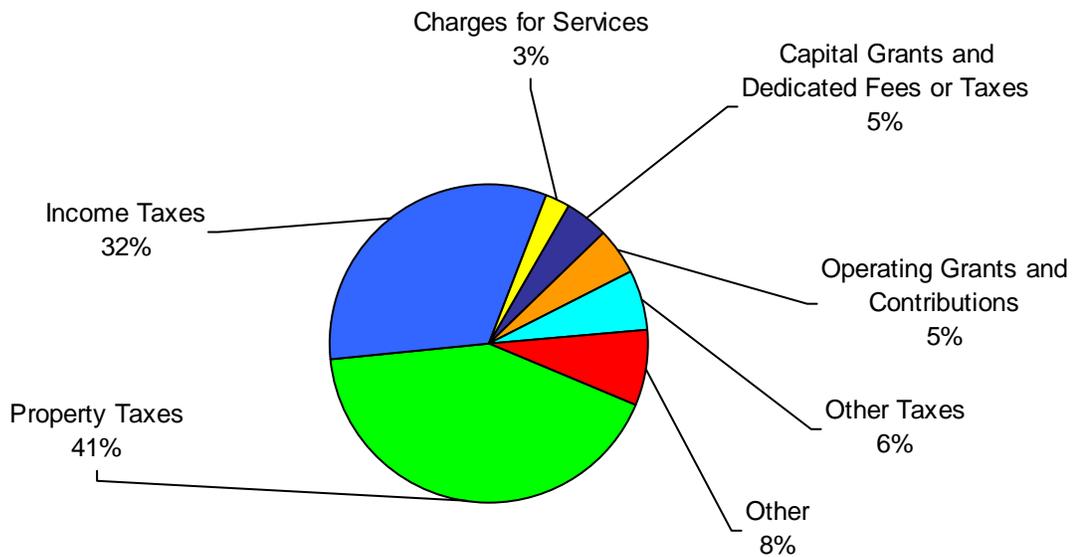
Governmental activities: Governmental activities reflected an increase in net position of \$8.6 million. The governmental funds reflected a net decrease of \$23.7 million.

Business-type activities: Business-type activities reflected an increase in net position of \$324,633. Wicomico Golf Course, Recreation and Parks, and Solid Waste and Recycling fee-based activities all posted increases.

Expenses and Program Revenues – Governmental Activities (in millions)



Revenues By Source – Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the Commissioners of St. Mary's County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of June 30, 2015, the Commissioners of St. Mary's County governmental funds reported combined ending fund balances of \$69.8 million, a decrease of \$22.1 million over the prior year. The Capital Projects fund accounts for \$19 million. Approximately \$18.2 million, or 26% of this total, constitutes *assigned and unassigned fund balances*, which are available for spending at the government's discretion in the General Fund. Of this \$18.2 million, the Board of County Commissioners has assigned \$1.5 million for encumbrances and the Miscellaneous Revolving Fund. As part of the FY2016 budget, the Board identified \$11.8 million to be used for CIP Pay-Go and Operating non-recurring items, leaving \$11 million in unassigned for future use. Restricted and committed fund balances include \$18.9 million for capital projects, \$12.9 million for the Bond Rating Reserve and \$1.625 million for Rainy Day Fund. Non-spendable fund balance includes \$1,277,090 committed to liquidate inventories and \$956,547 in interfund advances.

The general fund is the chief operating fund of the Commissioners of St. Mary's County and is central to the budget process and management of current resources. At June 30, 2015, assigned and unassigned fund balances of the general fund were \$18.2 million. As a measure of the general fund's liquidity, it may be useful to compare both assigned and unassigned fund balances and total fund balance to total fund expenditures. Assigned and unassigned fund balances represent 8.9% of total general fund expenditures, excluding pass-throughs, while total fund balance represents 23% of that same amount.

The fund balance of the Commissioners of St. Mary's County general fund has increased \$2,192,792 in FY2015, when compared to the prior year decrease of \$7.7 million. However, both FY2014 and FY2015 had planned use of fund balance for non-recurring expenses and application of capital project pay-go funding. The County prefers to use unassigned fund balance for non-recurring expenses.

The capital projects fund has a total fund balance of \$19 million. This balance reflects the accumulated unspent balance of impact fees, transfer taxes, and pay-go, which has been appropriated for specific projects, but remains unspent as of June 30, 2015. These funds have been budgeted, and the capital projects are in progress. A listing of the unexpended balances appears elsewhere in this document.

Proprietary funds: The Commissioners of St. Mary's County's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At the end of year, the Wicomico Golf Course Fund reflected unrestricted net position of (\$1,012,375). The Recreation Activities Fund reflected unrestricted net position of \$346,321, and the unrestricted net position of the Solid Waste and Recycling Fund amounted to \$2,385,717. On a combined basis, there was a \$752,054 increase in unrestricted net position over the prior year. Factors concerning these funds' finances are addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

In addressing the budget to actual variances, this section focuses generally on comparisons to the original approved budget. The "other supplementary information" on pages 108 through 114 reflects the original and revised budgets as well as the actual results in more detail. FY2015 actual results reflect actual revenues that are about \$5.1 million less than the original budget; however, this is largely attributable to the \$4.1 million negative variance in income tax and \$2.6 million in grants (including the grant reserve). Such variances in grants can be the result of not getting grants that were budgeted as well as incurring the grant revenues in a subsequent period, when the corresponding revenues are then reflected. The grants variance has a corresponding level of reduced expenditure activity, which results in no net effect on fund balance. Property Taxes had a positive variance of \$1.2 million. The FY2015 budget for income tax revenue is based upon an annual growth rate of 4.8% applied to calendar/tax year 2012 results based on returns filed, actually reflects an increase of 4.7% over the FY2014 actual. A \$1 million reserve was set up in FY2013 for the settlement of the Wynne Case, actual refunds to taxpayers are being calculated now and refunds will be reduced from the County's Income Tax revenue starting in FY2017. This reserve will be monitored to make sure there is enough for the impact. As the information on pages 108 and 114 shows, there are a variety of smaller offsetting variances; these were considered when developing the revenue budget for FY2016. The County will continue to monitor closely the developments in property and income taxes, as these are such a significant component of funding. Given the economy, it is likely that the rate of growth in property taxes will be minimal, due to the contraction of assessed values and the slower rate of growth. As for income taxes, the County will continue to budget based on its specific taxable income statistics, as provided by the State, rather than the State's distributions, which are based on State-wide cash flow.

Expense variances fall into several categories. The FY2015 budget included \$2.2 million for debt services costs related to selling bonds, this was deferred and this funding was transferred to the CIP fund as pay-go funding. Unspent funds in the Sheriff's operating budget were \$1.8 million, with the largest variances being personal services costs, which include position costs and overtime. During the course of FY2015 there were a number of temporary vacancies within the County departments that resulted in turn-over and vacancy savings of almost \$1.1 million. The FY2016 budget is based on updated estimates for salaries and benefits. County departments also realized savings in fuel, utilities, non-public student bus contracts, and the STS transportation system of about \$.9 million, combined, and finally savings of unspent funds in reserves, such as the Commissioners emergency reserve, bond rating reserve and grant reserve combined amount of \$2.9 million. Estimates for subsequent budgets will be reviewed in light of these recurring positive variances.

While the County's financial situation is strong and sustainable, the County continues to take a very conservative approach to revenue estimates, given the significant uncertainty surrounding the federal budget and the general economy – continuing to focus on efficiency measures, both as a part of budget adoption, and also throughout the operational year. The use of selected budget savings to pay down liabilities instead of increasing recurring cost is a good indicator of the County's conservative approach. Savings are not re-aligned to spend on recurring costs that carry future funding commitments. Instead, the savings are used to pay down liabilities to reduce future annual costs, or allowed to accrue to fund balance to fund future non-recurring costs. This reflects the County's disciplined approach to budgeting, including adherence to budgeted activities, judicious review of supplemental budget requests, use of an encumbrance-based approach, continued focus on efficiency and effectiveness, and prudent fiscal management at all levels.

Recurring expenses must be supported by recurring revenues in order to be sustainable. The County builds a budget based on sustainable levels of revenues, and uses any excess generated in one year to fund non-recurring items in subsequent budget years. As indicated previously, the County has retained significant fund balance to position it to be able to address the uncertain future caused by the economy, especially as it relates to State and Federal funding. The federal budget situation can be expected to have an effect on the County's economy directly as well as through the State allocations, though it may be a couple of years until the effect is known with certainty. As a part of each annual budget process, the County Commissioners approved a fund balance plan that utilizes funds not needed for operating reserves for transfers to retiree benefit trusts and pay-go for capital over the next several years. It also retains a significant reserve balance not identified for such purposes. Higher reserves at this time will enable us to soften the impact of further cuts or cost shifts, allowing some additional time to implement longer term cost reduction

measures, as might be appropriate. Commissioners approved a new Fund Balance policy in August 2015 which reinforces using fund balance for non-recurring expenses and it also stipulates that unassigned fund balance should be at or above 15% of general fund revenue. With the low property tax rate and an income tax rate that is less than the maximum allowed by the State, the County also has maintained ample capacity for revenue enhancement should future needs arise, and the circumstances warrant it.

Capital Asset and Debt Administration

- **Capital assets:** The Commissioners of St. Mary's County investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$277 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure and land development rights. The net increase in the County's investment in capital assets for the fiscal year ended June 30, 2015 was \$20,690,059. It should be noted that the capital asset balances include the County's infrastructure (i.e., roads), as the County has fully implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

CAPITAL ASSETS (At Cost, Net of Accumulated Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 36,435,884	\$ 32,385,283	\$ 1,078,666	\$ 1,078,666	\$ 37,514,550	\$ 33,463,949
Building and Improvements	68,432,870	61,437,857	2,740,245	2,740,245	71,173,115	64,178,102
Facilities Under Construction	7,935,407	7,126,593	-	-	7,935,407	7,126,593
Solid Waste Facilities	-	-	12,248,547	12,248,547	12,248,547	12,248,547
Infrastructure	129,260,831	120,640,350	181,002	181,002	129,441,833	120,821,352
Vehicles	3,650,066	4,288,691	824,134	824,134	4,474,200	5,112,825
Equipment	<u>13,993,711</u>	<u>12,862,672</u>	<u>127,897</u>	<u>127,897</u>	<u>14,121,608</u>	<u>12,990,569</u>
	<u>\$259,708,769</u>	<u>\$238,741,446</u>	<u>\$16,923,227</u>	<u>\$17,200,491</u>	<u>\$276,631,996</u>	<u>\$255,941,937</u>

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

- Approximately \$13.6 million in road costs were capitalized, including \$11.2 million in roads developed /constructed by third parties.
- NextGen 911 System & Equipment placed in service in FY15 totaling \$2 million
- Purchased land of \$4 million; the most significant being Shannon Farm to preserve greenspace.

Additional information on the County's capital assets can be found in Note 3 of this report.

Long-term debt: At June 30, 2015, the Commissioners of St. Mary's County had the following debt, and other similar obligations outstanding, as set forth in the table below. The full faith and credit and unlimited taxing power of the Commissioners of St. Mary's County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the General Obligation Bonds.

GENERAL OBLIGATION DEBT

Primary Government

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Amounts due within one year</u>
General Obligation Bonds(GOB) – County	\$ 70,488,000	\$ 77,484,000	\$ 6,855,000
Water Quality Loans	1,344,218	1,917,224	469,562
State Loans	1,637,439	1,779,889	131,544
Surplus Property Transfer of Debt	442	578	142
Exempt Financing (Equipment & Vehicles)	<u>5,529,992</u>	<u>6,367,947</u>	<u>2,430,152</u>
	<u>\$ 79,000,091</u>	<u>\$ 87,549,638</u>	<u>\$ 9,886,400</u>

Business-Type Activities

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Amounts due within one year</u>
Exempt Financing (Equipment)	<u>\$ 492,375</u>	<u>\$ 342,218</u>	<u>\$ 178,281</u>

The Commissioners of St. Mary's County's additions to debt were \$1,910,000, reflecting new exempt financing for equipment and vehicles.

The County has an AA+ rating from Fitch Ratings, an "AA" from Standard and Poors and an "Aa2" rating from Moody's Investors Service, Inc. Rating reviews issued by the agencies have typically cited the County's low debt burden with rapid amortization, careful management of the capital program, healthy reserves, budget flexibility, a stable economy, and prudent fiscal policies. The County's debt policy, adopted by the Board, provides that the ratio of debt to assessed value not exceed 2%, and debt service as a percent of current general fund revenue not exceed 10%. The County is well within these parameters, and monitors capital budgets and 5-year plans to ensure it remains within the limitations.

Additional information on the Commissioners of St. Mary's County's long-term debt can be found in Note 6 of this report.

Economic Factors and Next Year's Budgets and Rates

- The FY2016 expenditure budget is \$215.5 million, with another \$11.8 million identified for non-recurring expenditures and reserve, for a total of \$227.3 million. The property tax income is based on information provided by the State as to estimated taxable assessed value of \$12.0 billion, a small increase over the prior year's estimate of \$11.8 billion. The impact of triennial assessments that shows a minimal increase in the full value are somewhat mitigated by the County's cap of 5%. However, this trend is expected to have a dampening effect on the future years' estimates of property tax income, especially when combined with slower growth. Initial billings for FY2016 are comparable to the estimates. The real property tax rate was reduced to .8523 per \$100 of assessed value, the constant yield tax rate and the personal property tax rate, which is 2.5 times the real property tax rate, is \$2.1308. The income taxes were budgeted at \$86.7 million, based on a 4% growth in local tax liability. This represents an increase of 1.8% over the FY2015 budget, and reflects both the estimated County specific tax returns as well as \$3.5 million which are estimated to be interest and penalties as well as the share of State-wide unallocated taxes that will be distributed to the County by the State. Preliminary indications, based on the first of the four large distributions made by the

State, indicate that budget will be met. Information has recently been received from the State showing TY2014 is 3.7% higher than TY2013, which is above the State average of 3.3%. This increase indicates that the tax base is slowly recovering from impacts of furloughs and federal sequester actions in late calendar 2013. Continual monitoring of the property tax and income tax revenue, which represents 89% of the total revenues, will be a major part of the FY2017 budget development, any indications of reduction will be offset by reduced expenditures.

- Though the County may be impacted by the general and State economic situation, the activities and operations of the Patuxent Naval Air Base thus far have had a stabilizing effect. Operations at the base are showing a greater emphasis on testing drones. The number of jobs and related services, and the number and diversity of technology companies are relatively stable, actual jobs increased from the top ten employers by 530 since 2011. Underway is the development of a Comprehensive Economic Development Strategy (CEDS) with University of Maryland and Towson University to be completed by end of February 2016, which will focus on the diversification of the County's future economy. The County's airport has been designated as an FAA UAS test site with the University of Maryland, while this designation is not for NAS Patuxent River, the local test site works with the Navy to arrange for testing within restricted air space as well as non-restricted air space greatly enhancing the County's attractiveness to businesses pursuing unmanned and autonomous systems work.
- Opening of the Lexington Exchange with current tenants R/C Theaters and Aldi Grocery Store. 24,000 square foot Patuxent River Naval Air Museum just opened this fall which should attract many visitors to the County to learn the history of the Navy's presence in St. Mary's County.
- The population growth for the County ranks 12th in the State estimated at 111,292 as of July 1, 2015 and is estimated to grow to 125,150 by 2020.
- The County ranks near the top in the State for growth in the labor force, average weekly wages, and median household income. We consistently post unemployment rates that are well below State averages. These factors indicate a stable economy.
- Tourism and Hospitality Industry continues to be an important component of the local economy. A master plan is being developed for Tourism and Hospitality with completion by end of FY2016. The County's accommodations tax continues to reflect strong growth.

Each budget cycle includes reviews of both the operating and capital spending plans for sustainability and affordability. The County's debt policy is conservative and is a significant consideration in budget deliberations. The County has used its fund balance in the previous years to pay for capital projects, rather than borrow, and also to pay down its unfunded accrued liability for retiree health obligations. The County has funded the full required actuarially determined annual contribution for OPEB annually since FY2008 out of recurring revenues. Additionally, the County has used operating budget savings to make supplemental contributions to the OPEB Trust and to increase its pay-go funding of capital projects, which reduces the debt needed. Each of these actions served to reduce future annual expenditures.

The Board intends to continue its use of multi-year outlooks and sustainability reviews as a part of the budget process, accompanied by interim reviews of selected revenues and expenditures. It is expected that cost-saving measures will continue, and that savings will be used to reduce future costs. County Departments (which does not include Law Enforcement or Corrections) staffing in the FY2016 budget remains level for over a decade, achieved through use of technology as well as operational stream-lining and privatization. Compensation study implemented in FY2016 budget increased the classifications of 60 positions and provided a new pay scale comparable to other jurisdictions to help attract and retain employees, study for Sheriff's Sworn is being completed this year. These reviews are not focused simply on the operating budget, but include the review of capital projects that can often have significant operational impacts beyond the debt service needed to repay any related borrowings. Given the Federal budget situation and its potential impact on Pax River and the related County economy, the Board recognizes that its plan must be scalable to accommodate the economic conditions of the near term. With conservative financial

practices, continued focus on cost-saving measures during regular financial reviews, and tight expenditure controls, the County retains the flexibility and capacity to manage through these challenging times. Tax rates for FY2016 remained unchanged, with the exception of lowering the property tax rate, and the County's property tax rate continues to be among the lowest in the State, thus retaining tax flexibility and capacity for the future. However, it is the goal to manage our way through these volatile times through a variety of measures, a balanced approach that considers the needs and priorities of our citizens. The continued focus will be to assure that adequate and sustainable resources are identified to address prioritized needs – both capital and operating – now and for the future.

Requests for Information

This financial report is designed to provide a general overview of St. Mary's County Government's finances for all those with an interest in the Government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Finance, Commissioners of St. Mary's County, 41770 Baldrige Street, P.O. Box 653, Leonardtown, Maryland 20650, or via email at Finance@stmarysmd.com.

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COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
ASSETS							
Cash and cash equivalents	\$ 71,645,582	\$ 184,584	\$ 71,830,166	\$ 28,797,481	\$ 758,378	\$ 16,564,508	\$ -
Internal balances	(2,251,780)	2,251,780	-	-	-	-	-
Restricted cash and investments	1,580,054	330,000	1,910,054	84,182	142,401	-	-
Taxes receivable	3,525,280	-	3,525,280	-	-	-	-
Income tax reserve, funds held by the state	8,610,524	-	8,610,524	-	-	-	-
Due from other governments	-	-	-	9,206,545	79,516	-	191,654
Special assessments receivable	2,560	-	2,560	-	-	-	-
Notes receivable, Fire and Rescue loans	424,698	-	424,698	-	-	-	-
Accounts receivable	15,439,394	100,756	15,540,150	537,025	159,797	8,902,814	-
Inventory	1,277,090	30,053	1,307,143	218,076	-	267,137	-
Prepaid, post-retirement benefit (OPEB)	22,658,485	-	22,658,485	-	249,964	300,388	-
Net pension asset (SORP)	1,766,000	-	1,766,000	-	-	-	-
Other, principally prepaid expenses	361,102	8,564	369,666	8,620	-	51,224	-
Unamortized bond discount	-	-	-	-	-	79,339	-
Fire and Rescue loans receivable, net of short-term portion	1,681,147	-	1,681,147	-	-	-	-
Special tax assessments receivable, net of short-term portion	597,602	-	597,602	-	-	-	-
Capital assets	424,977,510	21,950,200	446,927,710	404,249,723	6,205,031	197,981,287	-
Accumulated depreciation	(165,268,741)	(5,026,973)	(170,295,714)	(140,650,227)	(4,810,457)	(58,560,360)	-
Capital assets, net of accumulated depreciation	<u>259,708,769</u>	<u>16,923,227</u>	<u>276,631,996</u>	<u>263,599,496</u>	<u>1,394,574</u>	<u>139,420,927</u>	<u>-</u>
DEFERRED OUTFLOW OF RESOURCES							
Pension	240,756	-	240,756	1,408,717	-	495,003	-
Bond refunding	2,303,585	-	2,303,585	-	-	-	-
Total Assets and Deferred Outflow of Resources	<u>\$ 389,570,848</u>	<u>\$ 19,828,964</u>	<u>\$ 409,399,812</u>	<u>\$ 303,860,142</u>	<u>\$ 2,784,630</u>	<u>\$ 166,081,340</u>	<u>\$ 191,654</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
LIABILITIES							
<u>Current liabilities</u>							
Accounts payable	\$ 6,777,380	\$ 294,435	\$ 7,071,815	\$ 5,321,740	\$ 122,376	\$ 2,536,458	\$ -
Compensation-related liabilities	9,151,399	461,729	9,613,128	15,312,589	111,226	-	-
Unearned revenue	3,000,756	261,227	3,261,983	8,252,468	-	29,341	-
Other liabilities	5,351,290	-	5,351,290	37,261	73,643	2,012,785	-
Due to other governments	191,654	-	191,654	-	-	-	-
Accrued expenses including estimated health insurance claims incurred but not reported	-	-	-	47,810	-	-	-
<u>Non-current liabilities</u>							
Due within one year	9,898,321	178,281	10,076,602	2,055,288	-	3,609,554	-
Due in more than one year	75,275,277	482,778	75,758,055	46,416,210	107,380	47,081,730	-
Net Pension Liability	16,643,117	-	16,643,117	9,640,511	-	3,411,505	-
DEFERRED INFLOW OF RESOURCES							
Pension	1,821,698	-	1,821,698	1,055,217	-	373,412	-
Unavailable income tax distribution	8,610,524	-	8,610,524	-	-	-	-
Total Liabilities and Deferred Inflow of Resources	136,721,416	1,678,450	138,399,866	88,139,094	414,625	59,054,785	-
NET POSITION							
Net investment in capital assets	179,507,678	2,837,416	182,345,094	260,773,823	1,394,574	88,729,643	-
Restricted for							
Fire & rescue	824,559	-	824,559	-	-	-	-
Emergency services	1,246,572	-	1,246,572	-	-	-	-
County pay go	9,479,046	-	9,479,046	-	-	-	-
Other purposes	11,745,636	-	11,745,636	82,170	206,246	10,637,867	-
Unrestricted	50,045,941	15,313,098	65,359,039	(45,134,945)	769,185	7,659,045	191,654
Total Net Position	252,849,432	18,150,514	270,999,946	215,721,048	2,370,005	107,026,555	191,654
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 389,570,848	\$ 19,828,964	\$ 409,399,812	\$ 303,860,142	\$ 2,784,630	\$ 166,081,340	\$ 191,654

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Program Revenues

Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes	Total Revenues
General government	\$ 16,690,077	\$ 2,911,146	\$ 842,048	\$ 3,765,128	\$ 7,518,322
Public safety	49,157,196	1,559,325	2,651,705	-	4,211,030
Public works	18,690,775	791,395	2,303,175	564,902	3,659,472
Health	7,038,830	-	4,974,637	-	4,974,637
Social services	4,372,071	3,739	991,229	-	994,968
Primary and secondary education	119,750,654	-	-	-	-
Post-secondary education	4,054,715	-	-	-	-
Parks, recreation, and culture	5,343,231	166,709	24,979	4,493,007	4,684,695
Libraries	2,680,245	-	-	-	-
Conservation of natural resources	2,468,972	-	-	2,221,398	2,221,398
Housing	-	-	-	-	-
Economic development and opportunity	1,661,458	44,626	100,012	-	144,638
Debt interest	799,904	-	-	-	-
Intergovernmental	49,811	-	-	-	-
Other, principally OPEB	7,130,581	1,002,702	-	198,916	1,201,618
TOTAL GOVERNMENTAL ACTIVITIES	239,888,520	6,479,642	11,887,785	11,243,351	29,610,778
Business-type activities					
Recreation activity	2,345,904	2,282,813	29,781	-	2,312,594
Wicomico	1,318,662	1,256,269	-	-	1,256,269
Solid waste/recycling	3,497,818	446,561	-	-	446,561
TOTAL BUSINESS-TYPE ACTIVITIES	7,162,384	3,985,643	29,781	-	4,015,424
TOTAL PRIMARY GOVERNMENT	247,050,904	10,465,285	11,917,566	11,243,351	33,626,202
COMPONENT UNITS					
Public schools	234,884,661	3,465,186	41,756,122	31,308,544	76,529,852
Library	3,841,013	319,265	1,028,522	-	1,347,787
MetCom	18,656,977	23,294,032	-	-	23,294,032
Building authority	1,400	-	-	-	-
	<u>257,384,051</u>	<u>27,078,483</u>	<u>42,784,644</u>	<u>31,308,544</u>	<u>101,171,671</u>

General revenues:

Property taxes
Income taxes
Other - including energy, recordation and transfer taxes
Investment earnings
Grants and contributions not restricted to specific purposes
Subsidies to enterprise funds
Environmental/solid waste fees
Roads constructed by third parties
Capital transfer
Miscellaneous, principally capital projects funding
Total general revenues

Increase/(decrease) in net position

Net position - beginning, as previously stated

Prior period adjustment

Net position - beginning, as restated

Net position - ending

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Public Schools	Library	MetCom	Building Authority
\$ (9,171,755)	\$ -	\$ (9,171,755)	\$ -	\$ -	\$ -	\$ -
(44,946,166)	-	(44,946,166)	-	-	-	-
(15,031,303)	-	(15,031,303)	-	-	-	-
(2,064,193)	-	(2,064,193)	-	-	-	-
(3,377,103)	-	(3,377,103)	-	-	-	-
(119,750,654)	-	(119,750,654)	-	-	-	-
(4,054,715)	-	(4,054,715)	-	-	-	-
(658,536)	-	(658,536)	-	-	-	-
(2,680,245)	-	(2,680,245)	-	-	-	-
(247,574)	-	(247,574)	-	-	-	-
-	-	-	-	-	-	-
(1,516,820)	-	(1,516,820)	-	-	-	-
(799,904)	-	(799,904)	-	-	-	-
(49,811)	-	(49,811)	-	-	-	-
(5,928,963)	-	(5,928,963)	-	-	-	-
<u>(210,277,742)</u>	<u>-</u>	<u>(210,277,742)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	(33,310)	(33,310)	-	-	-	-
-	(62,393)	(62,393)	-	-	-	-
<u>-</u>	<u>(3,051,257)</u>	<u>(3,051,257)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>(3,146,960)</u>	<u>(3,146,960)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(210,277,742)</u>	<u>(3,146,960)</u>	<u>(213,424,702)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	(158,354,809)	-	-	-
-	-	-	-	(2,493,226)	-	-
-	-	-	-	-	4,637,055	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,400)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(158,354,809)</u>	<u>(2,493,226)</u>	<u>4,637,055</u>	<u>(1,400)</u>
104,543,652	-	104,543,652	-	-	-	-
81,002,813	-	81,002,813	-	-	-	-
15,112,462	-	15,112,462	-	-	-	-
107,103	29,206	136,309	9,489	6,126	15,979	-
-	-	-	181,953,060	2,498,064	-	-
(950,000)	950,000	-	-	-	-	-
-	2,492,387	2,492,387	-	-	-	-
11,226,666	-	11,226,666	-	-	-	-
-	-	-	-	-	-	-
7,853,542	-	7,853,542	1,169,866	6,286	5,679,013	-
<u>218,896,238</u>	<u>3,471,593</u>	<u>222,367,831</u>	<u>183,132,415</u>	<u>2,510,476</u>	<u>5,694,992</u>	<u>-</u>
8,618,496	324,633	8,943,129	24,777,606	17,250	10,332,047	(1,400)
262,580,052	17,825,881	280,405,933	190,943,442	2,352,755	10,332,047	240,611
(18,349,116)	-	-	-	-	(3,313,229)	-
244,230,936	17,825,881	262,056,817	190,943,442	2,352,755	100,007,737	193,054
<u>\$ 252,849,432</u>	<u>\$ 18,150,514</u>	<u>\$ 270,999,946</u>	<u>\$ 215,721,048</u>	<u>\$ 2,370,005</u>	<u>\$ 107,026,555</u>	<u>\$ 191,654</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 71,645,582	\$ -	\$ -	\$ 71,645,582
Due from other funds	-	18,880,432	2,056,029	20,936,461
Restricted cash and investments	1,580,054	-	-	1,580,054
Taxes receivable	3,361,759	-	163,521	3,525,280
Income tax reserve, funds held by the state	8,610,524	-	-	8,610,524
Special tax assessments receivable	-	-	2,560	2,560
Notes receivable, Fire and Rescue loans	-	-	424,698	424,698
Accounts receivable	11,666,667	3,772,727	-	15,439,394
Inventory	1,277,090	-	-	1,277,090
Other	361,102	-	-	361,102
Fire and Rescue loans receivable, net of short-term portion	-	-	1,681,147	1,681,147
Special tax assessments receivable, net of short-term portion	-	-	597,602	597,602
DEFERRED OUTFLOW OF RESOURCES				
Bond refunding	-	-	-	-
Total Assets and Deferred Outflow of Resources	\$ 98,502,778	\$ 22,653,159	\$ 4,925,557	\$ 126,081,494
LIABILITIES				
Accounts payable	\$ 3,095,234	\$ 3,674,448	\$ 7,698	\$ 6,777,380
Compensation-related liabilities	9,151,399	-	14,462	9,165,861
Unearned revenue	295,530	-	2,705,226	3,000,756
Other liabilities	5,336,828	-	-	5,336,828
Due to other funds	23,188,241	-	-	23,188,241
Due to other governments	191,654	-	-	191,654
DEFERRED INFLOW OF RESOURCES				
Unavailable income tax distribution	8,610,524	-	-	8,610,524
Total Liabilities and Deferred Inflow of Resources	49,869,410	3,674,448	2,727,386	56,271,244
FUND BALANCES				
Nonspendable	2,233,637	-	-	2,233,637
Restricted	1,795,465	21,009,271	-	22,804,736
Committed	26,425,661	-	2,198,171	28,623,832
Assigned	1,498,441	-	-	1,498,441
Unassigned	16,680,164	(2,030,560)	-	14,649,604
Total Fund Balances	48,633,368	18,978,711	2,198,171	69,810,250
Total Liabilities, Deferred Inflow and Resources and Fund Balances	\$ 98,502,778	\$ 22,653,159	\$ 4,925,557	\$ 126,081,494

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Capital Projects	Non-Major	Total
REVENUES				
Property taxes	\$ 104,538,846	\$ -	\$ -	\$ 104,538,846
Income taxes	81,002,813	-	-	81,002,813
Energy taxes	1,237,229	-	-	1,237,229
Recordation taxes	5,014,025	-	-	5,014,025
Transfer taxes	-	5,573,098	-	5,573,098
Agricultural/development taxes	-	642,770	-	642,770
Impact fees	-	1,843,594	-	1,843,594
Other local taxes	1,146,590	-	-	1,146,590
Highway user revenues	762,266	-	-	762,266
Licenses and permits	1,581,154	-	-	1,581,154
Intergovernmental	10,364,668	11,596,559	351,179	22,312,406
Charges for services	3,048,393	-	-	3,048,393
Fines and forfeitures	264,853	-	-	264,853
Special assessments	-	-	198,917	198,917
Other revenues	469,855	-	2,328,579	2,798,434
Sub-total	<u>209,430,692</u>	<u>19,656,021</u>	<u>2,878,675</u>	<u>231,965,388</u>
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND REVENUES	<u><u>209,430,692</u></u>	<u><u>19,656,021</u></u>	<u><u>2,878,675</u></u>	<u><u>231,965,388</u></u>
EXPENDITURES				
General government	20,662,550	5,673,035	-	26,335,585
Public safety	38,266,497	2,899,457	2,730,410	43,896,364
Public works	9,076,657	7,073,454	-	16,150,111
Health	7,038,830	-	-	7,038,830
Social services	4,114,893	-	-	4,114,893
Primary and secondary education	95,846,940	23,903,714	-	119,750,654
Post-secondary education	3,995,506	-	-	3,995,506
Parks, recreation and culture	3,800,521	5,643,219	-	9,443,740
Libraries	2,498,064	-	-	2,498,064
Conservation of natural resources	491,408	1,977,564	-	2,468,972
Economic development and opportunity	1,515,675	-	-	1,515,675
Debt service - principal and interest	9,787,899	-	909,961	10,697,860
Other, principally OPEB	7,036,710	-	-	7,036,710
Sub-total	<u>204,132,150</u>	<u>47,170,443</u>	<u>3,640,371</u>	<u>254,942,964</u>
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND EXPENDITURES	<u><u>204,132,150</u></u>	<u><u>47,170,443</u></u>	<u><u>3,640,371</u></u>	<u><u>254,942,964</u></u>
Excess of Revenues Over (Under) Expenditures	<u><u>5,298,542</u></u>	<u><u>(27,514,422)</u></u>	<u><u>(761,696)</u></u>	<u><u>(22,977,576)</u></u>
OTHER FINANCING SOURCES AND USES				
Exempt financing proceeds	1,659,342	-	-	1,659,342
State loans	-	185,191	-	185,191
Subsidy to solid waste enterprise fund	(950,000)	-	-	(950,000)
Construction in progress	-	-	-	-
Capital projects - general fund pay-go	(3,815,092)	3,815,092	-	-
Total other financing sources / uses	<u><u>(3,105,750)</u></u>	<u><u>4,000,283</u></u>	<u><u>-</u></u>	<u><u>894,533</u></u>
Net Increase/(Decrease) in Fund Balances	2,192,792	(23,514,139)	(761,696)	(22,083,043)
FUND BALANCE				
Beginning of the year	46,440,576	42,492,850	2,959,867	91,893,293
End of year	<u><u>\$ 48,633,368</u></u>	<u><u>\$ 18,978,711</u></u>	<u><u>\$ 2,198,171</u></u>	<u><u>\$ 69,810,250</u></u>

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

Commissioners of St. Mary's County
Reconciliations of the Governmental Funds to the Governmental Activities
For the Year Ended June 30, 2015

Balances reflected as Fund Balance for Governmental Funds are different from Net Position for Governmental Activities because:

Fund Balance - Governmental Funds	\$ 69,810,250
Capital assets, net of accumulated depreciation, are not reported in the balance sheet for governmental funds	259,708,769
Prepaid OPEB is not reported in the balance sheet for governmental funds	22,658,485
Net pension asset (SORP)	1,766,000
Debt, including bonds, loans, capital leases and the long-term portion of compensated absences, is not reported in the balance sheet for governmental funds. The amount reflected here does include debt applicable to assets reported in the component unit for the Board of Education	(85,173,598)
Net pension liability	(16,643,117)
Deferred inflow of resources - pension obligation	(1,821,698)
Deferred outflow of resources - general obligation bond refunding	2,303,585
Deferred outflow of resources - pension obligation	<u>240,756</u>
Net position - governmental activities	<u>\$ 252,849,432</u>
Amounts reported for change in fund balances - governmental funds are different from change in net position of governmental activities because:	
Net increase/(decrease) in fund balances - total governmental funds	\$ (22,083,043)
Depreciation expense which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(10,282,344)
Disposal of capital assets which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(5,366)
Issuance of long-term debt, excluding effect of refunding and balance in debt escrow	(2,006,014)
Repayment of debt	10,753,573
Debt escrow not on balance sheet FY2014	(138,400)
Net difference relating to implementation of GASB68	125,057
Increase in prepaid OPEB not reported on balance sheet for governmental funds	1,000,000
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	<u>31,255,033</u>
Increase/(decrease) in net position of governmental activities	<u>\$ 8,618,496</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
ASSETS				
<u>Current assets</u>				
Cash and cash equivalents	\$ -	\$ 184,584	\$ -	\$ 184,584
Due from other funds	612,315	84,115	2,511,897	3,208,327
Restricted cash from Investments	-	-	330,000	330,000
Accounts receivable	21,918	1,151	77,687	100,756
Inventory	-	30,053	-	30,053
Other, prepaids	-	8,564	-	8,564
Total Current Assets	<u>634,233</u>	<u>308,467</u>	<u>2,919,584</u>	<u>3,862,284</u>
<u>Non-current assets</u>				
Capital assets	258,012	6,467,833	15,224,355	21,950,200
Accumulated depreciation	<u>(152,607)</u>	<u>(2,586,910)</u>	<u>(2,287,456)</u>	<u>(5,026,973)</u>
Capital assets, net of accumulated depreciation	<u>105,405</u>	<u>3,880,923</u>	<u>12,936,899</u>	<u>16,923,227</u>
Total Assets	<u>\$ 739,638</u>	<u>\$ 4,189,390</u>	<u>\$ 15,856,483</u>	<u>\$ 20,785,511</u>
LIABILITIES				
<u>Current liabilities</u>				
Accounts payable	\$ 51,483	\$ 56,565	\$ 186,388	\$ 294,436
Compensation-related liabilities	69,408	133,659	258,661	461,728
Unearned revenue	167,021	94,206	-	261,227
<u>Noncurrent Liabilities</u>				
Due within one year				
Financing agreements	-	8,946	169,335	178,281
Advance from general fund	-	68,516	-	68,516
Due in more than one year				
Financing agreements	-	9,060	305,034	314,094
Advance from general fund	-	888,031	-	888,031
Compensated absences	-	<u>79,865</u>	<u>88,819</u>	<u>168,684</u>
Total Liabilities	<u>287,912</u>	<u>1,338,848</u>	<u>1,008,237</u>	<u>2,634,997</u>
NET POSITION				
Net investment in capital assets	105,405	3,862,917	12,462,529	16,430,851
Unrestricted	<u>346,321</u>	<u>(1,012,375)</u>	<u>2,385,717</u>	<u>1,719,663</u>
Total Net Position	<u>451,726</u>	<u>2,850,542</u>	<u>14,848,246</u>	<u>18,150,514</u>
Total Liabilities and Net Position	<u>\$ 739,638</u>	<u>\$ 4,189,390</u>	<u>\$ 15,856,483</u>	<u>\$ 20,785,511</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
OPERATING REVENUES				
Charges for services	\$ 2,282,813	\$ 1,256,269	\$ 446,561	\$ 3,985,643
Environmental/solid waste fees	-	-	2,492,387	2,492,387
	<u>2,282,813</u>	<u>1,256,269</u>	<u>2,938,948</u>	<u>6,478,030</u>
OPERATING EXPENSES				
Personal services	1,327,668	645,813	1,071,650	3,045,131
Operating supplies	263,416	242,237	33,658	539,311
Professional services	239,828	69,407	1,100,285	1,409,520
Communications	11,691	2,781	4,994	19,466
Transportation	41,046	26,191	75,236	142,473
Rentals	173,936	36,583	41,296	251,815
Public utilities	237,602	65,802	21,510	324,914
Other operating costs	11,981	37,734	3,638	53,353
Tipping fees	-	-	950,977	950,977
Retiree health benefits (OPEB)	-	74,000	43,000	117,000
Interest expense	-	314	4,564	4,878
Equipment	25,610	671	-	26,281
Depreciation	13,126	117,129	147,010	277,265
Total operating expenses	<u>2,345,904</u>	<u>1,318,662</u>	<u>3,497,818</u>	<u>7,162,384</u>
Operating Income (Loss)	(63,091)	(62,393)	(558,870)	(684,354)
Non-operating revenue				
Other	-	1,653	27,553	29,206
Construction in progress - recreation	-	-	-	-
Grants revenue	29,781	-	-	29,781
General fund subsidy	-	-	950,000	950,000
Increase/(Decrease) in net position	<u>(33,310)</u>	<u>(60,740)</u>	<u>418,683</u>	<u>324,633</u>
NET POSITION				
Beginning of the year	485,036	2,911,282	14,429,563	17,825,881
End of year	<u>\$ 451,726</u>	<u>\$ 2,850,542</u>	<u>\$ 14,848,246</u>	<u>\$ 18,150,514</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Charges for services	\$ 2,302,995	\$ 1,243,443	\$ 2,930,188	\$ 6,476,626
Personal services	(1,318,507)	(585,529)	(937,491)	(2,841,527)
Other expenses	(1,010,363)	(537,636)	(2,266,410)	(3,814,409)
Net cash provided (used) by operating activities	<u>(25,875)</u>	<u>120,278</u>	<u>(273,713)</u>	<u>(179,310)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Net change in interfund loans	(3,906)	(50,159)	(704,599)	(758,664)
Grant revenue	29,781	-	-	29,781
General operating subsidy	-	-	950,000	950,000
Net cash provided (used) by non-capital and related financing activities	<u>25,875</u>	<u>(50,159)</u>	<u>245,401</u>	<u>221,117</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction / purchase of capital assets	-	-	-	-
Proceeds from exempt financing	-	-	330,000	330,000
Principal payments on long-term debt	-	(8,835)	(171,009)	(179,844)
Other reductions in long-term debt	-	(66,697)	-	(66,697)
Net cash used by capital and related financing activities	<u>-</u>	<u>(75,532)</u>	<u>158,991</u>	<u>83,459</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	-	1,653	27,553	29,206
Net increase/(decrease) in cash	-	(3,760)	158,232	154,472
CASH				
Beginning of year	-	188,344	171,768	360,112
End of year	<u>\$ -</u>	<u>\$ 184,584</u>	<u>\$ 330,000</u>	<u>\$ 514,584</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (63,091)	\$ (62,393)	\$ (558,870)	\$ (684,354)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Depreciation	13,126	117,129	147,010	277,265
(Increase) decrease in accounts receivable	1,472	(876)	(8,760)	(8,164)
(Increase) decrease in inventory	-	5,549	-	5,549
Increase (decrease) in accounts payable	(5,253)	14,076	12,748	21,571
Increase (decrease) in other prepaids	-	(1,541)	-	(1,541)
Increase (decrease) in compensation-related liabilities	9,161	60,284	134,159	203,604
Increase (decrease) in unearned revenue	18,710	(11,950)	-	6,760
Net cash provided (used) by operating activities	<u>\$ (25,875)</u>	<u>\$ 120,278</u>	<u>\$ (273,713)</u>	<u>\$ (179,310)</u>
SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES				
Total capital asset additions	\$ -	\$ -	\$ -	\$ -
Less transfer of assets from other funds	-	-	-	-
Less amount financed	-	-	-	-
Net cash used for purchase of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET POSITION - SHERIFF'S OFFICE RETIREMENT PLAN
JUNE 30, 2015

	<u>Sheriff's Office Retirement Plan</u>
ASSETS	
Cash and cash equivalents	\$ 2,171,745
Restricted cash and investments	<u>65,437,927</u>
Total assets	<u>\$ 67,609,672</u>
NET POSITION	
Net position held in trust for pension benefits	<u>\$ 67,609,672</u>
Total net position	<u>\$ 67,609,672</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - SHERIFF'S OFFICE RETIREMENT PLAN
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Sheriff's Office Retirement Plan</u>
ADDITIONS	
Contributions - employer	\$ 5,011,496
Contributions - employee	<u>906,221</u>
	<u>5,917,717</u>
Interest and dividends	1,519,179
Realized gain	2,009,724
Net unrealized loss on investments	<u>(3,676,942)</u>
	<u>(148,039)</u>
Total additions	<u>5,769,678</u>
DEDUCTIONS	
Benefits	(3,193,228)
Administrative costs	<u>(395,874)</u>
Total deductions	<u>(3,589,102)</u>
Change in net position	2,180,576
NET POSITION	
Beginning of year	<u>65,429,096</u>
End of year	<u>\$ 67,609,672</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET POSITION - RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY
JUNE 30, 2015

	<u>Retiree Benefit Trust of St. Mary's County, Maryland</u>
ASSETS	
Restricted cash and investments	\$ <u>61,874,553</u>
Total assets	<u>\$ 61,874,553</u>
NET POSITION	
Net position restricted for other post-employment benefits	<u>61,874,553</u>
Total liabilities and net position	<u>\$ 61,874,553</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - RETIREE BENEFIT TRUST OF
ST. MARY'S COUNTY
YEAR ENDED JUNE 30, 2015

	Retiree Benefit Trust of St. Mary's County, Maryland
ADDITIONS	
Contributions to the trust - employer	\$ 3,797,918
Voluntary supplemental contribution - employer	1,000,000
Payments to retirees - employer	2,281,082
	7,079,000
Interest and dividends	1,375,930
Realized gain	114,421
Net unrealized loss on investments	(520,074)
	970,277
Total additions	8,049,277
DEDUCTIONS	
Benefits paid directly to retirees	(2,281,082)
Administrative costs	(181,819)
Total deductions	(2,462,901)
Change in net position	5,586,376
NET POSITION	
Beginning of year	56,275,380
Prior period adjustment	12,797
Beginning of year restated	56,288,177
End of year	\$ 61,874,553

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

COMMISSIONERS OF ST. MARY'S COUNTY
 STATEMENT OF FIDUCIARY NET POSITION - LENGTH OF SERVICE AWARDS
 PROGRAM (LOSAP) OF ST. MARY'S COUNTY
 JUNE 30, 2015

	<u>LOSAP of St. Mary's County, Maryland</u>
ASSETS	
Restricted cash and investments	\$ <u>394,432</u>
Total assets	\$ <u><u>394,432</u></u>
NET POSITION	
Net position restricted for benefits	<u>394,432</u>
Total liabilities and net position	\$ <u><u>394,432</u></u>

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - LENGTH OF SERVICE AWARDS
PROGRAM (LOSAP) OF ST. MARY'S COUNTY
YEAR ENDED JUNE 30, 2015

	LOSAP of St. Mary's County, Maryland
ADDITIONS	
Contributions to the trust - employer	\$ 400,000
Total additions	400,000
DEDUCTIONS	
Benefits paid directly to retirees	-
Administrative costs	(5,568)
Total deductions	(5,568)
Change in net position	394,432
NET POSITION	
Beginning of year	-
End of year	\$ 394,432

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

Commissioners of St. Mary's County

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Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies

Financial reporting entity

St. Mary's County (the County), the first Maryland County, was established in 1637. The Board of County Commissioners is composed of five Commissioners elected for four-year terms. Four Commissioners represent specific election districts while the President of the Commissioners runs at large. All Commissioners are elected by the voters of the entire County. The County operates under a line-organizational method, with a County Administrator being responsible for the general administration of the County government. The Chief Financial Officer is responsible for financial reporting, debt management, investment management, procurement, and budgeting functions. The Treasurer is responsible for the collection of real and personal property taxes. The County provides the following services: public safety, highway and streets, health and social services, recreation, education, public improvements, planning and zoning, sewage and water treatment and general administrative services. Component units are also included as part of the Financial reporting entity.

The financial statements of the reporting entity include those of the Commissioners of St. Mary's County (the primary government) and its component units. As defined by GASB Statement Numbers 14, 39 and 61, component units are legally separate entities that are included in the County's reporting entity because of the significance of their operating or financial relationships with the County. The criteria for including organizations as component units within the County's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate
- the County Commissioners appoint a voting majority of the organization's board
- the County Commissioners have the ability to impose their will on the organization
- the organization has the potential to impose a financial benefit/burden on the County
- the organization is fiscally dependent on the County

Based on the application of these criteria, the four organizations identified on the following page are considered component units of the County. Their financial data is discretely presented in separate columns in the government-wide financial statements. All discretely presented component units have a June 30 year-end.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies (continued)

Financial reporting entity (continued)

Except for the Board of Education of St. Mary's County, the governing bodies of all these component units are appointed by Commissioners of St. Mary's County.

St. Mary's County Public Schools – In Maryland, public schools are part of a statewide system of county school boards. The school boards' political boundaries conform to the county boundaries. The purpose of the Board of Education of St. Mary's County is to operate the local public school system in accordance with State and community standards. The school system does not have the authority to levy any taxes or incur debt. Schools are funded with local, State and Federal monies. St. Mary's County has oversight responsibility for approval and partial funding of the school system's operating budget.

St. Mary's County Metropolitan Commission is responsible for providing water and wastewater facilities and services within the jurisdiction of St. Mary's County, Maryland.

St. Mary's County Building Authority Commission was created by the Maryland General Assembly as an instrumentality of the County to acquire title to property within St. Mary's County for construction, renovation, or rehabilitation. The Building Authority Commission currently does not own or lease any property. Until June 2010, they owned and leased property to the St. Mary's Nursing Center, Inc. Until June 2013, they also owned and leased property to the State of Maryland; the Carter State Office Building was transferred to the State of Maryland in FY2013.

St. Mary's County Library operates a main library in Leonardtown and branch libraries in Lexington Park and Charlotte Hall.

Financial statements of the individual component units can be obtained from their respective administrative offices.

St. Mary's County Public Schools
23160 Moakley Street
Leonardtown, Maryland 20650

St. Mary's County Metropolitan Commission
23121 Camden Way
California, Maryland 20619

St. Mary's County Building Authority Commission
41770 Baldrige Street
P.O. Box 653, Chesapeake Building
Leonardtown, Maryland 20650

St. Mary's County Library
23250 Hollywood Road
Leonardtown, Maryland 20650

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies (continued)

Financial statements

The financial statements of the Commissioners of St. Mary's County, (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements include various agencies, department organizations and offices which are legally part of St. Mary's County (the Primary Government) and the County's Component Units.

The County's basic financial statements include government-wide financial statements (reporting on the County as a whole), fund financial statements (reporting the County's most significant funds), and fiduciary financial statements (reporting on the County's trust funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities are normally supported by taxes and intergovernmental revenues. The County's public safety, public transportation, health and social services, some parks and recreation activities, public works and general administrative services are classified as governmental activities. Business-type activities rely significantly on fees and charges for support. The County's Recreation and Park programs, the Wicomico Golf Course and Solid Waste and Recycling are classified as business-type activities.

Government-wide statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements focus more on the sustainability of the County as an entity and the change in the County's net position resulting from the current year's activities. In the government-wide Statement of Net Position, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) reported using the economic resources measurement focus and the accrual basis of accounting, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts – (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes results from special revenue funds and the restrictions on their net position use. When both restricted and unrestricted resources are available for use, the County utilizes restricted resources to finance qualifying activities first, then unrestricted resources as they are needed.

The government-wide Statement of Activities reports both the gross and net cost of each of the County's functions and business-type activities. The functions are also supported by general government revenues (property tax, income tax, certain intergovernmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants and capital grants. 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 or segment. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenues (property tax, income tax, intergovernmental revenues, interest income, etc.) which are properly not included among program revenues. The County has an indirect cost allocation plan which it uses (when applicable and allowed) to charge costs to special revenue (grant) programs. Indirect costs are not normally charged to general government activities.

Fund financial statements

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflow of resources, liabilities, deferred inflow of resources, fund balances, revenues and expenditures/expenses.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies (continued)

Fund financial statements (continued)

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB 34 sets forth minimum criteria (percentage of the assets, deferred outflow of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. No major funds by category are summarized into a single column.

Governmental funds

The measurement focus of the governmental fund financial statements is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the County.

1. General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund.
2. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes. The Special Revenue Funds of the County are non-major funds.
3. Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The Capital Projects Fund is a major fund.
4. Debt Service Fund is a non-major fund used to account for servicing of long-term debt.

Proprietary funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those applicable to businesses in the private sector. Proprietary (Enterprise) Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity, (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to cover similar costs.

Fiduciary funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support County programs. The reporting focus for fiduciary funds is on net position and changes in net position and accounting principles used are similar to proprietary funds.

The County's pension trust fund accounts for the retirement benefits for the St. Mary's County Maryland Sheriff's Office Retirement Plan. Since, by definition, these assets are held for the benefit of a third party (pension participants) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Additionally, the County's trust fund accounts for the retirement benefits for the Retiree Health Benefit Plan. Since, by definition, these assets are held for the benefit of eligible retirees and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Both are presented in the fiduciary fund financial statements.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies (continued)

Basis of accounting and measurement focus

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The measurement focus identifies which transactions should be recorded.

Basis of accounting

- a. Accrual Basis – Both governmental and business-type activities are presented using the accrual basis of accounting in the government-wide financial statements and the proprietary and fiduciary fund financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.
- b. Modified Accrual Basis – The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means knowing or able to reasonably estimate the amount. "Available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year-end. All other revenue items are considered to be measurable and available only when cash is received by the County. Expenditures (including capital outlay) are recorded when the related liability is incurred. However, debt service expenditures (principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when due.
- c. Budget Basis of Accounting - Actual results of operations are presented in the Statement of Revenues, Expenditures, Encumbrances, and Other Financing Sources and Uses - Budget (Non-GAAP Basis) and Actual - General Fund, in order to provide a meaningful comparison of actual results with budget estimates. Under the budget basis, encumbrances are recorded as the equivalent of expenditures, as opposed to only a reservation of fund balance as on a GAAP basis.

Measurement focus

In the government-wide financial statements, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item (b.) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. The fund financial statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary and fiduciary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies (continued)

Fund accounting

The County uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate fund types.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement either a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

Accounting policies

The more significant accounting policies established in the GAAP and used by the County are discussed below.

Budget and budgetary accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America. All annual operating appropriations lapse at fiscal year end. Project-length financial plans are adopted for the capital projects fund. The County follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1 of each year, the Commissioners of St. Mary's County shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance by June 1.
- d. All revisions that alter the expenditures of each fund must be approved by the Commissioners of St. Mary's County or the Chief Financial Officer.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund, special assessment fund and enterprise funds.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies (continued)

Budget and budgetary accounting (continued)

- f. The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America, except that appropriations of fund balance are treated as other financing sources. Budget comparisons presented for the general fund in this report are on a non-GAAP basis. The capital projects funds' budgets are prepared on a project-length basis, and accordingly, annual budgetary comparisons are not presented in the financial statements. The enterprise funds' budgets are flexible annual operating budgets. Budgetary comparisons are not presented in the financial statements for the enterprise funds.
- g. The budgeted amounts are as adopted, including amendments, by the Commissioners of St. Mary's County.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds.

Cash, cash equivalents and investments

Cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired. State statutes authorize investments in obligations of the United States government, federal government agency obligations and repurchase agreements. Investments are stated at cost.

The operating cash balances for all funds are commingled and shown in the governmental activities on the statement of net position and in the general fund on the governmental fund balance sheet.

Investments in the Pension Trust Fund of the Sheriff's Department Retirement Plan, the Length of Service Award Program and the Retiree Health Benefit Plan are carried at fair value as determined on June 30 of each year, based on appraisals or quotations by an independent investment counselor. These investments are offset by a restriction, which indicates that they do not constitute available spendable resources even though they are a component of net position. The trusts are governed by separate investment policies and allow investments in common stocks, equity funds, fixed income and alternative investments.

Long-term receivables

Noncurrent portions of long-term receivables are reported on the balance sheet in spite of their spending measurement focus. The long-term portion of receivables is offset by a nonspendable fund balance in the general fund, which indicates that they do not constitute available spendable resources since they are not a component of net current assets.

Annual, personal and sick leave benefits

Full-time employees can earn annual leave at a rate of from 80 hours per year (one through five years of service) up to a maximum of 200 hours per year (if over twenty years of service). Leave for permanent part-time employees is prorated according to the number of hours worked.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies (continued)

Annual, personal and sick leave benefits (continued)

There are no requirements that annual leave be taken; however, the maximum permissible accumulation to be carried into the new calendar year is 360 hours for full-time employees and 180 hours for permanent part-time employees. At calendar year end, any hours in excess of 360 hours for full-time employees and 180 hours for permanent part-time employees are deducted from the employees' annual leave balance and credited to their sick leave balance. At termination, employees are paid for any accumulated annual leave.

Full-time and permanent part-time employees earn sick leave based upon the number of hours worked, with a maximum of 120 hours earned per year. There is no limit to the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave, nor is credit provided for employees that retire on early retirements. However, at regular retirement, employees who have been employed by the County for five years are eligible to receive service credit at a rate of one month for every 160 hours of unused sick leave. Persons that are reinstated in the County service within one year from the time of their separation shall receive full credit for all sick leave accumulated at time of separation.

Full-time employees are entitled to compensatory time off for work performed in excess of the normal work period. The maximum permissible accumulation to be carried into the new calendar year is 240 hours for non-law enforcement employees and 480 hours for law enforcement employees and correctional officers. An employee leaving County service shall receive a lump sum payment at their current rate of pay for any unused accumulated annual leave.

Use of estimates

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

Capital assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

With the implementation of GASB Statement No. 34, the County has recorded its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, etc.

The purpose of depreciation is to spread the cost of capital assets equitably among all uses over the lives of these assets. The amount charged to depreciation expense each year represents that year's prorata share of capital assets.

The method of depreciation being used for all governmental-type assets placed in service as a result of GASB Statement No. 34 is the straight-line half-year convention. Only assets greater than or equal to \$5,000 will be depreciated.

Property, plant and equipment of the primary government and the component units are depreciated using the straight-line method (half-year convention) over the following estimated useful lives:

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies (continued)

Capital assets (continued)

Primary government

Buildings and improvements	50 years
Computer equipment	5 years
Other equipment	5-10 years
Vehicles licensed	5-8 years
Off-road vehicles	5-10 years
Miscellaneous equipment	5-10 years
Infrastructure	10-50 years

Component units

St. Mary's County Public Schools

Buildings and improvements	20-50 years
Furniture and equipment	5-15 years

St. Mary's County Library

Leasehold improvements	50 years
Furnishings and equipment	5 years
Vehicles	5 years
Books	7 years

St. Mary's County Metropolitan Commission

Utility plants	18-50 years
Water plant systems	18-50 years
Equipment	3-10 years
Capitalized interest	50 years
Buildings	20-30 years

St. Mary's County Building Authority Commission

Buildings	40 years
Furniture and equipment	10 years

Inventory and prepaid expenditures

Inventory is valued at the lower of cost (first-in, first-out method) or market. Inventory in the general fund, special revenue funds and enterprise funds consists of expendable supplies held for consumption. Reported inventories and prepaid expenditures in the general fund are offset by a nonspendable fund balance, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

1. Reporting entity and summary of significant accounting policies (continued)

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities statement of net position, or proprietary fund type balance sheet. Bond premiums and discounts are deferred and amortized over the life of the bond.

Pension accounting

Employee contributions are recognized in the Pension Trust Funds in the period the contributions are due. Employer contributions are recognized when due and the County has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Administrative costs are funded from investment income. Any net pension liability or asset is calculated on an actuarial basis consistent with the requirements of GASB Statement No 68 – Accounting and Financial Reporting for Pensions. Expenditures are recognized when are paid or are expected to be paid with current available resources. The net pension liability (asset) is reported in the government-wide financial statements.

2. Cash, cash equivalents and investments

Primary government

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term securities and certificates of deposit with an original maturity of three months or less.

Investments held by the County, including the pension and retiree health benefit funds, are stated at fair value. Fair value is based on quoted market prices at year end or best available estimate. All investments not required to be reported at fair value are stated at cost or amortized cost.

Article 95, Section 22 of the Annotated Code of Maryland states that local governments are authorized to invest in the instruments specified in the State Finance and Procurement Article, Section 6-222 of the Code. In addition, Article 95, Section 22 requires that local government deposits with financial institutions be fully collateralized and that the collateral be of types specified in the State Finance and Procurement Article, Section 6-202. The County is charged with the responsibility for selecting depositories and investing the idle funds as directed by the State and County Codes. The County is further restricted as to the types of deposits and investments in accordance with the County's investment policy. Depository institutions must be Maryland banks and must be approved for use by the County Commissioners.

Cash deposits

At year end, the carrying amount of the County's deposits was \$68,435,331 (in addition, petty cash totaling \$12,550 at various County Departments) and the collected bank balance was \$68,947,503. Of the collected bank balance, \$709,929 was covered by Federal Deposit Insurance Corporation (FDIC), and \$68,237,574 was covered by collateral held either in the pledging bank's trust department or by the pledging bank's agent.

Investments

Statutes authorize the County to invest in short-term United States government securities or repurchase agreements fully secured by the United States government if the funds are not needed for immediate disbursement. The stated maturities of the investments may not exceed 270 days. Statutes also authorize the County to invest in the Local Government Investment Pool established by state law. Investments are subject to approval of the County Commissioners as to the amount available for investment and the acceptable securities or financial institutions used.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

2. Cash, cash equivalents and investments (continued)

Primary government (continued)

Investments (continued)

At year end, the County's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. government securities – Cash Deposits and Treasuries	\$ 66,537,827
Money Market - Exempt Financing	1,910,054
Maryland Local Government Investment Pool (MLGIP)	5,292,339
Retiree Benefit Trust (OPEB):	
Cash	\$ 1,497,566
Common Stock/Equity Funds	38,547,922
Fixed Income:	
Bond Funds	15,337,451
Venture/Limited Partnership/Closely Held	<u>6,491,614</u>
Subtotal – Retiree Benefit Trust (OPEB)	61,874,553
Length of Service Awards Program (LOSAP):	
Cash	394,432
Pension investments – Sheriff's Office Retirement Plan:	
Cash	\$ 2,171,745
Fixed income:	
Bond Funds	17,022,035
Common stock	9,806,979
Venture/Limited Partnership/Closely Held	8,353,654
Equity Funds	29,012,997
Other – Miscellaneous	<u>1,242,262</u>
Subtotal – Sheriff's Office Retirement Plan	<u>67,609,672</u>
Total investments	<u>\$ 203,618,877</u>

Money market account is not evidenced by securities.

Investments in the Maryland Local Government Investment Pool (MLGIP) are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments.

The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares.

None of the County's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

2. Cash, cash equivalents and investments (continued)

Component units

St. Mary's County Public Schools

Deposits

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of bank failure, the School System's deposits may not be returned to it. Maryland State Law prescribes that local government unit's such as the School System must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2015, all of the School System's deposits, including the certificate of deposit, were either covered by federal depository insurance or were covered by collateral held by the School System's agent in the School System's name.

Short-term investments

Maryland State Law authorizes the School System to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations, the State's sponsored investment pool, or interest bearing accounts in any bank. At June 30, 2015, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value of such investments were \$16,957,592, \$406,324, and \$601,111 for governmental activities, business-type activity, and fiduciary responsibilities, respectively.

The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is under the administration of the State Treasurer. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value. The pool is managed in a "Rule 2(a)-7 like" manner and is reported at amortized cost pursuant to Rule 2(a)-7 under the Investment Company Act of 1940.

St. Mary's County Library

Cash deposits and investments

Statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

At June 30, 2015, the carrying amount of the Library's cash was \$425,891, and the bank balances totaled \$545,309. All of the bank balances in financial institutions were covered by federal depository insurance or collateral at June 30, 2015.

Investments in the Maryland Local Government Investment Pool (MLGIP), an external investment pool, are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. The separately issued financial statement of the MLGIP may be obtained by contacting the contractor.

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government Investment Pool	<u>\$ 332,487</u>	<u>\$ 332,487</u>
Restricted:		
The Vanguard Group	<u>\$ 142,401</u>	<u>\$ 142,401</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

2. Cash, cash equivalents and investments (continued)

Component units (continued)

St. Mary's County Library (continued)

None of the Library's deposits or investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

Statutes authorize the Library to invest in obligations of the United States government, federal government agency obligations, repurchase agreements secured by direct government or agency obligations, certificates of deposit, banks' acceptances, commercial paper, pooled investments and municipal bonds and municipal mutual funds.

St. Mary's County Metropolitan Commission

Deposits

The carrying amount of MetCom's deposits was \$14,292,088 at June 30, 2015, and the bank balance was \$15,425,267. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2015, with the remaining \$15,175,267, adequately covered by collateral.

Cash and cash equivalents consisted of the following:

Investments	\$ 2,271,520
Cash	14,292,088
Petty cash	<u>900</u>
	<u>\$ 16,564,508</u>

Investments

Investments in the MLGIP are not evidenced by securities. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. Separately issued financial statements may be obtained from the contractor: David Rommel, PNC Bank, Two Hopkins Plaza, Baltimore, Maryland 21201. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments. The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated AAAM by Standard and Poors. As of June 30, 2015, MetCom's investments, for both custodial and credit risk purposes, consisted solely of shares in the MLGIP. This investment is not deemed to have either risk. The Pool is managed as a Rule 2a-7 pool. Therefore, MetCom faces no interest rate risk. The cost and fair value of the MLGIP investments at June 30, 2015 was \$2,271,520.

	<u>Carrying Amount</u>	<u>Market Value</u>
MLGIP	<u>\$ 2,271,520</u>	<u>\$ 2,271,520</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

3. Changes in capital assets

Primary government

A summary of changes in capital assets is as follows:

	Balance June 30, 2014	Additions	Transfers/ Disposals	Balance June 30, 2015
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 32,385,283	\$ 4,050,601	\$ -	\$ 36,435,884
Construction in progress	7,126,593	15,076,267	(14,267,453)	7,935,407
911 system & equipment	<u>1,423,733</u>		<u>-</u>	<u>1,423,733</u>
Total capital assets not being depreciated	<u>40,935,609</u>	<u>19,126,868</u>	<u>(14,267,453)</u>	<u>45,795,024</u>
Capital assets being depreciated:				
Buildings & improvements	102,503,775	8,967,806	-	111,471,581
Computer equipment	2,219,576	41,111	-	2,260,687
Other equipment	263,764	21,396	-	285,160
Vehicles - licensed	12,506,058	255,680	(493,687)	12,268,051
Off-road vehicles	2,013,991	102,749	(18,979)	2,097,761
Miscellaneous equipment	5,867,110	144,824	(12,544)	5,999,390
Roads	176,143,118	13,640,460	-	189,783,578
Curbing	946,791	-	-	946,791
Sidewalks	982,973	-	-	982,973
Guardrails	1,353,720	140,127	-	1,493,847
Airport infrastructure	4,659,385	18,585	-	4,677,970
Airport equipment	579,104	-	-	579,104
Baseball fields	802,670	-	-	802,670
Bridges	6,506,889	258,000	-	6,764,889
Parks & recreation	13,444,438	735,886	-	14,180,324
Marinas & docks	8,176,125	-	-	8,176,125
Irrigation systems	241,853	-	-	241,853
Signage	475,433	-	-	475,433
Parking lots	1,067,134	-	-	1,067,134
911 system & equipment	<u>12,558,171</u>	<u>2,068,994</u>	<u>-</u>	<u>14,627,165</u>
Total capital assets being depreciated	<u>353,312,078</u>	<u>26,395,618</u>	<u>(525,210)</u>	<u>379,182,486</u>
Accumulated depreciation for:				
Buildings & improvements	(41,065,918)	(1,972,793)	-	(43,038,711)
Computer equipment	(2,073,796)	(51,698)	-	(2,125,494)
Other equipment	(165,772)	(14,718)	-	(180,490)
Vehicles - licensed	(8,764,130)	(932,386)	490,830	(9,205,686)
Off-road vehicles	(1,467,228)	(61,811)	18,979	(1,510,060)
Miscellaneous equipment	(3,328,632)	(397,217)	10,035	(3,715,814)
Roads	(74,852,357)	(5,153,421)	-	(80,005,778)

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

3. Changes in capital assets (continued)

Primary government (continued)

A summary of changes in capital assets is as follows:

	Balance June 30, 2014	Additions	Transfers/ Disposals	Balance June 30, 2015
Accumulated depreciation for: (continued)				
Curbing	\$ (708,798)	\$ (19,524)	\$ -	\$ (728,322)
Sidewalks	(492,003)	(21,411)	-	(513,414)
Guardrails	(498,297)	(32,126)	-	(530,423)
Airport infrastructure	(4,527,627)	(24,170)	-	(4,551,797)
Airport equipment	(522,329)	(8,735)	-	(531,064)
Baseball fields	(435,597)	(15,925)	-	(451,522)
Bridges	(2,653,253)	(133,014)	-	(2,786,267)
Parks & recreation	(4,354,559)	(431,324)	-	(4,785,883)
Marinas & docks	(4,782,454)	(262,580)	-	(5,045,034)
Irrigation systems	(125,075)	(5,787)	-	(130,862)
Signage	(412,191)	(7,975)	-	(420,166)
Parking lots	(317,968)	(65,320)	-	(383,288)
911 equipment	(3,958,257)	(670,409)	-	(4,628,666)
Total accumulated depreciation	<u>(155,506,241)</u>	<u>(10,282,344)</u>	<u>519,844</u>	<u>(165,268,741)</u>
Total capital assets being depreciated, net	<u>197,805,837</u>	<u>16,113,274</u>	<u>(5,366)</u>	<u>213,913,745</u>
Governmental activities capital assets, net	<u>\$ 238,741,446</u>	<u>\$ 35,240,142</u>	<u>\$ (14,272,819)</u>	<u>\$ 259,708,769</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,078,666	\$ -	\$ -	\$ 1,078,666
Solid waste facilities	<u>12,248,547</u>	<u>-</u>	<u>-</u>	<u>12,248,547</u>
Total capital assets not being depreciated	<u>13,327,213</u>	<u>-</u>	<u>-</u>	<u>13,327,213</u>
Capital assets being depreciated:				
Buildings & improvements	4,324,284	-	-	4,324,284
Computer equipment	57,188	-	-	57,188
Other equipment	39,359	-	-	39,359
Vehicles - licensed	2,097,145	-	(95,411)	2,001,734
Off-road vehicles	1,122,562	-	-	1,122,562
Miscellaneous equipment	567,874	-	-	567,874
Irrigation systems	<u>509,986</u>	<u>-</u>	<u>-</u>	<u>509,986</u>
Total capital assets being depreciated	<u>8,718,398</u>	<u>-</u>	<u>(95,411)</u>	<u>8,622,987</u>
Accumulated depreciation for:				
Buildings & improvements	(1,584,039)	(81,913)	-	(1,665,952)
Computer equipment	(57,188)	-	-	(57,188)
Other equipment	(38,504)	(130)	-	(38,634)
Vehicles - licensed	(1,593,932)	(109,846)	95,412	(1,608,366)
Off-road vehicles	(801,641)	(53,828)	-	(855,469)
Miscellaneous equipment	(440,832)	(14,854)	-	(455,686)
Irrigation systems	<u>(328,984)</u>	<u>(16,694)</u>	<u>-</u>	<u>(345,678)</u>
Total accumulated depreciation	<u>(4,845,120)</u>	<u>(277,265)</u>	<u>95,412</u>	<u>(5,026,973)</u>
Total capital assets being depreciated, net	<u>3,873,278</u>	<u>(277,265)</u>	<u>1</u>	<u>3,596,014</u>
Business-type activities capital assets, net	<u>\$ 17,200,491</u>	<u>\$ (277,265)</u>	<u>\$ 1</u>	<u>\$ 16,923,227</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

3. Changes in capital assets (continued)

Primary government (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General Government	\$ 1,237,685
Public Safety	1,829,461
Public Works	6,112,039
Social Services	101,585
Post -Secondary Education	49,328
Parks, Recreation, and Culture	770,065
Libraries	182,181
Economic Development and Opportunity	-
Total Depreciation - Governmental Activities	<u>\$ 10,282,344</u>

Business-type activities

Recreation Activity Fund	\$ 13,126
Solid Waste/Recycling	147,010
Wicomico	<u>117,129</u>
Total Depreciation - Business-Type Activities	<u>\$ 277,265</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

3. Changes in capital assets (continued)

Component units

St. Mary's County Public Schools

Capital assets

Capital asset activity for the year ended June 30, 2015 is as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions/Transfers</u>	<u>Balance</u> <u>June 30, 2015</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 2,545,293	\$ 316,947	\$ -	\$ 2,862,240
Construction in process	<u>13,492,440</u>	<u>29,067,778</u>	<u>(3,889,262)</u>	<u>38,670,956</u>
	<u>16,037,733</u>	<u>29,384,725</u>	<u>(3,889,262)</u>	<u>41,533,196</u>
Capital assets being depreciated:				
Buildings and improvements	341,538,351	4,331,170	-	345,869,521
Furniture and equipment	8,374,574	152,267	(207,798)	8,319,043
Equipment leased under financing agreements	<u>6,205,592</u>	<u>470,547</u>	<u>-</u>	<u>6,676,139</u>
	<u>356,118,517</u>	<u>4,953,984</u>	<u>(207,798)</u>	<u>360,864,703</u>
Accumulated depreciation for:				
Buildings and improvements	(122,479,743)	(7,740,800)	-	(130,220,543)
Furniture and equipment	<u>(7,648,065)</u>	<u>(1,766,021)</u>	<u>202,551</u>	<u>(9,211,535)</u>
	<u>(130,127,808)</u>	<u>(9,506,821)</u>	<u>202,551</u>	<u>(139,432,078)</u>
Governmental activities capital assets, net	<u>\$ 242,028,442</u>	<u>\$ 24,831,888</u>	<u>\$ (3,894,509)</u>	<u>\$ 262,965,821</u>
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,671,642	\$ 252,419	\$ (72,237)	\$ 1,851,824
Accumulated depreciation for:				
Furniture and equipment	<u>(1,202,130)</u>	<u>(76,733)</u>	<u>60,714</u>	<u>(1,218,149)</u>
Business-type activities capital Assets, net	<u>\$ 469,512</u>	<u>\$ 175,686</u>	<u>\$ (11,523)</u>	<u>\$ 633,675</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

3. Changes in capital assets (continued)

Component units (continued)

St. Mary's County Public Schools (continued)

Capital assets (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2015, as follows:

Governmental activities:		
Administration	\$	44,964
Mid-level administration		908,871
Other instructional costs		464,278
Special education		14,236
Student personnel services		680
Student transportation services		132,312
Operation of plant		7,934,547
Maintenance of plant		<u>6,933</u>
Total governmental activities depreciation expense	\$	<u>9,506,821</u>
Business-type activities:		
Food services	\$	<u>76,733</u>

St. Mary's County Library

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2015</u>
Capital assets:				
Furnishings and equipment	\$ 1,014,347	\$ 7,219	\$ -	\$ 1,021,566
Leasehold improvements	87,735	-	-	87,735
Vehicles	34,944	-	-	34,944
Books	<u>4,653,463</u>	<u>407,323</u>	<u>-</u>	<u>5,060,786</u>
	<u>5,790,489</u>	<u>414,542</u>	<u>-</u>	<u>6,205,301</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

3. Changes in capital assets (continued)

Component units (continued)

St. Mary's County Library (continued)

Capital assets and depreciation (continued)

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Accumulated depreciation:				
Furnishings and equipment	\$ 925,745	\$ 25,241	\$ -	\$ 950,986
Leasehold improvements	7,020	1,755	-	8,775
Vehicles	23,519	1,523	-	25,042
Books	<u>3,389,412</u>	<u>436,242</u>	<u>-</u>	<u>3,825,654</u>
	<u>4,345,696</u>	<u>464,761</u>	<u>-</u>	<u>4,810,457</u>
Net capital assets	<u>\$ 1,444,793</u>	<u>\$ (50,219)</u>	<u>\$ -</u>	<u>\$1,394,574</u>

Governmental activities depreciation expense of \$464,761 was charged to Library services.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

3. Changes in capital assets (continued)

St. Mary's County Metropolitan Commission

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2015 was as follows:

Capital assets:	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2015</u>
Utility plants	\$101,933,646	\$ 4,630,476	\$ -	\$ 106,564,122
Water plant systems	38,134,334	1,832,467	3,260	39,963,541
Equipment	8,013,894	646,794	191,935	8,468,753
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,899,703</u>	<u>-</u>	<u>-</u>	<u>3,899,703</u>
Subtotal	152,799,778	7,109,737	195,195	159,714,320
Not being depreciated:				
Utility plant construction in process	12,636,089	20,107,788	4,371,626	28,372,251
Water plant construction in process	7,480,586	3,080,405	1,545,837	9,015,154
Land/land rights	<u>771,419</u>	<u>108,143</u>	<u>-</u>	<u>879,562</u>
	<u>173,687,872</u>	<u>30,406,073</u>	<u>6,112,658</u>	<u>197,981,287</u>
Accumulated depreciation:				
Utility plants	37,851,702	2,561,574	-	40,413,276
Water plant systems	9,339,013	1,205,999	3260	10,541,752
Equipment	5,285,269	650,884	191,935	5,744,218
Capitalized interest	319,098	16,364	-	335,462
Buildings	<u>1,360,725</u>	<u>164,927</u>	<u>-</u>	<u>1,525,652</u>
	<u>54,155,807</u>	<u>4,599,748</u>	<u>195,195</u>	<u>58,560,360</u>
Net capital assets	<u>\$ 119,532,065</u>	<u>\$ 25,806,325</u>	<u>\$ 5,917,463</u>	<u>\$ 139,420,927</u>

Depreciation expense of \$4,599,748 was charged to activities as follows:

Sewer activities	\$ 2,947,823
Water activities	1,504,947
Engineering activities	37,128
Administrative	<u>109,850</u>
Total	<u>\$ 4,599,748</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

4. Property tax

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied each July 1, and the taxpayer has the option to pay in full without interest by September 30 or elect a semiannual payment option. If a semiannual payment option is elected, the first payment is payable without interest by September 30 and the second payment, including a service charge, is payable without interest by December 31. Interest is charged for each month or fraction thereof the taxes remain unpaid beginning October 1 on accounts under the annual payment option or January 1 for accounts under the semiannual payment option. Maryland law grants the Treasurer of St. Mary's County the power to immediately advertise and sell any real property after the taxes are delinquent for a period of one year. Property taxes are levied at rates enacted by the Commissioners in the annual budget applied to the assessed value of the property as determined by the Maryland State Department of Assessments and Taxation, an agency of the government of the State of Maryland. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice, and then only after public hearings. The real property tax rate during the year ended June 30, 2015, was \$.857 per \$100 of assessed value based on the full valuation method. The Constant Yield tax rate for FY2015 was \$.8532. The personal property tax rate during the year ended June 30, 2015 was \$2.1425 per \$100 of assessed value. The County Treasurer bills and collects all property taxes.

A 100% allowance for uncollectibles is established for prior year taxes receivable. County property tax receivable as of June 30, 2015, net of the allowance for uncollectibles of \$967,645, is \$2,745,554 (this amount does not include state and emergency services taxes receivable). On October 1, a 3% penalty is assessed, and interest begins accruing at a rate of 1% for each month that real and personal property taxes are delinquent (unless taxpayer has elected semiannual payment option as described above).

5. Special tax assessment receivable and unearned revenue

Primary government

The special assessment receivable is composed of various special assessments levied by the County for completed projects funded by the County. The cost of the completed projects is billed to taxpayers over periods from 10 to 25 years and reported as a special assessment receivable and unearned revenue. In accordance with the modified accrual method of accounting, in subsequent periods, when revenue recognition criteria are met or when the government has a legal claim to the resources, the liability for the unearned revenue is removed from the balance sheet and revenue is recognized. The non-current portion of the receivable is offset by a fund balance reserve account, which indicates that this does not constitute available resources since this is not a component of fund balance. The current portion of the special assessment receivable is considered available spendable resources.

As of June 30, 2015, the amount of delinquent special assessment receivables due from taxpayers was \$551.

Component units

St. Mary's County Public Schools

Unearned revenue

General fund

Unearned revenue primarily consists of payments received under restricted programs in excess of the expenses / expenditures incurred to date under those programs at June 30, 2015, of \$1,987,122.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

5. Special tax assessment receivable and unearned revenue (continued)

Component units (continued)

St. Mary's County Public Schools (continued)

Unearned revenue (continued)

Capital projects fund

Unearned revenue consists of prefunding in the amount of \$6,045,584 for construction projects at Sir Walter Francis Duke Elementary School and Spring Ridge Middle School, and funds received for a removal security deposit to be used either towards the purchase of, or removal of an installed solar generating facility upon the expiration of a solar power purchase agreement in the amount of \$81,837.

Enterprise fund

Unearned revenue of \$137,925 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2016.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations

Primary government

Governmental activities

	June 30, 2014	Additions	Deductions	Principal Repayment	June 30, 2015	Amounts due within one year
General obligation bonds - county	\$ 77,484,000	\$ -	\$ -	\$ (6,996,000)	\$ 70,488,000	\$ 6,855,000
Water quality loans	1,917,224	-	-	(573,006)	1,344,218	469,562
State loans	1,779,889	-	-	(142,450)	1,637,439	131,544
Surplus property transfer of debt	578	-	-	(136)	442	142
Exempt financing	<u>6,367,947</u>	<u>1,580,026</u>	<u>-</u>	<u>(2,417,981)</u>	<u>5,529,992</u>	<u>2,430,152</u>
	<u>87,549,638</u>	<u>1,580,026</u>	<u>-</u>	<u>(10,129,573)</u>	<u>79,000,091</u>	<u>9,886,400</u>
Landfill post-closure costs	1,825,000	-	624,000	-	1,201,000	-
Compensated absences (long-term)	<u>4,818,792</u>	<u>153,715</u>	<u>-</u>	<u>-</u>	<u>4,972,507</u>	<u>11,921</u>
	<u>6,643,792</u>	<u>153,715</u>	<u>624,000</u>	<u>-</u>	<u>6,173,507</u>	<u>11,921</u>
Amount reported in statement of net position	<u>\$ 94,193,430</u>	<u>\$ 1,733,741</u>	<u>\$ 624,000</u>	<u>\$ (10,129,573)</u>	<u>\$ 85,173,598</u>	<u>\$ 9,898,321</u>

Business-type activities

Exempt financing	\$ 342,218	\$ 330,000	\$ 26	\$ (179,817)	\$ 492,375	\$ 178,281
Compensated absences (long-term)	<u>151,401</u>	<u>17,283</u>	<u>-</u>	<u>-</u>	<u>168,684</u>	<u>-</u>
Amount reported in statement of net position	<u>\$ 493,619</u>	<u>\$ 347,283</u>	<u>\$ 26</u>	<u>\$ (179,817)</u>	<u>\$ 661,059</u>	<u>\$ 178,281</u>

For governmental activities, compensated absences are generally liquidated by the governmental fund to which the liability relates.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Primary government (continued)

Governmental activities (continued)

General obligation bonds

The County issues General Obligation Bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds have been issued for both general government and proprietary activities. These bonds, therefore, are reported in the proprietary funds if they are expected to be repaid from proprietary revenue. In addition, General Obligation Bonds have been issued to refund both General Obligation and Revenue Bonds. General Obligation Bonds are direct obligations of the County and pledge the full faith and credit of the government.

On March 8, 2005, the County issued General Obligation Bonds (\$16,260,000 Consolidated Public Improvement Bonds). The Consolidated Public Improvement Bonds will mature on March 1, in 20 annual serial installments, beginning in the year 2006 and ending with the year 2025. Interest on the Bonds is payable semiannually on each March 1 and September 1 to maturity with an average interest rate of 3.80%.

On November 17, 2009, the County issued General Obligation Bonds of \$13,055,000 Series A Tax Exempt Bonds, \$16,945,000 Series B Build America Bonds, and a \$15,645,000 Series C Refunding Bond. The Bonds will mature on July 15, in 20 annual serial installments, beginning in the year 2010 and ending in the year 2030. Interest on the Bonds is payable semiannually on each January 15 and July 15 to maturity with an average interest rate of 3.09%.

The Series B, Build America Bonds, are taxable with a bi-annual credit of 35% of the interest from the Internal Revenue Service.

The Series C Refunding Bond of \$15,645,000 is an advanced refunding on the 2001 General Obligation Bond, on principal payments of \$15,085,000. The last payment for the un-refunded portion of the 2001 General Obligation Bond was in 2012.

On November 8, 2011, the 2002 Refunding Bonds and the 2003 Public Facilities and Refunding Bonds were refunded in the 2011 General Obligation Refunding Bonds for \$34,357,000. The 2002 Refunding Bonds will mature on October 1 in 8 installments beginning in 2013 and ending in 2019. The 2003 Refunding Bonds will mature on November 1 in 12 installments beginning in 2013 and ending in 2023. Both the 2002 and 2003 Refunding Bonds carry interest rates ranging from 2.25-2.41%.

On April 10, 2014, the 2005 General Obligation Bonds were refunded with an advance refunding for \$9,934,000. The 2014 Direct Bank Loan Refunding will mature on March 1 in 10 installments beginning in 2016 and ending in 2025. The Refunding Bonds carry an interest rate of 2.32%. The County refunded these bonds to reduce its total debt service payments and to obtain an economic gain of \$626,595.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Primary government (continued)

Governmental activities (continued)

2001 Maryland water quality loan

On September 29, 2000, Commissioners of St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$3,338,383 for landfill post-closure costs, St. Andrews Landfill area B, cells 1, 2 and 4. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears interest at a rate of 2.4% per annum payable semiannually. Principal payments are due annually through 2016 starting February 1, 2002. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2015, based on the final loan amount of \$3,037,789, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2016	\$ 148,312	\$ 3,559	\$ 12,753	\$ 164,624
	<u>\$ 148,312</u>	<u>\$ 3,559</u>	<u>\$ 12,753</u>	<u>\$ 164,624</u>

2004 Maryland water quality loan

On May 26, 2004, Commissioners of St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$4,332,759 for landfill post-closure costs, St. Andrews Landfill area B, cells 3 and 5. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears an interest rate of 1.10% per annum, payable semiannually. Principal payments are due annually through 2019 beginning February 1, 2006. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2015, based on the final loan amount of \$3,934,347, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2016	\$ 321,250	\$ 13,155	\$ 11,448	\$ 345,853
2017	324,784	9,621	11,448	345,853
2018	328,356	6,049	11,448	345,853
2019	<u>221,516</u>	<u>2,437</u>	<u>11,448</u>	<u>235,401</u>
	<u>\$1,195,906</u>	<u>\$ 31,262</u>	<u>\$ 45,792</u>	<u>\$1,272,960</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Primary government (continued)

Governmental activities (continued)

2006 Surplus property, transfer of net debt

On June 6, 2006, Commissioners of St. Mary's County entered into a public school property transfer agreement with St. Mary's County Public Schools for the transfer of George Washington Carver Elementary School. With this property transfer, the County agreed to assume the total outstanding State bond debt of \$368,769. As of June 30, 2015, the principal and interest payments through 2018 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 142	\$ 16	\$ 158
2017	147	11	158
2018	<u>153</u>	<u>6</u>	<u>159</u>
	<u>\$ 442</u>	<u>\$ 33</u>	<u>\$ 475</u>

2012 Exempt financing equipment lease

On September 20, 2012, Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$11,100,000 for the purchase of equipment and vehicles. The lease bears interest at a rate of 1.26% per annum, payable bi-annually through 2017. As of June 30, 2015, \$11,100,000 has been drawn to pay for eligible purchases. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the primary government portion of the 2012 Equipment Lease as of June 30, 2015, based on the final lease amount of \$11,100,000 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,122,537	\$ 47,161	\$ 2,169,698
2017	<u>2,149,366</u>	<u>20,333</u>	<u>2,169,699</u>
	<u>\$ 4,271,903</u>	<u>\$ 67,494</u>	<u>\$ 4,339,397</u>

2015 Exempt financing equipment lease

On February 17, 2015, Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$1,910,000 for the purchase of vehicles. The lease bears interest at a rate of 1.49% per annum, payable annually through 2019. The balance will be used to reimburse eligible purchases upon delivery and approval of the invoice. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the primary government portion of the 2015 Equipment Lease as of June 30, 2015, based on the final lease amount of \$1,910,000 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 307,615	\$ 18,748	\$ 326,363
2017	312,198	14,164	326,362
2018	316,849	9,513	326,362
2019	<u>321,427</u>	<u>4,791</u>	<u>326,218</u>
	<u>\$ 1,258,089</u>	<u>\$ 47,216</u>	<u>\$ 1,305,305</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Primary government (continued)

Governmental activities (continued)

Long-term obligations at June 30, 2015 consist of the following:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Amount</u>
<u>MD water quality loans and other state loans:</u>			
<u>Maryland department of natural resources</u>			
Point Breeze	1993-2018	None	\$ 24,426
Tall Timbers #3 Erosion Project	1991-2016	None	6,585
Holly Point Shores	2008-2032	None	170,484
Maryland Water Quality Loan	2003-2016	2.4%	148,311
Murray Road Revetment	2004-2028	None	47,216
Maryland Water Quality Loan	2005-2019	1.10%	1,195,907
Piney Point Lighthouse	2009-2026	None	370,007
Villas on Water Edge	2009-2032	None	370,532
Kingston Creek II	2010-2037	None	231,959
North Patuxent Beach	2009-2025	None	283,030
Thomas Road	2016-2030	None	133,200
Total state loans			<u>2,981,657</u>
<u>General obligation bonds</u>			
2009 Refunding Bonds, Series A	2010-2020	2.5-4.0%	6,815,000
2009 Bonds, BAB, Series B	2021-2030	4.519%-5.7%*	16,945,000
*Rate shown does not reflect 35% rebate			
2009 Refunding Bonds, Series C	2010-2022	2-5%	11,590,000
2011 Refunding Bonds	2012-2024	2.25-2.41%	25,204,000
2014 Refunding Bonds	2016-2025	2.32%	9,934,000
Total general obligation bonds			<u>70,488,000</u>
Total state loans and bonds			73,469,657
Surplus property transfer of debt			442
Accrued landfill closure and postclosure costs			1,201,000
Exempt Financing			5,529,992
Accumulated unpaid annual leave			4,972,507
Total			<u>\$ 85,173,598</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Primary government (continued)

Business-type activities

2012 Exempt financing equipment lease

On September 20, 2012, the Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$11,100,000 for the purchase of equipment and vehicles. The lease bears interest at a rate of 1.26% per annum, payable bi-annually through 2017. As of June 30, 2015, \$11,100,000 has been drawn to pay for eligible purchases. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the business-type activities portion of the 2012 Equipment Lease as of June 30, 2015, based on the final lease amount of \$11,100,000 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 114,066	\$ 2,535	\$ 116,601
2017	115,508	1,093	116,601
	<u>\$ 229,574</u>	<u>\$ 3,628</u>	<u>\$ 233,202</u>

2015 Exempt financing equipment lease

On February 17, 2015, Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$1,910,000 for the purchase of vehicles. The lease bears interest at a rate of 1.49% per annum, payable annually through 2019. The balance will be used to reimburse eligible purchases upon delivery and approval of the invoice. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the business-type activities portion of the 2015 Equipment Lease as of June 30, 2015, based on the final lease amount of \$1,910,000 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 64,215	\$ 3,914	\$ 68,129
2017	65,172	2,957	68,129
2018	66,143	1,986	68,129
2019	67,271	1,000	68,271
	<u>\$ 262,801</u>	<u>\$ 9,857</u>	<u>\$ 272,658</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Primary government (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2015 is composed of the following loans payable to the Maryland Department of Natural Resources:

Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$6,582, without interest, guaranteed by the full faith and credit of the County.	\$ 6,585
Holly Point Shore Erosion Control, originally payable in twenty-five annual installments of \$10,029 without interest, guaranteed by the full faith and credit of the County.	170,484
Villas on Waters Edge Shore Erosion, payable in twenty annual installments of \$21,796, without interest, guaranteed by the full faith and credit of the County.	370,532
Kingston Creek Waterway #2, payable in twenty-five annual installments of \$10,544, without interest, guaranteed by the full faith and credit of the County.	<u>231,959</u>
	<u>\$ 779,560</u>

St. Mary's County Government has agreed that the above amounts borrowed shall be reimbursed and that these obligations shall be supported by the full faith and credit of the County.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Primary government (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2015 including interest of \$11,949,077, except for the accrued landfill closure and postclosure costs, accumulated unpaid leave benefits, exempt financing, surplus property debt and Maryland Water Quality Loans, are as follows:

<u>Years ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,986,545	\$ 2,002,528	\$ 8,989,073
2017	7,599,963	1,824,920	9,424,883
2018	7,805,963	1,606,109	9,412,072
2019	7,999,821	1,366,526	9,366,347
2020	8,206,821	1,128,350	9,335,171
2021-2025	23,938,105	3,162,327	27,100,432
2026-2030	9,450,778	858,317	10,309,095
2031-2035	116,364	-	116,364
2036-2037	21,079	-	21,079
Total	<u>\$ 72,125,439</u>	<u>\$ 11,949,077</u>	<u>\$ 84,074,516</u>

A summary of the totals above by debt type is as follows:

	<u>General Obligation Bonds</u>	<u>State Loans</u>	<u>Special Assessment Fund</u>	<u>Total</u>
Principal	\$ 70,488,000	\$ 857,879	\$ 779,560	\$ 72,125,439
Interest	<u>11,949,077</u>	<u>-</u>	<u>-</u>	<u>11,949,077</u>
	<u>\$ 82,437,077</u>	<u>\$ 857,879</u>	<u>\$ 779,560</u>	<u>\$ 84,074,516</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Component units

St. Mary's County Public Schools

Long-term liabilities

Long-term debt at June 30, 2015, consists of equipment financing obligations, accumulated compensated absences payable, net OPEB obligation, and net pension liability. The following is a summary of changes in the School System's long-term liabilities for the year ended June 30, 2015.

	<u>Balance June 30, 2014</u>	<u>Addition</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>	<u>Amounts due Within one year</u>
Governmental activities:					
Equipment financing agreement	\$ 3,780,797	\$ 470,549	\$ (1,425,673)	\$ 2,825,673	\$ 1,552,701
Compensated absences	4,650,437	356,109	(509,767)	4,496,779	491,466
Net OPEB obligation	35,641,970	13,550,000	(8,194,660)	40,997,310	-
Net pension obligation	<u>10,628,710</u>	<u>-</u>	<u>(988,199)</u>	<u>9,640,511</u>	<u>-</u>
	<u>\$54,701,914</u>	<u>\$14,376,658</u>	<u>\$ (11,118,299)</u>	<u>\$57,960,273</u>	<u>\$ 2,044,167</u>
Business-type activities:					
Compensated absences	<u>\$ 184,540</u>	<u>\$ 1,996</u>	<u>\$ (34,800)</u>	<u>\$ 151,736</u>	<u>\$ 11,121</u>

The compensated absences liability attributable to the governmental activities will be liquidated solely by the General Fund.

During previous years, the School System entered into various lease-purchase agreements to acquire certain office equipment and various student, teacher and administrative computers. These agreements have varying terms consisting of combined monthly payments of \$38,818, quarterly payments of \$1,824, and annual payments of \$1,069,575 at interest rates ranging from 3.59% to 7.69% expiring through April 2018. All items purchased under the lease-purchase agreements are pledged as collateral under the agreements. Principal and interest payments for lease-purchase agreements are recorded as expenditures of the General Fund. Principal payments are reported as reductions of long-term obligations in the government-wide financial statements.

During the year ended June 30, 2015, the School System entered into an additional lease-purchase agreement to acquire additional office equipment in the amount of \$470,549. The terms of the agreement provide for monthly payments of \$8,638, including interest at 4.00%, expiring April 2020.

Total combined annual lease payments, including interest, under these agreements at June 30, 2015, was \$1,564,217.

St. Mary's County Library

Long-term debt

Long-term debt consists of accrued compensated absences. The following is a summary of the changes in long-term debt for the year ended June 30, 2015:

<u>Balance July 1, 2014</u>	<u>Decrease</u>	<u>Balance June 30, 2015</u>	<u>Amounts due within one year</u>
\$ 90,959	\$ 16,421	\$ 107,380	\$ -

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Component units (continued)

Metropolitan Commission

Long-term debt

Long-term bonds payable as of June 30, 2015 are as follows:

<u>Bonds payable</u> <u>description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Seventeenth Issue	2005-2018	2.75 - 4.40%	\$ 2,145,000	\$ 190,685
Twenty-first Issue	2007-2021	3.65 - 4.275%	518,300	73,362
Twenty-third Issue	2008-2027	3.5 - 4.25%	6,740,170	2,014,961
Twenty-seventh Issue	2011-2030	0.75 - 4.31%	6,948,142	2,612,713
Thirtieth Issue	2012-2029	2.96 - 3.4%	1,182,891	284,494
Thirty-first Issue	2013-2032	0.61 - 3.42%	673,064	450,959
Thirty-sixth Issue	2014-2033	4.31%	1,083,002	2,119,629
Thirty-eighth issue	2015-2034	3.51%	<u>2,198,808</u>	<u>1,097,736</u>
			21,489,377	8,844,539
Less current portion			<u>1,714,688</u>	<u>919,109</u>
Total			<u>\$19,774,689</u>	<u>\$7,925,430</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2015 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016 (current)	\$ 1,714,688	\$ 919,109
2017	1,766,455	865,833
2018	1,829,876	806,081
2019	1,893,256	741,912
2020	1,353,431	687,987
2021-2025	6,883,137	2,753,483
2026-2030	5,552,258	1,507,433
2031-2034	<u>496,276</u>	<u>562,701</u>
	<u>\$21,489,377</u>	<u>\$8,844,539</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Component units (continued)

Metropolitan Commission (continued)

Seventeenth issue

On September 4, 2003, MetCom issued Refunding Bonds of 2003 in the principal amount of \$6,105,000. The bonds mature on November 1, in 14 annual installments, beginning in 2005 and ending in 2018. Interest rates on the bonds range from 2.75% to 4.4%. Interest was payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1, to maturity.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
November 1, 2013 through October 31, 2014	101%
November 1, 2014 through October 31, 2015	100-1/2%
After November 1, 2015	100%

The bonds were issued to refund all the outstanding maturities of the St. Mary's County Metropolitan Commission Refunding Bonds of 1993 (Ninth Issue).

Twenty-first issue

On April 15, 2006, the Commission issued Refunding Bonds in the principal amount of \$1,158,700. The bonds mature on May 1, in 15 annual installments, beginning in 2007 and ending in 2021. Interest was payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

This bond is not subject to prepayment by the Issuer prior to May 1, 2016. On or after May 1, 2017, this bond is subject to prepayment by the Issuer at 100%.

The bonds were issued to refund all the outstanding maturities of the Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). These bonds were issued with a true interest cost ranging from 3.65% to 4.275% to refund certain maturities of \$620,000 in outstanding 1996 series A bonds, the Thirteenth Issue, with a coupon rate of 5.579% and \$500,000 in outstanding 1995 series A bonds, the Tenth Issue, with an average interest rate of 6.24%. These bonds were issued to take advantage of a favorable interest rate environment. The net proceeds (including interest and premium) of \$1,131,200 were deposited with an escrow agent to provide for all future debt service payments of the refunded bonds.

MetCom refunded these bonds at a premium to reduce its total debt service payments by \$152,325 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$110,445.

Twenty-third issue

On November 14, 2007, the Commission issued \$10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015, MetCom had drawn only \$10,101,170 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2008 and ending in 2027. Interest rates on the bonds range from 3.5% to 4.25%. Interest was payable on May 1, 2008 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2017. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Component units (continued)

Metropolitan Commission (continued)

Twenty-seventh issue

On August 25, 2010, the Commission issued \$12,613,963 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015, MetCom had drawn only \$9,462,805 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2011 and ending in 2030. Interest rates on the bonds range from .75%-4.31%. Interest was payable on November 1, 2010 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2020. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Thirtieth issue

On March 15, 2012, MetCom issued refunding bonds in the principal amount of \$1,448,492. The bonds mature on May 1, in 18 annual installments, beginning in 2012 and ending in 2029. Interest was payable May 1, 2012 and semiannually thereafter on each May 1 and November 1 until maturity.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
May 1, 2020 through April 30, 2021	102%
May 1, 2021 through April 30, 2022	101%
On or after May 1, 2022	100%

The bonds were issued to refund all the outstanding maturities of Financing Bond Issue number fourteen, issued in conjunction with the Maryland Community Development Administration (CDA). These bonds were issued with an interest rate of 2.96% that may be increased up to 3.4% in the event of a decrease in the marginal maximum corporate income tax rate. The refunded bonds had a true interest cost ranging from 4.5% to 5.0%. These bonds were issued to take advantage of a favorable interest rate environment.

MetCom refunded these bonds to reduce its total debt service payments by \$249,357 and to obtain an economic gain of \$197,055.

Thirty-first issue

On December 19, 2012, the Commission issued \$8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015 MetCom had drawn only \$1,782,678 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2013 and ending in 2032. Interest rates on the bonds range from .61%-3.42%. Interest was payable on May 1, 2013 and semiannually thereafter on each May 1 and November 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2022. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Component units (continued)

Metropolitan Commission (continued)

Thirty-sixth issue

On October 2, 2013, the Commission issued \$15,948,168 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015, MetCom had drawn only \$2,293,770 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2014 and ending in 2033. The average interest yield on these bonds is 4.31%. Interest was payable on May 1, 2014 and semiannually thereafter on each May 1 and November 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2023. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Thirty-eighth issue

On August 28, 2014, the Commission issued \$22,075,230 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015, MetCom had drawn only \$2,928,539 of the proceeds. The bonds mature on May 1, in 20 annual installments, beginning in 2015 and ending in 2034. The average interest yield on these bonds is 3.51%. Interest was payable on May 1, 2015 and semiannually thereafter on each May 1 and November 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2024. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Notes, leases, and loans payable

Notes, leases and loans payable as of June 30, 2015 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Undrawn</u>
Sixth Issue	2017	6.682%	\$ 32,638	\$ 3,307	\$ -
MD Water Quality Loan #11	2017	4.26%	587,913	37,829	-
MD Water Quality Loan #15	2020	2.70%	252,116	20,784	-
MD Water Quality Loan #16	2023	1.20%	210,568	9,355	-
MD Water Quality Loan #18	2025	1.10%	2,484,850	152,798	-
MD Water Quality Loan #19	2024	1.10%	487,478	27,202	-
MD Water Quality Loan #20	2024	1.10%	532,658	19,984	-
MD Water Quality Loan #22	2027	1.10%	691,704	45,053	-
MD Water Quality Loan #25	2029	1.00%	143,813	11,002	-
MD Water Quality Loan #26	2030	1.00%	447,592	36,639	-
MD Water Quality Loan #28	2030	2.20%	365,080	67,511	-
SunTrust Bank Loan #29	2016	2.03%	79,769	1,220	-
MD Water Quality Loan #32	2034	1.80%	3,913,423	747,769	960,779
MD Water Quality Loan #33	2033	1.70%	375,303	62,096	-
MD Water Quality Loan #34	2035	2.10%	13,444,980	3,180,449	7,637,420
MD Water Quality Loan #35	2035	2.10%	3,361,244	795,444	1,909,356
MD Water Quality Loan #37	2034	2.00%	<u>1,790,778</u>	<u>382,367</u>	<u>809,522</u>
			<u>29,201,907</u>	<u>5,600,809</u>	<u>\$ 11,317,077</u>
Less current portion			<u>1,894,866</u>	<u>597,715</u>	
Total			<u>\$ 27,307,041</u>	<u>\$ 5,003,094</u>	

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Component units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2015, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016 (current)	\$ 1,894,866	\$ 597,715
2017	1,902,571	522,269
2018	1,589,198	480,978
2019	1,616,970	453,206
2020	1,645,264	424,913
2021-2025	7,767,916	1,706,041
2026-2030	6,464,690	1,037,229
2031-2035	<u>6,320,432</u>	<u>378,458</u>
	<u>\$29,201,907</u>	<u>\$ 5,600,809</u>

As of June 30, 2015, MetCom has fifteen loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purpose of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for \$976,700 was used to replace the Lexington Park Wastewater Pumping Station. Loan number twenty for \$1,466,576 was for water meter installations. Loan number twenty-two for \$1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 was used for Patuxent Park Sewer Line Repair and the Marlay-Taylor Methane Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was used for the St. Clements Shore Well. Loan number twenty-nine is with SunTrust Bank in the amount of \$270,682 at an interest rate of 2.03%. Payments are made monthly on this loan from December 2011 through November 2016. The proceeds of this loan were used to purchase a Vactor truck. Loan number thirty-two in the amount of \$4,874,202 is for the Radio Read Meter Project. As of June 30, 2015 MetCom had drawn \$3,913,423 of the proceeds. Loan number thirty-three in the amount of \$394,000 is for the Shangri La Drive/South Essex Drive Sewer Rehabilitation. Loan number thirty-four in the amount of \$21,082,400 is for the Marlay-Taylor Wastewater Reclamation Facility Enhanced Nutrient Removal, ENR, project. Loan number thirty-five in the amount of \$5,270,600 is also for Marlay-Taylor Water Reclamation Facility ENR project. This loan will be paid for by Navy charges and is therefore taxable. As of June 30, 2015, MetCom has drawn \$16,806,225 of the proceeds, on loans thirty-four and thirty-five. Loan number thirty-seven in the amount of \$2,600,300 is for the Route 235 and Route 712 Interceptor Rehabilitation. As of June 30, 2015, MetCom had drawn \$1,790,778 of the proceeds.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

6. Long-term obligations (continued)

Component units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2015 were as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Amounts due</u> <u>within one year</u>
Bonds payable	\$21,067,409	\$ 3,758,381	\$ 3,336,413	\$21,489,377	\$ 1,714,688
Notes, leases and loans payable	<u>16,483,455</u>	<u>13,655,069</u>	<u>936,617</u>	<u>29,201,907</u>	<u>1,894,866</u>
Total long-term debt	<u>\$37,550,864</u>	<u>\$17,413,450</u>	<u>\$ 4,273,030</u>	<u>\$50,691,284</u>	<u>\$ 3,609,554</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

7. Fund balances

A summary of the nonspendable, restricted, committed, assigned and unassigned fund balances as of June 30, 2015 is as follows:

	Special Revenue Funds			Debt Service Fund	
	General Fund	Fire & Rescue Revolving	Emergency Support	Special Assessments	Capital Projects Fund
Nonspendable					
Inventory	\$ 1,277,090	\$ -	\$ -	\$ -	\$ -
Prepaid postage	-				
Interfund advance (Wicomico)	956,547	-	-	-	-
Total nonspendable	2,233,637	-	-	-	-
Restricted					
Domestic Violence Programs	2,205	-	-	-	-
County matching funds for approved grants	213,206	-	-	-	-
Funding sources specified for capital projects					
Land preservation	-	-	-	-	1,088,885
Various capital projects - transfer tax	-	-	-	-	6,871,803
County pay-go	-	-	-	-	9,479,046
Roads- impact fees	-	-	-	-	158,111
Roads- mitigation	-	-	-	-	511,794
Parks- impact fees	-	-	-	-	948,717
Parks- mitigation	-	-	-	-	46,753
Schools-impact fees	-	-	-	-	1,870,037
Schools-mitigation	-	-	-	-	34,125
Capital asset purchases	1,580,054	-	-	-	-
Total restricted	1,795,465	-	-	-	21,009,271
Committed					
Bond rating reserve	12,928,653	-	-	-	-
CIP pay-go	9,090,624	-	-	-	-
Rainy day fund	1,625,000	-	-	-	-
Operating budget, non-recurring items	2,781,384	-	-	-	-
Other, net, including grants	-	824,559	1,246,574	127,038	(2,030,560)
Total committed	26,425,661	824,559	1,246,574	127,038	(2,030,560)
Assigned	1,498,441	-	-	-	-
Unassigned	16,680,164	-	-	-	-
Total fund balances	\$ 48,633,368	\$ 824,559	\$ 1,246,574	\$ 127,038	\$ 18,978,711

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

7. Fund balances (continued)

St. Mary's County spends funds in the following order: committed, then assigned, then unassigned.

The Board of County Commissioners (Board) is the highest level of decision-making authority, and committed funds are established by resolution, legislation, ordinance, and/or contractual action through the budget process. Those committed amounts cannot be used for any other purpose without Board action.

The authority for assigning fund balance is delegated to the Finance Department by the Board to carry out their approved plan.

The nonspendable fund balance includes:

Inventory - The amount of inventory at June 30, 2015, carried as an asset.

The restricted fund balance includes:

Domestic violence programs - The amount of marriage license fees committed for domestic violence programs, by resolution.

County matching funds for approved grants – The amount of county funding that is committed as a match to grants that were budgeted in FY2015, but for which the period extends beyond June 30, 2015. These funds will be needed to meet the obligations of the grant.

Revenues appropriated for capital projects - The amount of revenue collected to date, which has been obligated through the budget process for specific capital projects, and will be used for future capital project expenses.

The committed fund balance includes:

Bond Rating Reserve – set by ordinance, at a minimum of 6% of the next year's revenues

Bond Rainy Day Fund – established by the Commissioners for unanticipated events.

Fund balance appropriated as a part of the FY2016 budget for the transfer of pay-go funding to the FY2016 capital budget and other non-recurring.

The debt service fund assigned fund balance includes:

Retirement of long-term obligations - The amount of future revenue (collections) of Special Assessments that is legally restricted to expenditures for specified purposes. This future revenue will be used for the retirement of long-term obligations.

The general fund assigned fund balance is composed of:

Encumbrances	\$ 918,523
Miscellaneous revolving fund	<u>579,918</u>
	<u>\$1,498,441</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

7. Fund balances (continued)

As a part of our FY2016 budget process, the plan for unassigned fund balance was updated. The plan addressed current needs, committing funds to pay for things now that will reduce our operating budget in future years, and yet maintains the flexibility for the next several years to address developments in the economy, BRAC, or further State actions.

Given the general economy, and especially federal budget considerations which impact the County's largest employment sector, the Board determined that a multi-year plan to use unassigned fund balance was warranted, but that it was also appropriate to maintain a significant unassigned balance.

We intend to apply the fund balance in ways that will reduce future annual operating costs for periods up to 20 years. For example, using fund balance instead of bonds for a capital project already in the plan translates to annual cost savings in debt service of \$750,000 for every \$10 million applied. Similar returns can be achieved by applying fund balance to pay down the accrued liability for unfunded retiree health benefits.

In May 2015, as a part of the approval of the FY2016 budget, the Board approved a plan to use fund balance, as follows:

<u>FY2016</u>	
30,000	Compensation Study Consultant for Sworn & Correctional Officers
50,000	Contracted Services for North Area Plan
48,000	Replacement Plotter for Mapping
19,800	Wash Bay for Vehicle Maintenance
6,000	ATV for Three Notch Trail
17,500	ACRES Integration into Crimes Database
30,000	Complete Fiber Loop from EOC to Detention Center
17,500	Fiber Connection for Park & Ride
57,000	Live scan Fingerprint machine
44,000	8-SCBA Self Contained Breathing Apparatus for ERT Officers
27,500	5-SCBA Self Contained Breathing Apparatus for Transport Officers
434,524	Costs associated with the renovation of the Adult Detention Center
3,000	Storage Shed
8,500	HTE QREP Web Reporting and Analytics
387,500	Duke Elementary Textbooks & Library Collection
1,600,560	Pay-Off Lease
<u>9,090,621</u>	CIP Pay-Go for several capital projects
\$11,872,005	

UNASSIGNED (\$11,000,000)

Remains unassigned; to help avoid sudden disruption or elimination of services, by allowing time for a plan to be developed to address such changes, revenue shortfalls, or cost shifts. And, given the still uncertain economy and the federal budget situation and its impact on the County's largest employment sector, it can help the County to weather negative revenue results for a limited period of time.

Each subsequent budget will include evaluation of the fund balance levels and assumptions upon which the plan was developed to determine whether it needs to be revised.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans

Primary government

For the year ended June 30, 2015, the County recognized aggregated pension expense of \$8,204,502 for all three pension systems.

State retirement and pension system of maryland

Plan description

Eligible employees of the County participate in retirement plans of the State Retirement and Pension System of Maryland (the System). The System is a cost sharing multiple-employer defined benefit pension plan administered in accordance with Article 73B of the annotated Code of Maryland by the State Retirement Agency of Maryland (SRA) to provide survivor, disability, and retirement benefits to State and local government employees, teachers, police, correctional and law enforcement officers, judges, and legislators. The SRA operates under the direction of a 15-member Board of Trustees, which establishes policy, oversees investments, and represents various employee interests. The Maryland State Retirement and Pension System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the Systems. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202-1600, calling (800) 492-5909 or www.sra.state.md.us/Agency/downloads/CAFR/CARR-2014.pdf. The State of Maryland is obligated for the payment of all pension annuities, retirement allowances, refunds, reserves and other benefits of the System. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. The System is a component unit of the State of Maryland's financial reporting entity and is included in the State's financial statements as a pension trust fund

Eligible County employees participate in one of two State sponsored plans:

- a) The Employees' Retirement System, established October 1, 1941 (closed to all new members in January 1980). Membership is a condition of employment. Members participate under one of three options: Plan A – member elected to pay a higher contribution rate to maintain all benefits, including unlimited cost-of-living adjustments; Plan B – member continued pre-1984 contribution rate to maintain all benefits except unlimited cost of living. Cost of living adjustments are capped at 5%; Plan C – member chose a combination, or two-part (bifurcated) benefit. The portion of the service prior to the election is calculated at retirement as a Retirement System benefit; the portion of service after the election is calculated at retirement as a Pension System benefit.
- b) The Employee's Pension System, established January 1, 1980. Membership is a condition of employment.

Plan benefits

Members of the Employees' Retirement Systems qualify for a normal service retirement upon attaining the age of 60, regardless of service or upon accumulating 30 years of eligibility service, regardless of age. The annual retirement allowance for members who opted to join Plan A or B equals 1/55 of a member's average final compensation (AFC) for each year of creditable service. For members of Plan C (bifurcated plan), a two part calculation is required. Part of Plan C benefits are calculated using the Retirement System formula. The remainder of the benefit is calculated using the Pension System formula. A member may retire with reduced benefits after completing 25 years of eligibility service.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Primary government (continued)

State retirement and pension system of Maryland (continued)

Plan benefits (continued)

1. Members of the Employees' Pension Retirement System hired prior to July 1, 2011 (Alternate Contributory Pension Selection (ACPS))
 - a. Members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances:
 - a. age 62, & five years of eligibility service
 - b. age 63, & four years of eligibility service
 - c. age 64, & three years of eligibility service
 - d. age 65 or older, & two years of eligibility service
 - b. The annual pension allowance is equal to 1.2% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998 plus 1.8% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 1998. A member may retire with reduced benefits at age 55 with 15 years of service.
 - c. The cost of living adjustments for ACPS limits the increase the retiree may receive to a maximum of 3%, compounded annually. The adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate.
2. Members of the Employees' Pension System hired on or after July 1, 2011 (Reformed Contributory Pension Benefit (RCPB))
 - d. Eligibility for normal service retirement is determined by the Rule of 90. Members become eligible once the sum of their age and eligibility service is at least 90 or upon attaining at least age 65 and has accrued at least 10 years of eligibility service. The annual pension allowance is equal to 1.5% of AFC for the five highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 2011. Members are eligible for early service pension allowances upon attaining age 60 with at least 15 years of eligibility service.

Various retirement options are available under each System which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's or spouse's attained age and similar actuarial factors.

Retirement and pension allowances are increased annually to provide for changes in the cost of living in accordance with prescribed formula. Under the Reformed Contributory Pension Benefit, eligible retirees will receive a COLA capped at 2.5% when the system's investment fund earns or exceeds its assumed actuarial rate of return (currently 7.75%) or capped at 1% in years when the assumed actuarial rate is not met.

For all other plans, a two-part adjustment applies. For service earned before July 1, 2011, the COLA rate is capped at 3% and is not tied to investment performance. For service earned on or after July 1, 2011, the same caps apply as for retirees of the Reformed Contributory Pension Benefit.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Primary government (continued)

State retirement and pension system of Maryland (continued)

Plan benefits (continued)

The System has adopted Governmental Accounting Standards Board (GASB) Statement No.67, *Financial Reporting for Pension Plans* and amendment of GASB Statement No. 27.

Actuarial assumptions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years for State system, 25 years for LEOPS Muni, and 32 years for CORS Muni as of June 30, 2014. For ECS Muni, 6 years remaining as of June 30, 2014 for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.90% general, 3.40% wage
Salary Increases	3.40% to 11.90% including inflation
Discount Rate	7.65%
Investment Rate of Return	7.65%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2006-2010
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2015
Note	There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2014 valuation: Investment return assumption changed from 7.70% to 7.65% Inflation assumption changed from 2.95% to 2.90% Disability Mortality assumption for State Police and LEOPS changed to: RP-2000 Disabled Mortality: 50% table for males and 75% for females, but not less than the RP-2000 Combined Healthy Mortality table projected to year 2025

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Primary government (continued)

State retirement and pension system of Maryland (continued)

Investments

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	35%	4.70%
Fixed Income	10%	2.00%
Credit Opportunity	10%	3.00%
Real Return	14%	2.80%
Absolute Return	10%	5.00%
Private Equity	10%	6.30%
Real Estate	10%	4.50%
Cash	<u>1%</u>	1.40%
Total	<u>100%</u>	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2014.

Contributions required and made

The State Personnel and Pensions Article of the Annotated Code of Maryland require contributions by active members and their employers. Rates for required contributions by active members are established by law. Members of the Employees' Retirement Systems are required to contribute 7% (or 5% depending upon the plan option selected) of earnable compensation. Members of the Employees' Pension Systems are required to contribute 7% of earnable compensation.

The unfunded actuarial liability (UAAL) was being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000, actuarial valuation was being amortized over a 40-year period (as provided by law) from July 1, 1980 and as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, was being amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the System. The unfunded liability for each System is being amortized over a single closed 25-year period. Employee contributions, which are applied to normal cost, for fiscal year 2014 totaled approximately \$727,726,000. The County's contribution to the System for the year ended June 30, 2015 was \$2,187,861.

Contribution rates for employer and other "nonemployer" contributing entities are established by annual actuarial valuations using the Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. These contribution rates have been established as the rates necessary to fully fund normal costs and amortize the unfunded actuarial accrued liability.

The State of Maryland (which is also a non-employer contributor to the Teachers' Retirement and Pension Systems and the Judges' Retirement System), the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund, and more than 150 participating governmental units make all of the employer and other (non-employer) contributions to the System.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Primary government (continued)

State retirement and pension system of Maryland (continued)

Discount rate

A single discount rate of 7.65% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.65%. The projection of cash flows used to determine this single discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability

The following presents the plan's net pension liability, calculated using a single discount rate of 7.65%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher.

	(Expressed in thousands)		
	1% Decrease to 6.65%	Current Discount	1% Increase to 8.65%
Total System Net Pension Liability	\$25,575,273	\$17,745,731	\$11,189,338

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2015, Commissioners of St. Mary's County reported liability of \$16,643,117 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of that date. Commissioners of St. Mary's County's portion of the net pension liability was based on Commissioners of St. Mary's County's share of contributions to the pension plan relative to the contribution of all participating employers. At June 30, 2015, Commissioners of St. Mary's County proportion was .0930%.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Primary government (continued)

State retirement and pension system of maryland (continued)

Pension liabilities, pension expense and deferred outflows of resources and deferred Inflows of resources related to pensions
(continued)

For the year ended June 30, 2015, Commissioners of St. Mary's County recognized pension expense of \$2,332,659 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 240,756	
Net difference between projected and actual invest earnings on Pension plan investments		\$ 1,821,698
Contributions subsequent to measurement date	<u>\$2,205,647</u>	-
Total	<u>\$2,446,403</u>	<u>\$ 1,821,698</u>

The \$2,205,647 reported as deferred outflows of resources related to pensions resulting from Commissioners of St. Mary's County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. The \$283,983 from the change in assumptions and \$1,808,285 from the difference in earnings will be amortized over a five year period as follows:

<u>Year ending June 30,</u>		
2016	\$59,746	\$452,071
2017	\$59,746	\$452,071
2018	\$59,746	\$452,071
2019	\$59,745	\$452,072

Sheriff's office retirement plan

Effective date

The County administers the Sheriff's Office Retirement Plan which is a single employer defined benefit pension plan. The effective date of the plan is July 1, 1986, with amendments effective October 2000, September 2006, June 2007, July 2008 and January 2013.

Participation

Generally all Sheriff's Office covered employees ("Covered Employee" means any Employee who is classified by the County as the Sheriff, a Deputy Sheriff, a Correctional Officer, or an Inmate Services Coordinator of the Sheriff's Office) hired after June 30, 1986

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Sheriff's office retirement plan (continued)

Participation (continued)

participated in the plan. Also, each Sheriff's Department covered employees who were employed by St. Mary's County prior to July 1, 1986, and who participated in the Maryland State Retirement System, may elect to participate in the plan.

The membership data related to the St. Mary's County Sheriff's Office Retirement Plan at July 1, 2014 was as follows:

Retirees and beneficiaries currently receiving benefits	81
Terminated plan members entitled to but not yet receiving benefits	31
Active plan members	<u>206</u>
 Total	 <u>318</u>

Credited service

Credited service for participants hired prior to July 1, 1986, is equal to the sum of:

- a. Service subsequent to June 30, 1986, while a participant of the plan.
- b. Military service, not in excess of five years.
- c. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Retirement System, reduced by 25% for benefit accrual purposes..
- d. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Pension System and/or Maryland Employees' Retirement System which the employee elects to buy back by paying into the plan an amount equal to employee contributions for such service, accumulated with interest. Such service is reduced by 25% for the purpose of calculating benefits if participants elect not to buy back such service.
- e. Service not with the Sheriff's Department, but while participating in the Maryland Systems stated above. Such service shall count only in eligibility and not in the benefit determination.

Credited service for participants hired subsequent to June 30, 1986, is equal to:

- a. Service while a participant of the plan; plus
- b. Military service, not in excess of five years is on an incremental basis, with up to one year of service each time the participant completes four years of eligibility service, and
- c. Any approved leave of absence up to 12 months.

In addition, for purposes of calculating the amount of the plan benefit only for a participant eligible for early, normal or late retirement, credit shall be given for unused sick leave as follows: 22 days of unused sick leave shall equal 1 month of credited service.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Sheriff's office retirement plan (continued)

Final average earnings

"Final Average Earnings" is the average compensation received during three consecutive years of service, out of the ten calendar years prior to termination, which produces the highest average.

Normal retirement

Eligibility - A participant's normal retirement date is the earliest of the 62nd birthday or the completion of 25 years of service.

The amount of the annual retirement income shall be equal to the lesser of: (1) 80% of the Participant's average compensation, plus the Participant's unused sick leave, or (2) the sum of:

- (i) 2.5% of the Participant's average compensation multiplied by the number of years (and fractional years) of credited service earned by, or credited to, the Participant on and after July 1, 2008, plus
- (ii) 2.0% multiplied by all years (and fractional years) of credited service earned by, or credited to, the Participant prior to July 1, 2008.

Early retirement

Eligibility - A participant who retires prior to becoming eligible for normal retirement but on or after completion of 20 years of credited service.

Amount - The amount of the early retirement pension is determined in the same manner as for normal retirement.

A participant may elect to have benefits commence on the Normal Retirement Date or any month following termination. Benefits are reduced 1/2% for each month the benefit commencement date precedes the normal retirement date.

Late retirement

Eligibility - A participant who continues to work past the normal retirement date is eligible for a postponed retirement benefit.

Amount - The amount of the postponed retirement benefit is determined in the same manner as the normal benefit, based on final average earnings and credited service at the time of actual retirement subject to a maximum benefit of 80% of the Participant's average compensation.

Disability benefit

Eligibility - A participant with five years of service who is unable to perform the duties of the position by reason of physical or mental disability, which is expected to be total and permanent, is eligible for a disability benefit commencing in the month following disablement. The benefit will continue until death or recovery.

Amount - The annual benefit is equal to 1.6% of the participant's final average earnings for each year of credited service not in excess of 35 years. For line of duty disability, the annual benefit is equal to the greater of the benefit for ordinary disability or 66 2/3% of average compensation, if the disability qualifies as a catastrophic disability pursuant to the Plan. For a line of duty disability which is

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Sheriff's office retirement plan (continued)

Disability benefit (continued)

non-catastrophic, the annual benefit is equal to the greater of the benefit for ordinary disability or 50% of average compensation.

Pre-retirement death benefit

Lump sum benefit

Eligibility of employment.- The participant's beneficiary will be entitled to a lump sum benefit if the participant dies prior to termination

Amount - 100% of the participant's annual compensation, plus employee contributions accumulated with interest.

Survivor's pension

Eligibility - The spouse or dependent child of a participant who dies prior to termination of employment but after completing 5 years of credited service may receive a monthly benefit commencing the first of the month following the participant's death. The benefit is payable until death or remarriage (if the beneficiary is the spouse) or as a temporary annuity (if the beneficiary is a child) payable until the child attains age 18 (23 if a full-time student).

Amount - The amount of such benefit will be 50% of the amount determined in the same manner as the disability benefit. The beneficiary may elect to receive the lump sum death benefit in lieu of the survivor's pension.

Deferred vested benefit

Eligibility - A participant who terminates employment and has completed five years of vesting service is eligible to receive a deferred vested benefit beginning at age 62.

Amount - The amount of the participant's deferred vested pension is determined in the same manner as the normal retirement pension based on final average earnings and credited service at the participant's termination of employment. If a terminated vested participant dies prior to commencement of benefits, no benefits other than those provided in the withdrawal benefit, described below, are payable from the plan.

Withdrawal benefit

A participant who terminates employment prior to becoming eligible to receive a benefit under one of the other provisions of the plan will be eligible to receive the return of this accumulated contribution including interest to the first of the month preceding his termination of employment. A vested participant who is not eligible for benefits commencing within one month of termination may elect to withdraw his contributions and credited interest. In this event, the participant forfeits the deferred vested benefit described above.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Sheriff's office retirement plan (continued)

Form of benefit

Monthly pension benefits will commence on the first of the month coincident with or next following the retirement date of the participant and continue until the first of the month in which the retired participant dies, unless an optional method of payment has been elected. If the participant dies before receiving benefits equal to the value of his accumulated employee contributions, the remainder will be paid to his beneficiary.

Optional Benefit - A participant may elect to receive a reduced benefit in lieu of the benefits to which he would otherwise be entitled, in an amount of actuarially equivalent value, as follows:

- a. Joint and Survivor - a reduced pension during the lifetime of the pensioner, starting at his actual retirement date and continuing to the pensioner's spouse at an amount which may be the same as the reduced amount payable to the participant or one-half of the reduced amount paid to the participant.
- b. Other - A participant may elect a pension payable in accordance with any other option approved by the Board of Trustees (except an "interest only" option) which is the actuarial equivalent of the normal retirement pension to which the participant was entitled at normal retirement date.

The Commissioners assign the authority to establish and amend the benefit provisions of the plan.

Net pension liability of the county

The components of the net pension liability of the Sheriff's plan at June 30, 2015, were as follows:

Total pension liability	\$ 102,640,274
Plan fiduciary net position	<u>(67,609,672)</u>
County's net pension liability	<u>\$ 35,030,602</u>
Plan fiduciary net position as a percentage of the total pension liability	65.87%

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Sheriff's office retirement plan (continued)

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2014 rolled forward to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Rates vary by participant service
Investment rate of return	7.25 percent, net of pension plan investment expense, including Inflation
Mortality	RP-2000 Combined Healthy tables with Blue Collar adjustment and generational projection by Scale AA

The above is a summary of key actuarial assumptions. Full descriptions of the actuarial assumptions are available in the July 1, 2014 actuarial valuation report.

Sensitivity of the net pension liability to changes in the discount rate

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Sheriff's Plan net pension liability	\$50,734,653	\$35,030,602	\$22,301,245

Asset allocation

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Allocation	Long-Term Expected Real Rate Return
Equity investments	70%	6.35%
Fixed income	25%	2.15%
Cash equivalents	5%	-0.25%
Inflation		3.00%
Total	100%	

Discount rate

The current discount rate on the Sheriff's Office plan is 7.25%.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Sheriff's office retirement plan (continued)

Development of plan costs

Derivation of Normal Cost - The plan's normal cost is the sum of the individual normal costs determined for each participant, assuming the plan had always been in existence and the actuarial assumptions underlying the cost determination are exactly realized. Benefits payable under every circumstance (retirement, death, disability and termination) are included in the calculations. An allowance is also added for expenses.

The actuarial accrued liability is the sum of all normal costs which would have accumulated, if the assumed normal cost had always been contributed in the past and the actuarial assumptions had been exactly realized. The unfunded actuarial accrued liability is the actuarial accrued liability less the fund's assets at the valuation date.

Recommended contribution level

Participants are required to make mandatory contributions to the plan equal to 8% of base earnings. Employee contributions are credited with interest at the rate of 4% per annum. The County pays the entire remaining cost of the plan.

The county is required to contribute at an actuarially determined rate, currently 38% of covered payroll. Contribution requirements of plan members and the county are established and may be amended by the Commissioners.

The amount of the Sheriff's Department's current year covered payroll is \$14,654,721 and the Sheriff's Department's total payroll for all employees is \$15,893,311. The following employer contributions were made during the fiscal year ended June 30, 2015:

	<u>Contributions</u>	<u>% of Covered Payroll</u>
Actuarially determined	\$ 5,011,496	38%

Volunteer fire departments, rescue squads and advanced life support unit

A length of service program for qualified active volunteer members of the St. Mary's County Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit was established effective July 1, 1980. An "active member" is defined as a person who accumulated a minimum of fifty (50) points per calendar year in accordance with a point system. This program is funded and administered by the Commissioners of St. Mary's County.

Eligibility and benefits

- a. Any person who has served as a member of any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit is eligible to receive benefits provided that:
 - 1) The person is certified in accordance with the point system to have served as an active volunteer subsequent to December 31, 1979.
 - 2) Any person who discontinued active volunteer service prior to July 1, 1980, may receive credit for the service after being certified in accordance with the point system.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Volunteer fire departments, rescue squads and advanced life support unit (continued)

Eligibility and benefits (continued)

b. Beginning July 1, 1994, active volunteer fire and rescue squads and advanced life support unit personnel may select from two Length of Service program benefit options. Selection of a benefit option by the individual is irrevocable. The options, with rates reflected effective July 1, 2006, are:

1) Any person who has reached the age of sixty (60) and who has completed a minimum of twenty (20) years of certified active volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit, or combination thereof, shall receive two hundred dollars (\$200) per month, for life. Payments will begin in the month following eligibility.

An additional payment of eight dollars (\$8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

2) Any person who has reached the age of fifty-five (55) and who has completed a minimum of twenty (20) years of certified volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit or combination thereof, shall receive one hundred fifty dollars (\$150) per month for life.

An additional payment of eight dollars (\$8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

c. In the event that any active volunteer becomes disabled during the course of his or her service while actively engaged in providing such services and in the event that the disability prevents the volunteer from pursuing his or her normal occupation and in the event that the disability is of a permanent nature as certified by the Maryland Workmen's Compensation Commission or other competent medical authority as designated by the Commissioners of St. Mary's County, then the volunteer is entitled to receive the minimum benefits prescribed above and any such benefits as he or she may be entitled to regardless of his or her age or length of service. These benefits will begin on the first day of the month following the establishment of the permanency of his or her disability.

d. In the event that any qualified volunteer shall die while receiving benefits, then his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's benefits. These benefits terminate upon death or remarriage of the spouse.

e. In the event that a qualified volunteer dies prior to receiving any benefits under this section, his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's earned benefits. These benefits terminate upon death or remarriage of the spouse.

f. In the event that an active volunteer dies in the line of duty, a burial benefit up to two thousand five hundred dollars (\$2,500) is payable.

g. In the event that any active volunteer (herein defined as one who has at least two (2) years of qualifying service in the five (5) preceding years) attains the age of seventy (70) years and fails to achieve the required twenty (20) years of service, then the volunteer is entitled to a monthly benefit of the number of years of credited service completed, multiplied by eight dollars (\$8).

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Volunteer fire departments, rescue squads and advanced life support unit (continued)

Point system

In order to qualify for benefits, points are credited to each volunteer as follows:

- 1) One (1) point is credited for each hour of attendance in a recognized training course, provided that not more than twenty (20) points may be credited for all training courses attended per year.
- 2) One (1) point is credited for each company or county drill that is a minimum of two (2) hours in duration attended in its entirety, provided that not more than twenty-five (25) points may be credited for all drills attended per year.
- 3) One (1) point is credited for each official company or county meeting pertaining to St. Mary's County fire services or rescue services attended, provided that not more than fifteen (15) points may be credited for all meetings attended per year.
- 4) One (1) point is credited for each call to which a volunteer responds, provided that not more than forty (40) points may be credited for all calls responded to per year.
- 5) Twenty-five (25) points are credited for completion of a one-year term as an appointed or elected officer in any of the fire or rescue service organizations of St. Mary's County, provided that not more than one (1) office shall be counted in any calendar year.
- 6) One-half (1/2) of a point is credited for each hour of acceptable collateral duties, such as but not limited to apparatus and building maintenance, official standby and fire prevention, provided that not more than twenty-five (25) points may be credited for all collateral duties performed per year.
- 7) A volunteer member who serves or has served full-time military service in the armed forces of the United States receives credit at the rate of five (5) points for each month served, provided that not more than fifty (50) points can be credited for any calendar year. A maximum of four (4) years of creditable service may be acquired in this manner. The volunteer member must have been an active member for one (1) year prior to enlistment. The volunteer member must be reinstated within six (6) months after discharge.

This length of service program is funded by the County Commissioners by annual appropriations. The total contribution for the fiscal year ended June 30, 2015 was \$860,347.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

8. Retirement plans (continued)

Component units

The component units are covered under the same State retirement plan as the County.

St. Mary's County Public Schools

Contribution rates for employer and other non-employer contributing entities (including the State of Maryland) are established by annual actuarial valuations using the individual entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The School System made required contributions totaling \$5,299,971 or 4.60% of current covered payroll, and the State of Maryland made contributions on behalf of the School System totaling \$13,346,117 or 11.58% of current covered payroll for fiscal year 2015. The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by the GASB Codification.

At June 30, 2015, the School System reported a liability of \$9,640,511 or .05% of the total liability of \$17,746,731,000.

St. Mary's County Library

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2015, the Library's total payroll and payroll for covered employees were \$2,079,356 and \$1,951,389, respectively. No contributions were made by the Library for the year ended June 30, 2015.

For fiscal year 2015, the State contributed \$318,235 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement No. 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 16.31% of covered payroll.

St. Mary's Metropolitan Commission

Retirement and pension plan

MetCom's contribution to the System was \$445,653 for year ended June 30, 2015.

At June 30, 2015, MetCom reported a liability of \$3,411,505 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MetCom's proportion of the net pension liability was based on MetCom's share of contributions to the pension plan relative to the contribution of all participating employers. At June 30, 2015, MetCom's proportion was .01922%

Nationwide Retirement Solutions

On March 18, 2004, MetCom adopted a Section 457 plan. Under the terms of the plan, employees may contribute up to 100% of their salary, up to the contribution limits, to the plan. No employer contributions are made to this plan.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

9. Interfund balances

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2015:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Primary government</u>		
<u>general fund</u>		
Fire & Rescue Revolving Loan Fund	\$ -	\$ 824,559
Emergency Services Support Fund	-	1,105,213
Debt Service Fund	126,257	-
Capital Projects Fund	-	18,880,432
Enterprise Fund	-	2,251,780
<u>Special Revenue Funds</u>		
General Fund	1,929,772	-
<u>Debt Service Fund</u>		
General Fund	-	126,257
<u>Capital Projects Fund</u>		
General Fund	18,880,432	-
<u>Enterprise Funds</u>		
General Fund	<u>2,251,780</u>	<u>-</u>
Total due from/to other funds	<u>\$ 23,188,241</u>	<u>\$ 23,188,241</u>
<u>Component Units</u>		
Component Unit-St. Mary's County Building Authority Commission	\$ 191,654	\$ -
Primary Government-General Fund	<u>-</u>	<u>191,654</u>
Total due to/from Primary Government to Component Unit	<u>\$ 191,654</u>	<u>\$ 191,654</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

10. Commitments and contingencies

Primary government

There are several pending lawsuits in which the County is involved. The County attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

The County participates in a number of federally assisted grant programs, principal of which are the Departments of Education, Health and Human Services and Health and Mental Hygiene grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for the year ended June 30, 2015 have not yet been completed. Accordingly, the County's compliance with applicable grant requirements will be verified in connection with performing the County's Single Audit. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

Component units

St. Mary's County Public Schools

Legal proceedings

In the normal course of operations, the School System is subject to lawsuits and claims. In the opinion of management, the disposition of such lawsuits and claims will not have a material effect on the School System's financial position or results of operations.

School construction

As of June 30, 2015, the School System had entered into various school construction commitments which are not reflected in the Statement of Net Position or Balance Sheet – Governmental Funds, since they will be funded by the State of Maryland or County bond issues, totaling approximately \$2,474,967.

Grant program

The School System participates in a number of state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations for the current year. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

Health insurance

The School System is under a modified retrospective billing arrangement with a commercial insurance carrier to provide group health coverage. Under this arrangement, the insurance carrier assesses an initial charge paid by the School System through monthly premiums. At the end of the coverage period, there is a settlement of the difference between the billed premium and the actual claims and expenses. A deficiency in the billed premium represents the callable margin, which is owed by the School System, up to a maximum of five percent. If the actual claims and expenses are less than the billed premium, the School System would be entitled to a refund. For the year ended June 30, 2015, management does not anticipate a material deficiency or refund, and no such amount has been recorded.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

10. Commitments and contingencies (continued)

Component units (continued)

St. Mary's County Library

Grant audit

The Library receives federal funds, which are passed through the State of Maryland to the Library for specific purposes. The grants are subject to review and audit by the Maryland State Department of Education. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the granting agency. In the opinion of the Library's management, such disallowances, if any, will not be significant.

Support

The Library receives a substantial amount of its support from intergovernmental sources. A significant reduction in the level of this support, were this to occur, might have an effect on the Library's programs and activities.

11. Other post-employment benefits

Primary government

The County adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, the County recognizes the cost of post-employment health care in the year when the employee services are received; reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the County's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan description

The County provides health, prescription and vision care insurance benefits to eligible retirees and their eligible dependents and life insurance for retirees only. Eligible persons include employees, former employees, or beneficiaries who are receiving pensions, and meet the eligibility requirements of the Maryland State Retirement and Pension System. The County pays a percentage of premiums based on years of service. For employees retiring prior to July 1, 2010, the percentage ranges from 26.6% with five years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after July 1, 2010, range from 21.25% with 10 years of service to 85% with 25 years of service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by the Board of County Commissioners.

Membership

At June 30, membership consisted of:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Retirees and Their Beneficiaries Currently Receiving Benefits	391	380	384
Active Employees	<u>655</u>	<u>667</u>	<u>658</u>
Total	<u>1,046</u>	<u>1,047</u>	<u>1,042</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Primary government (continued)

Annual OPEB costs and net OPEB obligation

The County's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) was calculated as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual Required Contribution	\$ 6,097,000	\$ 5,925,000	\$ 5,740,000
Interest on Net OPEB	(1,255,000)	(1,194,000)	(970,000)
Adjustment to ARC	<u>1,237,000</u>	<u>1,141,000</u>	<u>899,000</u>
Annual OPEB Cost	6,079,000	5,872,000	5,669,000
Contributions Made to the Trust	4,797,918	4,459,954	6,433,864
Payments to Retirees	2,281,082	2,412,046	2,045,136
Net OPEB Obligation (Prepaid), Beginning of Year	<u>(21,658,485)</u>	<u>(20,658,485)</u>	<u>(17,848,485)</u>
Net OPEB Obligation (Prepaid), End of Year	<u><u>\$(22,658,485)</u></u>	<u><u>\$(21,658,485)</u></u>	<u><u>\$(20,658,485)</u></u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 98,927,000	\$ 93,108,000	\$ 84,788,000
Actuarial Value of Plan Assets	<u>56,275,380</u>	<u>44,764,558</u>	<u>36,614,000</u>
Unfunded Actuarial Accrued Liability	\$ 42,651,620	\$ 48,343,442	\$ 48,174,000
Funded Ratio (Value of Plan Assets/AAL)	56.9%	48.1%	43.2%
Covered Payroll (Active Plan Members)	\$ 37,522,510	\$ 36,772,533	\$ 35,221,122
UAAL as a percentage of covered payroll	113.66%	131.47%	136.78%

Funding progress

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions

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

In the July 1, 2015 actuarial valuation (report issued October 29, 2014), the liabilities were computed using the project unit credit method, with linear proration to assumed benefit commencement. The actuarial assumptions included a 6.0% annual rate of return and an initial annual healthcare cost trend rate of 8.0%, decreasing gradually to an ultimate rate of 5.0%. The UAAL is being amortized as a level percentage of projected payroll over 30 years with 22 years remaining.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Component units

St. Mary's County Library

The Library adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB Statement No. 45, the Library recognizes the cost of post-employment health care in the year when the employee services are received; reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the Library's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability. The Library paid for these benefits on a pay-as-you-go basis prior to the adoption of GASB Statement No. 45 on July 1, 2007. For the year ended June 30, 2015, the cost of these post-employment benefits was \$38,972.

Plan description

The Library provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of five years of eligible Library service entering an immediate retirement, family members of retirees and family members of deceased employees. The Library pays a percentage of premiums based on the date of hire and number of years of service. For employees retiring prior to July 1, 2010, or hired before July 1, 1991, regardless of retirement date, the percentage ranges from 26.6% with five years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after July 1, 2010, range from 21.25% with 10 years of service to 85% with 25 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by The Library Board of Trustees.

Membership

At June 30, membership consisted of:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Retirees and Beneficiaries Currently Receiving Benefits	9	8	8
Active Employees	<u>20</u>	<u>17</u>	<u>17</u>
Total	<u>29</u>	<u>25</u>	<u>25</u>

Funding policy

During FY08, the Library established a trust fund, the Retiree Health Benefit Trust of St. Mary's County Library, to fund certain retiree health benefits. The Library's funding policy is to contribute at least the funded expenses. The Net OPEB Obligation is overpaid by \$249,964 as of June 30, 2015.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Component units (continued)

St. Mary's County Library (continued)

Annual OPEB costs and net OPEB obligation

The Library's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) was calculated as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual Required Contribution	\$ 94,000	\$ 108,000	\$ 121,000
Interest on Net OPEB	(14,000)	(8,000)	(3,000)
Adjustment to ARC	<u>14,000</u>	<u>7,000</u>	<u>3,000</u>
Annual OPEB Cost	94,000	107,000	121,000
Contributions Made	(91,361)	(123,444)	(219,717)
Net OPEB Obligation, Beginning of Year	<u>(252,603)</u>	<u>(236,159)</u>	<u>(137,442)</u>
Net OPEB Obligation, End of Year	<u>\$ (249,964)</u>	<u>\$ (252,603)</u>	<u>\$ (236,159)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,540,000	\$ 1,620,000	\$ 1,710,000
Actuarial Value of Plan Assets	<u>800,000</u>	<u>558,000</u>	<u>404,744</u>
Unfunded Actuarial Accrued Liability	<u>\$ 740,000</u>	<u>\$ 1,062,000</u>	<u>\$ 1,305,256</u>
Funded Ratio (Value of Plan Assets/AAL)	51.95%	34.44%	23.67%
Covered Payroll (Active Plan Members)	\$ 1,951,389	\$ 1,875,641	\$ 1,861,366
UAAL as a percentage of covered payroll	37.92%	56.62%	70.12%

Actuarial methods and assumptions

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

In the July 1, 2015 actuarial valuation, the liabilities were computed using the projected unit credit method, with linear proration to assumed benefit commencement. The actuarial assumptions included a 6% annual rate of return and 3.5% annual payroll increase. The initial annual healthcare cost trend rate was 8%, decreasing gradually each year to a rate of 4.20% in 2099. The UAAL is being amortized as a level percentage of projected payroll over a 30 year closed amortization period, which started July 1, 2007.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and healthcare cost trends.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Component units (continued)

St. Mary's County Library (continued)

Actuarial methods and assumptions (continued)

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits. The actuarial value of assets was based on the estimated July 1, 2014 asset figure of \$800,000.

Metropolitan commission

MetCom adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, MetCom recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on MetCom's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability. To fund the retiree health benefits, MetCom established a trust fund, the Retiree Benefit Trust of St. Mary's County Metropolitan Commission.

Plan description

MetCom provides health, prescription, dental and vision care insurance benefits to eligible retirees, eligible retirees' family members and the family members of deceased employees as a single-employer plan. Eligible persons include employees with a minimum of ten years of eligible MetCom service entering an immediate retirement, family members of eligible retirees and family members of deceased employees. MetCom pays a percentage of premiums based on the date of hire and number of years of service. For employees hired prior to May 10, 2007, the percentage ranges from 53.13% with ten years of service to 85% with 16 or more years of service. The percentages for employees hired on or after May 10, 2007, range from 21.25% with 15 years of service to 85% with 30 years of service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by MetCom's Board of Commissioners.

Membership

At June 30, membership consisted of:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Retirees and Beneficiaries Currently Receiving Benefits	10	10	10
Active Employees	<u>67</u>	<u>66</u>	<u>65</u>
Total	<u>77</u>	<u>76</u>	<u>75</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Component units (continued)

Metropolitan commission (continued)

Funding policy

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY 2015 Operating Budget included fully funding the OPEB cost. MetCom contributed \$573,000 to the trust in FY 2015. The net OPEB obligation is overpaid by \$300,388 as of June 30, 2015.

Annual OPEB costs and net OPEB obligation

MetCom's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of MetCom's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in MetCom's net OPEB obligation:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual Required Contribution	\$ 574,000	\$ 552,000	\$ 582,000
Interest on Net OPEB	(20,000)	(20,000)	(20,000)
Adjustment to ARC	<u>19,000</u>	<u>18,000</u>	<u>18,000</u>
Annual OPEB Cost	573,000	550,000	580,000
Contributions Made	573,000	550,000	596,404
Net OPEB Obligation (Prepaid), Beginning of Year	<u>(300,388)</u>	<u>(300,388)</u>	<u>(283,984)</u>
Net OPEB Obligation (Prepaid), End of Year	<u>\$ (300,388)</u>	<u>\$ (300,388)</u>	<u>\$ (300,388)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 7,238,000	\$ 6,595,000	\$ 6,518,000
Actuarial Value of Plan Assets	<u>3,575,000</u>	<u>2,957,000</u>	<u>2,344,144</u>
Unfunded Actuarial Accrued Liability	<u>\$ 3,663,000</u>	<u>\$ 3,638,000</u>	<u>\$ 4,173,856</u>
Funded Ratio (Value of Plan Assets/AAL)	49.39%	44.84%	35.96%
Covered Payroll (Active Plan Members)	\$ 4,911,310	\$ 4,320,628	\$ 4,319,527
UAAL as a percentage of covered payroll	74.58%	84.20%	96.63%

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Component units (continued)

Metropolitan commission (continued)

Actuarial methods and assumptions

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

In the October 26, 2012 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 8% and 4.2% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 2.5% rate of inflation assumption. The UAAL is being amortized as a 30-year level percentage of projected payroll, closed basis, with 22 years remaining.

Summary of significant accounting policies

The Trust's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable. The Trust assets are invested with the Maryland Local Government Investment Pool (MLGIP) and the Maryland Association of Counties (MACO) Pooled Other Post Employment Benefits (OPEB) Trust. The Trust does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or of another entity.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Component units (continued)

St. Mary's County Public Schools

Post-employment healthcare and life insurance plan

Plan description

In addition to providing the pension benefits described above, the School System provides post-employment health care and life insurance benefits (OPEB Plan) to employees, former employees, or beneficiaries who meet retirement eligibility requirements of the pension plans. Effective July 1, 2007, by terms of a negotiated contract with employee associations, the School System partially supports the group insurance plan for retired employees who have been employed by the School System for 10 or more years. These negotiated agreements provide that the School System will contribute from 45% to 65% of a retirees' group health insurance premium for years of experience ranging from 10 years to 30 or more years, respectively. In addition, the School System pays 100% of life insurance premiums based upon 50% of final salary coverage.

In March 2009, the School System established the Retiree Benefit Trust of the Board of Education of St. Mary's County (Benefit Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Benefit Trust established a trust account with, and became a member of, the Maryland Association of Boards of Education Pooled OPEB Investment Trust (MABE Trust). The School System reserves the right to establish and amend the provisions of its relationship with the MABE Trust with respect to participants, any benefit provided there under, or its participation therein, in whole or in part at any time, by resolution of its governing body and upon advance written notice to the Trustees of the MABE Trust.

The MABE Trust was established to pool assets of its member Boards of Education for investment purposes only. Each member of the Investment Trust is required to designate a member trustee who is a trustee of the member trust. The member trustees of the MABE Trust shall ensure that the MABE Trust keep such records as are necessary in order to maintain a separation of the assets of the MABE Trust from the assets of trusts maintained by other governmental employers. Assets of the member trusts are reported in their respective financial statements using the economic resources measurement focus and the accrual basis of accounting, under which expenses are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, if available.

The MABE Trust issues a publicly available audited GAAP-basis report that includes financial statements and required supplementary information for the Investment Trust. This report may be obtained by writing to the Trust Administrator, Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401-1112, or calling 410-841-5414.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Component units (continued)

St. Mary's County Public Schools (continued)

Number of participants

Membership of the OPEB Plan currently enrolled in medical /drug coverage consisted of the following at July 1, 2014, the date of the latest actuarial valuation:

Active employees	1,573
Retirees – pre-medicare*	270
Retirees – post-medicare*	<u>474</u>
	<u>2,317</u>

*Does not include 193 participants who are not enrolled in medical/drug coverage but have life insurance coverage.

Funding policy

The School System contributes the pay as you go portion, along with an annually budgeted prefunding amount of the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of the GASB Codification. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC rate is 13.49% of annual covered payroll. The ARC consisted of the normal cost of \$7,452,000 and the amortization of unfunded accrued liability of \$6,109,000. The School System contributed \$8,194,660 for the year ended June 30, 2015, including \$5,506,142 towards current healthcare and life insurance premiums accounted for in the general fund and an additional \$2,688,518 to prefund future benefits to the retirement benefit trust fund.

Annual OPEB cost and net OPEB obligation

The School System had an actuarial valuation performed as of July 1, 2014, to determine the funded status of the plan as of that date as well as the School System's ARC for the fiscal year ended June 30, 2015. The annual OPEB cost (expense) for the year ended June 30, 2015, was \$13,550,000, which was comprised of the ARC of \$13,561,000 discussed above, less net interest on the net OPEB obligation. A historical trend of the School System's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation is as follows:

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Component units (continued)

St. Mary's County Public Schools (continued)

<u>Fiscal year ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$11,911,000	50.36%	\$30,945,928
2014	12,515,000	62.48%	35,641,970
2015	13,550,000	60.48%	40,997,310

Funded status and funding progress

The funded status of the plan was as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarial Accrued Liability (AAL)	\$188,006,000	\$146,045,000	\$136,749,000
Actuarial Value of Plan Assets	<u>34,714,382</u>	<u>25,002,000</u>	<u>19,591,619</u>
Unfunded Actuarial Accrued Liability	<u>\$153,291,618</u>	<u>\$121,043,000</u>	<u>\$117,157,381</u>
Funded Ratio (Value of Plan Assets/AAL)	18.46%	17.12%	14.33%
Covered Payroll (Active Plan Members)	\$115,255,917	\$118,651,284	\$116,191,213
UAAL as a percentage of covered payroll	133.00%	102.02%	100.83%

As of July 1, 2014, the plan was 18.46% funded. The actuarially accrued liability for benefits was \$188,006,000, and the actuarial value of assets was \$34,714,382, resulting in an unfunded actuarial accrued liability (UAAL) of \$153,291,618. The covered payroll (annual payroll of active employees covered by the plan) was \$115,255,917, and the ratio of UAAL to the covered payroll was 133.00%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the School System are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions

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

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

11. Other post-employment benefits (continued)

Component units (continued)

St. Mary's County Public Schools (continued)

Actuarial methods and assumptions (continued)

In the July 1, 2014 actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used, include (a) a rate of return on the investment of 5.25% per year compounded annually, (b) projected salary increases of 3.50% compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 4.31% to 10.76% per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 8.00% initially, reduced annually to arrive at an ultimate healthcare cost trend of 4.00%, (e) rates of mortality based upon RP 2000 Combined Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.00% to 18.00%, (g) disablement rates based on age, ranging from 0.03% to 0.49%, (h) retirement rates based on age, sex, and length of service, ranging from 2.00% to 45.00%, and (i) medical claims including prescription drugs are based on actual experience during the period from July 1, 2012 through June 30, 2014, and were projected with annual increases of 8.00% for medical claims and 8.00% for prescription drug claims. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 24 years for the year ended June 30, 2015.

12. Landfill closure and postclosure cost

State and federal laws and regulations require the Commissioners of St. Mary's County to place a final cover on landfill sites when the site stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Commissioners of St. Mary's County report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,201,000 reported as landfill closure and postclosure care liability at June 30, 2015, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

Estimated closure and postclosure costs were taken from a 1990 Cost Analysis, for cell numbers three and five, and from current contract commitments for closure for cell numbers one, two and four. A 3% inflation factor was assumed. Postclosure costs are budgeted and paid annually.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2015

13. Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and related disasters. The County is a member of the Local Government Insurance Trust (LGIT) sponsored by the Maryland Municipal League (MML) and the Maryland Association of Counties. The LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability and property coverage.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessment. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members.

Annual premiums are assessed for the various policy coverages. During fiscal year 2015 the County paid premiums of \$574,213 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000 for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

14. Self-insurance (Worker's Compensation)

The County self-insures its worker's compensation costs and liabilities. The County establishes funding of claim liabilities as they occur. This funding level includes provisions for legal, medical and lost wages expenses which are all classified as incremental claim adjustment expenses. Unpaid claims in the self-insurance funds include liabilities for unpaid claims based upon individual case estimates for claims reported at June 30, 2015. The unpaid claims also include liabilities for incurred but not reported (IBNR) claims as of June 30, 2015.

15. Change in accounting principles/restatement

The County adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68, during fiscal year ending June 30, 2015. The County restated beginning Net Position at July 1, 2014 by (\$18,349,116) for the Net Pension Liability as of June 30, 2014.

16. Subsequent events

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through November 25, 2015, the date the financial statements were available to be issued. No events occurred during the subsequent period requiring recognition or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES
AND OTHER FINANCING SOURCES AND USES
BUDGET (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		Variance
REVENUES				
Property taxes	\$ 103,319,238	\$ 104,319,238	\$ 104,538,846	\$ 219,608
Income taxes	85,200,000	81,600,000	81,002,813	(597,187)
Energy taxes	1,200,000	1,200,000	1,237,229	37,229
Recordation taxes	5,000,000	5,000,000	5,014,025	14,025
Other Local taxes	1,240,000	1,240,000	1,146,590	(93,410)
Highway user revenues	753,712	753,712	762,266	8,554
Licenses and permits	1,557,900	1,557,900	1,581,154	23,254
State/federal grants	12,166,135	11,329,371	10,364,668	(964,703)
Charges for services	2,609,529	2,582,328	3,147,128	564,800
Fines and forfeitures	50,000	50,000	49,262	(738)
Investment and other revenues	161,200	128,918	225,710	96,792
Sub-total	213,257,714	209,761,467	209,069,691	(691,776)
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND REVENUES	213,257,714	209,761,467	209,069,691	(691,776)
EXPENDITURES				
General government	22,962,820	22,019,845	20,764,244	1,255,601
Public safety	43,179,210	41,549,598	38,813,912	2,735,686
Public works	9,760,347	9,305,856	8,842,568	463,288
Health	7,017,341	7,207,813	7,038,830	168,983
Social services	4,104,733	4,073,549	3,949,191	124,358
Primary and secondary education	96,098,340	96,048,526	95,846,940	201,586
Post-secondary education	3,995,506	3,995,506	3,995,506	-
Parks, recreation and culture	3,819,930	3,984,874	3,791,820	193,054
Libraries	2,498,064	2,498,064	2,498,064	-
Conservation of natural resources	500,437	494,891	476,358	18,533
Economic development and opportunity	1,823,787	1,835,708	1,716,160	119,548
Debt service	12,018,227	9,810,775	9,777,789	32,986
Inter-governmental	49,811	49,811	49,811	-
Other	7,197,000	7,097,000	6,986,896	110,104
Sub-total	215,025,553	209,971,816	204,548,089	5,423,727
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND EXPENDITURES	215,025,553	209,971,816	204,548,089	5,423,727
OTHER FINANCING SOURCES AND USES				
Fund balance	6,208,796	6,433,665	6,208,796	(224,869)
Reserves - grants (expenditures)	(1,000,000)	(1,668,628)	-	1,668,628
Reserves - grants (revenues)	1,000,000	1,668,628	-	(1,668,628)
Reserves - OPEB	-	-	-	-
Reserves - emergency appropriations	(1,173,317)	(798,224)	-	798,224
Reserves - bond rating	(660,000)	(660,000)	(143,680)	516,320
General fund transfer/pay-go - capital projects	(1,607,640)	(3,815,092)	(3,815,092)	-
Solid waste/recycling - general fund transfer	(1,000,000)	(950,000)	(950,000)	-
Legal settlement	-	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	1,767,839	210,349	1,300,024	1,089,675
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ 5,821,626	\$ 5,821,626

See Independent Auditor's Report.

COMMISSIONERS OF ST. MARY'S COUNTY
 NOTES TO STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES
 AND OTHER FINANCING SOURCES AND USES
 BUDGET (NON-GAAP) BASIS AND ACTUAL
 GENERAL FUND
 JUNE 30, 2015

A reconciliation of the revenues and expenditures of the general fund from the budgetary basis to the GAAP basis is as follows:

	Net Change in Fund Balance	End of Year Fund Balance
Budgetary basis – general fund	\$ 5,821,626	\$ 46,580,589
Minor revolving funds and general financing that relate to activities resulting from fees, fines, and other revenue sources that are not an element of the budget basis reporting	(62,295)	(680,598)
Beginning of year encumbrances, rolled into FY2015	(234,800)	-
Appropriation from prior year rolled to FY2015 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2015	234,800	234,800
Budgeted use of fund balance	(6,208,796)	-
Increase in bond rating reserve	143,680	-
Restricted cash & investments	1,580,054	1,580,054
End of year encumbrances included in budget basis expenditures, not included for GAAP	<u>918,523</u>	<u>918,523</u>
GAAP basis	<u>\$ 2,192,792</u>	<u>\$ 48,633,368</u>

COMMISSIONERS OF ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SHERIFF'S OFFICE RETIREMENT PLAN
 FOR THE YEAR ENDED JUNE 30, 2015

Changes in the county's net pension liability and related ratios
 Last 10 fiscal years (dollar amounts in thousands)

	2015	2014
Total pension liability		
Service cost	\$ 3,687	\$ 3,475
Interest	6,564	6,286
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	3,445	-
Benefit payments, including refunds of member contributions	<u>(3,193)</u>	<u>(2,862)</u>
Net change in total pension liability	10,504	6,899
Total pension liability – beginning	<u>92,137</u>	<u>85,238</u>
Total pension liability – ending (a)	<u>\$102,640</u>	<u>\$ 92,137</u>
Plan fiduciary net position		
Contributions – employer	\$ 5,197	\$ 5,605
Contributions – member	945	1,082
Net investment income	(465)	8,480
Benefit payments, including refunds of member contributions	(3,193)	(2,862)
Administrative expense	(79)	(78)
Other	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	\$ 2,405	\$ 12,228
Plan fiduciary net position – beginning	<u>65,204</u>	<u>52,976</u>
Plan fiduciary net position – ending (b)	<u>\$ 67,610</u>	<u>\$ 65,204</u>
County's Net Pension Liability – ending (a) – (b)	<u>\$ 35,031</u>	<u>\$ 26,932</u>
Plan fiduciary net position as a percentage of the total pension liability	65.87%	70.77%
Covered employee payroll	14,655	14,276
County's net pension liability as a percentage of covered employee payroll	239.04%	188.66%
Expected average remaining service years of all participants	7	8

Notes to Schedule:

Information for FY2013 and earlier is not available.

Benefit changes: None.

Changes of assumptions: For FY2015, the expected rate of return on plan investments was reduced from 7.50% to 7.25% net of investment related expenses.

COMMISSIONERS OF ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SHERIFF'S OFFICE RETIREMENT PLAN
 FOR THE YEAR ENDED JUNE 30, 2015

Schedule of county contributions
 Last 10 fiscal years (Dollar amounts in thousands)

	2015	2014
Actuarially determined contribution	\$ 5,197	\$ 5,144
Contributions in relation to the actuarially determined contribution	<u>5,197</u>	<u>5,605</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (461)</u>
Covered employee payroll	\$ 14,655	\$ 14,276
Contributions as a percentage of covered employee payroll	35.46%	39.26%

Notes to schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll
Remaining amortization period	22 years (closed)
Asset valuation method	5-year smoothed market
Inflation	3.0 percent
Salary increases	Rates vary by participant service
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation
Retirement age	Rates vary by participant age and service
Mortality	RP-2000 Combined Healthy tables with Blue Collar adjustment and generational projection by Scale AA

COMMISSIONERS OF ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 RETIREE BENEFIT TRUST
 FOR THE YEAR ENDED JUNE 30, 2015

Schedules of employer contributions and funding progress for the retiree benefit trust are presented below:

Primary government

Schedule of employer contributions

Fiscal Year Ended	Annual OPEB Costs	Employer Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
06/30/08	\$4,617,000	\$14,788,623	320%	\$(10,171,623)
06/30/09	4,762,000	10,762,000	226%	(16,171,623)
06/30/10	4,888,000	4,888,000	100%	(16,171,623)
06/30/11	5,145,000	5,145,000	100%	(16,171,623)
06/30/12	5,400,000	7,076,862	131%	(17,848,485)
06/30/13	5,669,000	8,479,000	150%	(20,658,485)
06/30/14	5,872,000	6,872,000	117%	(21,658,485)
06/30/15	6,079,000	7,079,000	116%	(22,658,485)

Schedule of funding progress

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/07	\$10,000,000	\$60,135,000	\$50,135,000	16.6%	\$34,115,335	146.96%
07/01/08	13,458,000	64,561,000	51,103,000	20.8%	35,716,358	143.08%
07/01/09	24,400,000	73,285,000	48,885,000	33.3%	35,562,940	137.46%
07/01/10	28,799,000	78,251,000	49,452,000	36.8%	35,556,564	139.08%
07/01/11	31,418,000	79,275,000	47,857,000	39.6%	35,208,044	135.93%
07/01/12	36,614,000	84,788,000	48,174,000	43.2%	35,221,122	136.78%
07/01/13	44,764,558	93,108,000	48,343,442	48.1%	36,772,533	131.47%
07/01/14	56,275,380	98,927,000	42,651,620	56.9%	37,522,510	113.66%

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OTHER SUPPLEMENTARY INFORMATION

COMMISSIONERS OF ST. MARY'S COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2015

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
ASSETS				
Due from other funds	\$ 126,257	\$ 824,559	\$ 1,105,213	\$ 2,056,029
Special tax assessments receivable, current portion	2,560	-	-	2,560
Notes receivable, fire and rescue loans, current portion	-	424,698	-	424,698
Emergency support services taxes receivable	-	-	163,521	163,521
Notes receivable, fire and rescue loans (net of current portion)	-	1,681,147	-	1,681,147
Special tax assessments receivable (net of current portion)	597,602	-	-	597,602
	Total assets	\$ 2,930,404	\$ 1,268,734	\$ 4,925,557
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 7,698	\$ 7,698
Unearned revenue	599,381	2,105,845	-	2,705,226
Compensation - related liabilities	-	-	14,462	14,462
Due to other funds	-	-	-	-
	Total liabilities	2,105,845	22,160	2,727,386
FUND BALANCES				
Nonspendable	-	-	-	-
Committed	127,038	824,559	1,246,574	2,198,171
Assigned	-	-	-	-
Unassigned	-	-	-	-
	Total fund balances	824,559	1,246,574	2,198,171
	Total liabilities and fund balances	\$ 2,930,404	\$ 1,268,734	\$ 4,925,557

COMMISSIONERS OF ST. MARY'S COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
REVENUES				
Fire and rescue loan repayments	\$ -	\$ 351,179	\$ -	\$ 351,179
Special assessments	198,917	-	-	198,917
Emergency services support tax	-	-	1,979,547	1,979,547
Other	-	-	349,032	349,032
	<u>198,917</u>	<u>351,179</u>	<u>2,328,579</u>	<u>2,878,675</u>
EXPENDITURES				
Loans to fire and rescue	-	847,456	-	847,456
Debt service	62,505	-	129,072	191,577
LOSAP	-	-	855,187	855,187
Operating allocations	-	-	340,000	340,000
Advanced life support	-	-	1,136,845	1,136,845
Emergency services committee	-	-	153,410	153,410
Grants	-	-	115,896	115,896
	<u>62,505</u>	<u>847,456</u>	<u>2,730,410</u>	<u>3,640,371</u>
Net increase/(decrease) in fund balances	<u>136,412</u>	<u>(496,277)</u>	<u>(401,831)</u>	<u>(761,696)</u>
FUND BALANCES				
Beginning of year	<u>(9,374)</u>	<u>1,320,836</u>	<u>1,648,405</u>	<u>2,959,867</u>
End of year	<u>\$ 127,038</u>	<u>\$ 824,559</u>	<u>\$ 1,246,574</u>	<u>\$ 2,198,171</u>

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		Variance
PROPERTY TAXES				
Real property taxes	\$ 99,257,049	\$ 100,257,049	\$ 99,613,719	\$ (643,330)
Payments in lieu of taxes	382,887	382,887	184,915	(197,972)
Personal property	156,366	156,366	151,551	(4,815)
Public utilities	2,274,761	2,274,761	2,480,273	205,512
Ordinary business corporations	2,970,954	2,970,954	2,703,438	(267,516)
Additions and abatements	(1,000,000)	(1,000,000)	103,299	1,103,299
Penalties and interest	800,000	800,000	778,691	(21,309)
State homeowners credit (circuit breaker)	800,000	800,000	837,626	37,626
Homeowners tax credit (county)	(800,000)	(800,000)	(837,626)	(37,626)
Other tax credits	(1,522,779)	(1,522,779)	(1,477,040)	45,739
Total property taxes	103,319,238	104,319,238	104,538,846	219,608
Income Tax				
Local income tax	85,200,000	81,600,000	81,002,813	(597,187)
Other Local Taxes				
Recordation taxes	5,000,000	5,000,000	5,014,025	14,025
Energy taxes	1,200,000	1,200,000	1,237,229	37,229
Public accommodations tax	850,000	850,000	769,679	(80,321)
Trailer park tax	290,000	290,000	296,976	6,976
Admissions and amusement	100,000	100,000	79,935	(20,065)
Total other local taxes	7,440,000	7,440,000	7,397,844	(42,156)
State-shared taxes - highway users	753,712	753,712	762,266	8,554
TOTAL TAXES	196,712,950	194,112,950	193,701,769	(411,181)
LICENSES AND PERMITS				
Business	250,400	250,400	298,610	48,210
Marriage/animal licenses	12,000	12,000	12,718	718
Other	345,500	345,500	267,124	(78,376)
CATV franchise fees	950,000	950,000	1,002,702	52,702
TOTAL LICENSES AND PERMITS	1,557,900	1,557,900	1,581,154	23,254
INTER-GOVERNMENTAL				
General government	845,195	747,767	702,823	(44,944)
Public safety	3,439,362	3,067,419	2,183,649	(883,770)
Public works	1,968,062	1,246,044	1,546,102	300,058
Social services	826,461	979,155	839,485	(139,670)
Health	4,962,055	5,119,403	4,974,637	(144,766)
Parks, recreation and culture	75,000	119,000	24,979	(94,021)
Economic development & opportunity	50,000	50,583	92,993	42,410
TOTAL INTER-GOVERNMENTAL	12,166,135	11,329,371	10,364,668	(964,703)

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
CHARGES FOR SERVICES				
General government	\$ 638,115	\$ 614,931	\$ 903,005	\$ 288,074
Public safety	1,336,077	1,332,060	1,505,051	172,991
Public works	445,350	445,350	446,563	1,213
Social services	98,687	98,687	102,113	3,426
Parks, recreation and culture	31,300	31,300	145,770	114,470
Reimbursement - housing authority	60,000	60,000	44,626	(15,374)
TOTAL CHARGES FOR SERVICES	<u>2,609,529</u>	<u>2,582,328</u>	<u>3,147,128</u>	<u>564,800</u>
FINES AND FORFEITURES				
General government	46,000	46,000	41,889	(4,111)
Public safety	4,000	4,000	7,373	3,373
TOTAL FINES AND FORFEITURES	<u>50,000</u>	<u>50,000</u>	<u>49,262</u>	<u>(738)</u>
OTHER REVENUES				
General Government				
Interest	50,000	23,393	100,426	77,033
Grant reserve	1,000,000	1,668,628	-	(1,668,628)
Contributions and donations	111,200	105,525	125,284	19,759
TOTAL OTHER REVENUES	<u>1,161,200</u>	<u>1,797,546</u>	<u>225,710</u>	<u>(1,571,836)</u>
TOTAL, BEFORE PASS-THROUGH PROCEEDS	<u>214,257,714</u>	<u>211,430,095</u>	<u>209,069,691</u>	<u>(2,360,404)</u>
Pass-through proceeds	-	-	-	-
OTHER FINANCING SOURCES				
Appropriation of fund balance	6,208,796	6,433,665	6,208,796	(224,869)
TOTAL REVENUES INCLUDING PASS-THROUGHS	<u>\$ 220,466,510</u>	<u>\$ 217,863,760</u>	<u>\$ 215,278,487</u>	<u>\$ (2,585,273)</u>

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
GENERAL GOVERNMENT				
Legislative/county commissioners				
Legislative/county commissioners	\$ 464,358	\$ 468,015	\$ 442,615	\$ 25,400
County administrator	352,481	355,772	341,407	14,365
Public information	235,726	232,501	219,644	12,857
County attorney	625,509	618,990	594,144	24,846
Legislative/county commissioners	<u>1,678,074</u>	<u>1,675,278</u>	<u>1,597,810</u>	<u>77,468</u>
Department of finance				
Administration/budget	739,949	733,767	716,413	17,354
Accounting	562,981	533,023	524,029	8,994
Auditing	64,450	44,450	43,107	1,343
Procurement	283,840	277,670	274,643	3,027
Department of finance	<u>1,651,220</u>	<u>1,588,910</u>	<u>1,558,192</u>	<u>30,718</u>
Department of emergency services & technology				
Technology	<u>2,985,115</u>	<u>2,775,929</u>	<u>2,713,089</u>	<u>62,840</u>
Department of human resources				
Human resources	878,370	872,521	844,138	28,383
Risk management	779,942	732,071	577,224	154,847
Grants	-	-	-	-
Department of human resources	<u>1,658,312</u>	<u>1,604,592</u>	<u>1,421,362</u>	<u>183,230</u>
Department of public works & transportation				
Building services	3,883,311	3,817,166	3,445,801	371,365
Development review	214,868	211,596	208,878	2,718
Mailroom/messenger services	133,898	130,588	143,580	(12,992)
Vehicle maintenance shop	1,451,308	1,485,429	1,463,013	22,416
Department of public works & transportation	<u>5,683,385</u>	<u>5,644,779</u>	<u>5,261,272</u>	<u>383,507</u>
Department of land use & growth management				
Administration	738,479	705,778	644,590	61,188
Board of electrical examiners	14,300	14,300	10,636	3,664
Comprehensive planning	802,610	602,900	577,084	25,816
Development services	411,023	387,329	351,271	36,058
Inspections & compliance	590,901	565,578	519,710	45,868
Permit services	319,916	326,483	283,378	43,105
Zoning administration	294,379	286,970	273,959	13,011
Building code appeals board	2,600	2,600	2,017	583
Commission on the environment	2,825	2,825	797	2,028
Plumbing & gas board	2,350	2,350	1,137	1,213
Planning commission	23,301	23,286	22,264	1,022
Boards and commissions	21,653	20,638	14,886	5,752
Historical preservation	3,570	3,563	1,539	2,024
Grants	30,450	18,300	17,600	700
Department of land use & growth management	<u>3,258,357</u>	<u>2,962,900</u>	<u>2,720,868</u>	<u>242,032</u>
Circuit court				
Administration	941,637	905,446	863,984	41,462
Law library	61,666	61,666	64,966	(3,300)
Grants	539,432	474,915	405,904	69,011
Orphan's court	49,685	47,967	44,190	3,777
Circuit court	<u>1,592,420</u>	<u>1,489,994</u>	<u>1,379,044</u>	<u>110,950</u>
Office of the state's attorney				
Judicial	2,515,112	2,324,770	2,223,682	101,088
Grants	592,559	612,144	568,010	44,134
Office of the state's attorney	<u>3,107,671</u>	<u>2,936,914</u>	<u>2,791,692</u>	<u>145,222</u>
County treasurer				
	<u>423,293</u>	<u>416,400</u>	<u>402,176</u>	<u>14,224</u>

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
Alcohol beverage board	\$ 254,013	\$ 253,545	\$ 238,702	\$ 14,843
Supervisors of elections	670,127	669,771	680,037	(10,266)
Ethics commission	833	833	-	833
Total general government	<u>\$ 22,962,820</u>	<u>\$ 22,019,845</u>	<u>\$ 20,764,244</u>	<u>\$ 1,255,601</u>
PUBLIC SAFETY				
Department of emergency services & technology				
Emergency management	359,749	355,902	312,797	43,105
Animal control	717,088	702,568	791,049	(88,481)
Emergency activation	-	2,676	1,927	749
Emergency communications center	2,734,786	2,652,043	2,575,735	76,308
Emergency radio communications	2,354,516	2,265,676	2,141,915	123,761
Grants	<u>1,226,328</u>	<u>649,797</u>	<u>683,908</u>	<u>(34,111)</u>
Department of emergency services & technology	<u>7,392,467</u>	<u>6,628,662</u>	<u>6,507,331</u>	<u>121,331</u>
Office of the sheriff				
Law enforcement	21,563,353	21,129,942	20,022,461	1,107,481
Corrections	11,650,331	11,026,057	10,372,709	653,348
Training	312,811	312,811	300,424	12,387
Canine	39,850	48,850	41,445	7,405
Court security	738,912	742,661	746,765	(4,104)
Grants	<u>1,481,486</u>	<u>1,660,615</u>	<u>822,777</u>	<u>837,838</u>
Office of the sheriff	<u>35,786,743</u>	<u>34,920,936</u>	<u>32,306,581</u>	<u>2,614,355</u>
Total public safety	<u>\$ 43,179,210</u>	<u>\$ 41,549,598</u>	<u>\$ 38,813,912</u>	<u>\$ 2,735,686</u>
PUBLIC WORKS				
Department of PW and transportation				
Administration	419,702	393,967	389,873	4,094
Engineering services	749,107	727,029	721,907	5,122
Construction & inspections	558,040	559,991	557,171	2,820
County highways	4,066,132	4,466,439	4,228,648	237,791
Solid waste/recycling subsidy	1,000,000	950,000	950,000	-
St Mary's county airport	48,800	48,800	22,165	26,635
St. Mary's transit system	<u>3,918,566</u>	<u>3,109,630</u>	<u>2,922,804</u>	<u>186,826</u>
Department of PW and transportation	<u>10,760,347</u>	<u>10,255,856</u>	<u>9,792,568</u>	<u>463,288</u>
Total public works	<u>\$ 10,760,347</u>	<u>\$ 10,255,856</u>	<u>\$ 9,792,568</u>	<u>\$ 463,288</u>
HEALTH				
Operating allocation				
Health department	1,952,591	1,985,730	1,985,730	-
Mosquito control	<u>16,236</u>	<u>16,221</u>	<u>16,168</u>	<u>53</u>
Operating allocation	<u>1,968,827</u>	<u>2,001,951</u>	<u>2,001,898</u>	<u>53</u>
Human services				
Human services	389,177	389,177	359,786	29,391
Grants	<u>4,659,337</u>	<u>4,816,685</u>	<u>4,677,146</u>	<u>139,539</u>
Human services	<u>5,048,514</u>	<u>5,205,862</u>	<u>5,036,932</u>	<u>168,930</u>
Total health	<u>\$ 7,017,341</u>	<u>\$ 7,207,813</u>	<u>\$ 7,038,830</u>	<u>\$ 168,983</u>

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
SOCIAL SERVICES				
Department on aging				
Department on aging	\$ 1,596,897	\$ 1,536,600	\$ 1,510,845	\$ 25,755
Grants	1,046,582	1,073,141	980,325	92,816
Department on aging	<u>2,643,479</u>	<u>2,609,741</u>	<u>2,491,170</u>	<u>118,571</u>
Department of social services	<u>436,899</u>	<u>439,453</u>	<u>433,666</u>	<u>5,787</u>
Operating allocation				
Hospice of St. Mary's	15,000	15,000	15,000	-
The ARC of Southern Maryland, Inc.	130,000	130,000	130,000	-
The Center for Family Advocacy	100,000	100,000	100,000	-
The Center for Life Enrichment	150,908	150,908	150,908	-
Greenwell Foundation	30,000	30,000	30,000	-
St. Mary's Caring, Inc.	3,000	3,000	3,000	-
Three Oaks Center	125,000	125,000	125,000	-
Tri-County Community Action (SMTCCAC, Inc.)	16,000	16,000	16,000	-
Tri-County Youth Services Bureau	110,000	110,000	110,000	-
Unified Commission for Afro-Americans	4,000	4,000	4,000	-
Walden/Sierra	340,447	340,447	340,447	-
Operating allocation	<u>1,024,355</u>	<u>1,024,355</u>	<u>1,024,355</u>	<u>-</u>
Total social services	<u>\$ 4,104,733</u>	<u>\$ 4,073,549</u>	<u>\$ 3,949,191</u>	<u>\$ 124,358</u>
PRIMARY AND SECONDARY EDUCATION				
Board of Education	<u>93,910,979</u>	<u>93,910,979</u>	<u>93,910,979</u>	<u>-</u>
Non-public school bus transportation	<u>2,177,361</u>	<u>2,127,547</u>	<u>1,925,961</u>	<u>201,586</u>
Operating allocation				
Literacy Council of St. Mary's County	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total primary and secondary education	<u>\$ 96,098,340</u>	<u>\$ 96,048,526</u>	<u>\$ 95,846,940</u>	<u>\$ 201,586</u>
POST-SECONDARY EDUCATION				
College of Southern Maryland - general operations	<u>3,955,506</u>	<u>3,955,506</u>	<u>3,955,506</u>	<u>-</u>
Operating allocation				
Southern Md. Higher Education Center	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total post-secondary education	<u>\$ 3,995,506</u>	<u>\$ 3,995,506</u>	<u>\$ 3,995,506</u>	<u>\$ -</u>
PARKS, RECREATION AND CULTURE				
Department of recreation and parks				
Administration	1,129,704	1,128,032	1,121,035	6,997
Parks maintenance	1,985,394	1,967,711	1,920,013	47,698
Museum division	527,832	538,131	493,792	44,339
Grants	75,000	119,000	24,980	94,020
Department of recreation and parks	<u>3,717,930</u>	<u>3,752,874</u>	<u>3,559,820</u>	<u>193,054</u>
Operating Allocation				
St. Mary's County Historical Society	10,000	10,000	10,000	-
Patuxent River Naval Air Museum	15,000	145,000	145,000	-
Rotary Club of St. Mary's	3,000	3,000	3,000	-
Historic Sotterley, Inc.	60,000	60,000	60,000	-
St. Mary's College River Concert Series	5,000	5,000	5,000	-
Seventh District Optimist	9,000	9,000	9,000	-
Operating allocation	<u>102,000</u>	<u>232,000</u>	<u>232,000</u>	<u>-</u>
Total parks, recreation and culture	<u>\$ 3,819,930</u>	<u>\$ 3,984,874</u>	<u>\$ 3,791,820</u>	<u>\$ 193,054</u>

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
LIBRARIES				
County funding - general operations	\$ 2,498,064	\$ 2,498,064	\$ 2,498,064	\$ -
CONSERVATION OF NATURAL RESOURCES				
Cooperative Extension Service	258,686	258,686	243,036	15,650
Soil Conservation District	71,557	69,448	71,478	(2,030)
Conservation of natural resources	330,243	328,134	314,514	13,620
Allocation of agriculture and seafood (Division of DECD)	143,564	140,127	135,214	4,913
Operating allocation				
SMC Forest Conservation District Board	2,000	2,000	2,000	-
Southern Md. Resource Conservation/Dev.	11,630	11,630	11,630	-
Watermen's Association	13,000	13,000	13,000	-
Operating allocation	26,630	26,630	26,630	-
Total conservation of natural resources	\$ 500,437	\$ 494,891	\$ 476,358	\$ 18,533
ECONOMIC DEVELOPMENT AND OPPORTUNITY				
Department of economic & community development				
Administration/office of the director	383,637	274,711	228,269	46,442
Tourism development	465,570	452,368	428,680	23,688
Agriculture & seafood development	191,419	186,836	180,285	6,551
Less allocation (see above)	(143,564)	(140,127)	(135,214)	(4,913)
Business development/lexington park revitalization	474,608	575,408	474,444	100,964
Grants	50,000	50,583	115,379	(64,796)
Department of economic & community development	1,421,670	1,399,779	1,291,843	107,936
Office of Community Services				
Office of community services	261,867	291,354	280,666	10,688
Human relations commission	1,850	1,850	1,514	336
Commission for the disabled	2,300	2,300	2,299	1
Commission for women	4,500	8,825	8,237	588
	270,517	304,329	292,716	11,613
Operating allocation				
Navy Alliance	25,000	25,000	25,000	-
The Promise	12,400	12,400	12,400	-
Tri-County Council	94,200	94,200	94,200	-
Operating allocation	131,600	131,600	131,600	-
Total economic development and opportunity	\$ 1,823,787	\$ 1,835,708	\$ 1,716,159	\$ 119,549
DEBT SERVICE				
Debt service	\$ 12,018,227	\$ 9,810,775	\$ 9,777,789	\$ 32,986
INTER-GOVERNMENTAL				
Leonardtown tax rebate	49,811	49,811	49,811	-
Total inter-governmental	\$ 49,811	\$ 49,811	\$ 49,811	\$ -

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
OTHER				
Employer contributions-retiree health benefits	6,962,000	6,962,000	6,962,000	-
Unemployment compensation	100,000	100,000	16,582	83,418
Bank service fees	35,000	35,000	8,314	26,686
Total other	<u>\$ 7,097,000</u>	<u>\$ 7,097,000</u>	<u>\$ 6,986,896</u>	<u>\$ 110,104</u>
Total expenditures, before pass-throughs	<u>215,925,553</u>	<u>210,921,816</u>	<u>205,498,088</u>	<u>5,423,728</u>
Pass-through expenditures	-	-	-	-
Total expenditures, including pass-throughs	<u>\$ 215,925,553</u>	<u>\$ 210,921,816</u>	<u>\$ 205,498,088</u>	<u>\$ 5,423,728</u>
RESERVES				
Reserve - grants	1,000,000	1,668,628	-	1,668,628
Reserve - OPEB	-	-	-	-
Reserve - bond rating	660,000	660,000	143,680	516,320
Reserve - emergency appropriations	1,273,317	798,224	-	798,224
Reserves	<u>2,933,317</u>	<u>3,126,852</u>	<u>143,680</u>	<u>2,983,172</u>
Total reserves	<u>\$ 2,933,317</u>	<u>\$ 3,126,852</u>	<u>\$ 143,680</u>	<u>\$ 2,983,172</u>
Total expenditures, including pass-throughs and reserves	<u>\$ 218,858,870</u>	<u>\$ 214,048,668</u>	<u>\$ 205,641,768</u>	<u>\$ 8,406,900</u>
Transfer				
Capital projects - general fund transfer/pay-go	1,607,640	3,815,092	3,815,092	-
Total expenditures and other financing uses	<u>\$ 220,466,510</u>	<u>\$ 217,863,760</u>	<u>\$ 209,456,860</u>	<u>\$ 8,406,900</u>

COMMISSIONERS OF ST. MARY'S COUNTY
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2015

LAND PRESERVATION

Agriculture Preservation	\$ 3,169,465	
Critical Area Planting	<u>274,597</u>	\$ 3,444,062

HIGHWAYS

FDR Blvd. Extended	\$ 9,816,034	
Patuxent Park Neighborhood Preservation	1,633,263	
Dr. Johnson Rd. Bridge Structure	415,376	
Regional Water Quality & Nutrient Removal	3,583,656	
Buck Hewitt Road	939,779	
Roadside Obstacles	50,513	
Retrofit Sidewalk Program	166,016	
Asphalt Overlay	827,276	
Modified Seal Surface Treatment	748	
Traffic Control Signals	93,756	
Streetscape Improvements	50,535	
Bridge/Culvert Replacement	95,040	
Roadway Base Widening & Repairs	<u>1,053</u>	17,673,045

MARINE

St. Jerome's Creek Jetties	<u>\$ 1,038,766</u>	1,038,766
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PUBLIC WORKS

Base Realignment & Closure	\$ 7,500,000	
800 MHz Radio Enhancement	7,684,688	
Patuxent River Naval Museum-New	441,017	
Adult Detention Center (ADC) Upgrades	4,708,795	
Emergency Communications Center Hardening	26,667	
Airport Wetlands Mitigation	360,466	
Leonardtown Library Renovation	3,062,124	
Workforce Housing Initiative	250,000	
Building Maintenance & Repairs	38,091	
Farmers Market Improvements	150,000	
Airport Master Plan	2,353,548	
Sheriff District 4 Office	265,706	
Tri-County Animal Shelter	34,679	
Airport Improvements	<u>26,595</u>	26,902,376

PIERS AND BOAT RAMPS

Piney Point Landing Peir	\$ -	
Derelect Boat Removal	<u>20,000</u>	20,000

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2015
(CONTINUED)

PUBLIC SCHOOLS

Site Acquisition Various	\$ 4,081,445	
Spring Ridge Middle School Renovation	2,761,681	
Greenview Knolls HVAC	92,738	
Esperanza Middle School Soil Erosion	360,946	
Energy Efficiency LED Lighting	75,366	
Leonardtown HS Tennis/Track Resurfacing	82,089	
Playground Equipment	5,199	
Mechanicsville ES Bus/Parking Lot	5,140	
State Relocatable-site to be determined	95,940	
Flooring Replacement Various	538	
Margaret Brent MS Chiller Replacement	80,137	
Spring Ridge MS Relocatables	78,923	
Fairlead Academy Building	75,000	
Site Paving - Parkings Lots & Sidewalks	63,409	
Qualified Zone Academy Bond	22,000	
Carver ES Relocatables	11,966	
Aging School Program	<u>7,000</u>	\$ 7,899,517

RECREATION & PARKS

Three Notch Trail	\$ 2,762,046	
Parks Land Acquisition	1,140,330	
Lancaster Park Improvements	908,500	
Leonardtown Park	624,772	
Civil War Memorial & Interpretive Center	3,987	
Recreation Facility Improvements	25,933	
Piney Point Lighthouse Museum	93,628	
Fireman's Heritage Museum	105,000	
Charlotte Hall Athletic Fields	3,887	
Nicolet Park Entrance	<u>65,000</u>	5,733,083

SOLID WASTE

Landfill Mitigation	\$ 842,927	
Convenience Center Expansion	<u>26,149</u>	<u>869,076</u>

Total		<u>\$ 63,579,925</u>
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Included in the above total is \$12,625,312 in unexpended State and Federal projects appropriations.



Murphy & Murphy, CPA, LLC
Certified Public Accountants

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

To the Commissioners of St. Mary's County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commissioners of St. Mary's County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commissioners of St. Mary's County's basic financial statements, and have issued our report thereon dated November 25, 2015. Our report includes a reference to other auditors who audited the financial statements of the St. Mary's County Public Schools, as described in our report on the Commissioners of St. Mary's County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland
November 25, 2015

ST. MARY'S COUNTY METROPOLITAN COMMISSION

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2015 AND 2014**



Murphy & Murphy, CPA, LLC

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**INDEPENDENT AUDITOR'S REPORT ON COMPONENT
UNIT FINANCIAL STATEMENTS**

To the Commissioners of
St. Mary's County Metropolitan Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of St. Mary's County Metropolitan Commission (MetCom), component unit of St. Mary's County, Maryland, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise St. Mary's County Metropolitan Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of St. Mary's County Metropolitan Commission as of June 30, 2015 and 2014, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 6 and 10 to the financial statements, MetCom changed the manner in which it accounts for pensions. As described within the notes to the financial statements, MetCom adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, and the OPEB funding progress and schedule of contributions on pages 4 through 10, 44 through 45, and 46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to

express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Mary's County Metropolitan Commission's basic financial statements. The other supplemental information on pages 47 through 51 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of St. Mary's County Metropolitan Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Mary's County Metropolitan Commission's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
September 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the St. Mary's County Metropolitan Commission's (MetCom's) annual financial report presents our discussion and analysis of MetCom's financial performance during the fiscal years that ended June 30, 2015 and 2014. Please read it in conjunction with MetCom's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- MetCom's total net position increased by \$10.3 million and \$9.7 million, or 10.7% and 10.7%, as a result of operations in FY 2015 and 2014, respectively.
- During the current year, MetCom's revenue from operations was \$14.2 million, representing an increase of 2.8% over the prior year. The current year increase is mainly due to an average increase in sewer rates of approximately 3.6% which was offset by a reduction in sewer volumes billed. In FY 2014 operating revenues were \$13.8 million which was an increase of 1.5% over FY 2013. The increase in FY 2014 operating revenue was mainly due to an average increase in sewer rates of approximately 3% and an increase in most water service rates of almost 1.3%, except non-metered water service rates which decreased significantly.
- MetCom's operating expenses excluding depreciation were \$11.7 million during the current year and \$11.5 million in the prior year.
- MetCom's nonoperating revenue was \$12.3 million during the current year and \$11.6 million in FY 2014, representing an increase of 5.4% in the current year and an increase of 104% in the prior year. The large increase in the prior year was mainly attributable to the increase in capital contributions and debt service charges received.
- In FY 2008, MetCom established a trust fund for the management of assets and accounting for financial transactions associated with the provision of retiree health insurance coverage. In FY 2015, MetCom joined in the Maryland Association of Counties (MACo) Pooled Other Post-Employment Benefit Plan (OPEB) Trust. The balance in trust was \$3.7 million as of 6/30/15 and \$3.3 million as of 6/30/14. In FY 2015, MetCom contributed \$573 thousand, to fully fund the annual required contribution.
- MetCom recorded one new loan in FY 2015.
- On August 14, 2015 MetCom closed on two loans with TD Bank, for \$8.1 million to refinance some or all of Bond 17, Bond 21 and Bond 23.

USING THIS ANNUAL REPORT

This annual report consists of three parts – management’s discussion and analysis, the basic financial statements and supplemental information. The basic financial statements consist of:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Statements of Fiduciary Net Position
- Statements of Changes in Fiduciary Net Position
- Notes to Financial Statements

The Statements of Net Position provide a snapshot of MetCom’s financial position at both June 30, 2015 and 2014. Amounts of Net Position are cumulative from inception. Both current and long-term assets and liabilities, as well as net position, are presented.

The Statements of Revenues, Expenses and Changes in Net Position provide information about the activities of MetCom as a whole and reflect activity for the fiscal years ended June 30, 2015 and 2014. These statements measure operating revenues and expenses as well as non-operating revenues and expenses. The statements also present capital contributions as well as changes in net position.

The Statements of Cash Flows present the sources and uses of MetCom’s cash. MetCom uses the direct method for presenting the cash flow statements.

The Notes to the Financial Statements provide information and more detailed data about the financial statements. The Required Supplemental Information provides information about the Pension Plan and Other Post Employment Benefit Plan (OPEB). The Supplementary Departmental Financial Statements report MetCom’s activities in more detail by providing information about MetCom’s most financially significant funds.

MetCom operates as an enterprise fund, which is one type of proprietary fund. All of MetCom’s basic services are reported here, including water, sewer, engineering services and general administration, as well as other nonoperating revenues and expenses. MetCom charges customers fees to cover all of the costs of the services it provides. MetCom’s financial statements are presented using the accrual basis of accounting and the economic resource measurement focus. All assets and liabilities are included in the financial statements. Revenue is recognized when water and other services are delivered, and expenses are recognized when goods and services are received, regardless of when cash is received or paid.

MetCom has one fiduciary fund, the Retiree Health Benefit Fund, which is used to account for resources held for the benefit of MetCom employees and retirees. These funds are not available to support MetCom’s operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The Supplementary Departmental Financial Statements provide details about MetCom's most significant funds – not MetCom as a whole. The Board of Commissioners of MetCom establishes funds to help it manage and control monies for particular purposes or to show that it is meeting legal responsibilities.

METCOM AS A WHOLE

Statements of Net Position

MetCom's total net position increased by approximately \$10.3 million in FY 2015, and \$6.4 million in FY 2014. FY 2014 has been adjusted for the implementation of GASB 68, Accounting and Financial Reporting for Pensions, and GASB 71. Most of the current year's increase is attributable to the change in net investment of capital assets. During the current year MetCom received \$4.9 million in grants and \$.5 million of assets built by developers and donated to MetCom. MetCom also earned \$4.9 million. During FY 2014, the increase was mainly attributable to the change in net investment in capital assets. The following condensed statements show the changes in assets, liabilities and net position for the years ended June 30, 2015, 2014 and 2013.

MetCom's Net Position
(in millions of dollars)
Business-type activities

	<u>June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 26.20	\$ 22.00	\$ 16.50
Capital assets	139.40	119.50	107.40
Deferred outflow - pension	<u>0.50</u>	<u>0.50</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 166.10</u>	<u>\$ 142.00</u>	<u>\$ 123.90</u>
Long-term debt outstanding	\$ 47.10	\$ 35.10	\$ 28.20
Other liabilities	11.60	10.20	5.40
Deferred inflow - pension	<u>0.40</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ 59.10</u>	<u>\$ 45.30</u>	<u>\$ 33.60</u>
Net position			
Net invested in capital assets	\$ 88.70	\$ 82.00	\$ 77.00
Restricted	10.60	8.60	6.30
Unrestricted	<u>7.70</u>	<u>6.10</u>	<u>7.00</u>
Total net position	<u>\$ 107.00</u>	<u>\$ 96.70</u>	<u>\$ 90.30</u>

Statements of Revenues, Expenses and Changes in Net Position

Changes in MetCom's net position can be determined by reviewing the following condensed Statements of Revenue, Expenses and Changes in Net Position:

MetCom's Changes in Net Position (in millions of dollars) Business-type activities

	<u>Years ended June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 14.20	\$ 13.80	\$ 13.60
Operating expenses	(11.70)	(11.50)	(11.20)
Depreciation expense	<u>(4.50)</u>	<u>(4.20)</u>	<u>(4.00)</u>
Operating loss	(2.00)	(1.90)	(1.60)
Nonoperating revenues	6.90	6.60	4.60
Capital contributions	<u>5.40</u>	<u>5.00</u>	<u>1.10</u>
Change in net position	10.30	9.70	4.10
Prior period adjustment	-	(3.30)	-
Net position at beginning of year, restated	<u>96.70</u>	<u>90.30</u>	<u>86.20</u>
Net position at end of year, restated	<u>\$ 107.00</u>	<u>\$ 96.70</u>	<u>\$ 90.30</u>

MetCom's operating revenues totaled \$14.2 million during the current year. Total operating revenues increased by 3% over the prior year, compared to operating revenue in the prior year of \$13.8 million which was an increase of 1.5% over FY 2013. The current year increase is mainly due to an average increase in sewer rates of approximately 3.6%, which was offset by a reduction in sewer volumes billed. The prior year's increase was due mainly to an average increase in sewer rates of approximately 3% and an increase in most water service rates of almost 1.3% with the exception of non-metered water service rates which decreased significantly. Expenses from MetCom's operating activities excluding depreciation totaled \$11.7 million during the current year and \$11.5 million in the prior year. All of these expenses are considered related to providing water, sewer and engineering services to the residents/businesses of St. Mary's County. Salaries and benefits comprised \$8.0 million, or 68% of operating expenses. Power for plant operations was \$1.0 million, or 9%. Maintenance of the system was \$1.0 million or 8% of operating expenses. The remaining \$1.7 million, or 15%, is related to administrative and direct costs.

Total Nonoperating Revenue increased \$.3 million to \$6.9 million in the current year. Debt Service Charges increased \$.4 million to \$9.2 million and interest expense increased \$.2 million. The Debt Service Charges are made up of \$7.4 million of System Improvement Charges and \$1.8 million of Capital Contribution Charges. System Improvement Charges increased \$1.0 million or 16%. The increase is due to a 6% increase in both Water and Sewer System Improvement Charges and a new System

Improvement Charge for the Navy for their 20% share of the debt service for the ENR project loan, \$.5 million annually for twenty years. Capital Contribution Charges decreased by \$.6 million. Sewer Capital Contribution charges increased by \$.2 million as many customers chose to take advantage of the FY 2015 rates as these rates increased substantially in FY 2016. Water Capital Contribution charges actually went down in FY 2015 by \$.8 million because in FY 2014 many customers took advantage of the lower FY 2014 Water Capital Contribution rates to avoid the rate increase of 59% in FY 2015.

Capital contributions, which includes both grants and assets built by developers and donated to MetCom, were \$5.4 million in FY 2015, an increase of \$.4 million from the prior year. Grants increased \$1.0 million in FY 2015, while donated assets went down \$.6 million. In FY 2014 Capital contributions increased \$3.9 million from the prior years due to grants of \$3.9 million. The grants received are for the Enhanced Nutrient Removal (ENR) Project and the Radio Read Meter Project.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At June 30, 2015, MetCom had \$198.0 million prior to depreciation invested in capital assets. This represents a 14% increase over the previous year. At June 30, 2014, MetCom had \$173.7 million prior to depreciation invested in capital assets. This represents an increase of 10% over the previous year. MetCom owns utility and water plants in addition to numerous vehicles, furniture, equipment and computer equipment and buildings. The following table summarizes MetCom's capital assets (in millions):

	<u>Years ended June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Utility plants	\$ 106.50	\$ 102.00	\$ 98.20
Water plants	40.00	38.10	36.90
Equipment	8.50	8.00	7.60
Capitalized interest	.80	.80	.80
Buildings	3.90	3.90	3.90
Land	.90	.80	.60
Construction in process	<u>37.40</u>	<u>20.10</u>	<u>9.40</u>
Total before depreciation	198.00	173.70	157.40
Accumulated depreciation	<u>(58.60)</u>	<u>(54.20)</u>	<u>(50.00)</u>
Net capital assets	<u>\$ 139.40</u>	<u>\$ 119.50</u>	<u>\$ 107.40</u>

This year's major capital asset additions included:

- The Sewer Interceptor on the Naval Air Station was rehabilitated at a cost of \$2.5 million. This project was funded with a loan from MDE.

- Grinder Pumps were replaced in St. Georges Island at a cost of \$869 thousand. This project was funded with a loan from DHCD.
- Three water towers and four water storage tanks were painted and rehabilitated at a cost of \$1.04 million. This project was funded with a loan from DHCD.
- The Bay Interceptor Relining project was completed at a cost of \$437 thousand and was funded with a loan from DHCD.

MetCom's FY 2016 Capital Improvement Budget for water is \$9.7 million, which includes \$9.3 million for water lines, \$.1 million for water storage tanks, and \$.3 million for miscellaneous projects. The Radio Read Water Meter Project Phase 1 in the amount of \$8.3 million was approved in FY 2012; construction started in FY 2013 and is almost complete. MDE has awarded a grant to MetCom for \$3 million and the balance will be funded with loans from MDE and DHCD. The FY 2016 budget includes funds for several large projects; the construction of the Piney Point Water System, Patuxent Park Water Main Replacement Phase 4 and St. Clements Shores Water System Replacement.

The FY 2016 Capital Improvement Budget for sewer is \$6.8 million, \$2.8 million for replacement projects, \$2.9 million for pump stations and \$1.1 million for upgrades/expansions. The Enhanced Nutrient Removal Project, ENR, at the Marlay-Taylor Wastewater Reclamation Facility in the amount of \$39.1 million was approved in prior years. This project is in the construction phase and should be completed in FY 2016. This project is required to meet the requirements of the Chesapeake Bay 2000 agreement and achieves 3mg/l total nitrogen and 0.3mg/l total phosphorous in the effluent. The state is expected to pay for the ENR portion of this project estimated to be \$10 million and the Navy is expected to pay \$7.8 million for this project. The FY 2016 budget includes funds for several large projects: Patuxent Park Sewer Replacement Phase 4, First Colony #2 Wastewater Pumping Station and Grinder Pump Replacements.

MDE will provide a loan for the Piney Point Water System project. Most of the remaining FY 2016 capital projects will be financed with DHCD loans.

Debt administration

At the end of FY 2015 and FY 2014, MetCom had a total of \$50.7 million and \$37.6 million in debt outstanding, respectively. As of June 30, 2015 MetCom has \$55 million available on existing debt, loans in place that have not been fully drawn down. The undrawn amount is not included in Bonds Payable.

On August 14, 2015 MetCom closed on two loans with TD Bank, for \$8.1 million to refinance some or all of Bond 17, Bond 21 and Bond 23.

The following table summarizes MetCom's debt (in millions):

	<u>Years ended June 30,</u>			<u>% change</u>	
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>FY 2015</u>	<u>FY 2014</u>
Bonds payable	\$ 21.5	\$ 21.1	\$ 19.8	1.9%	6.6%
Notes, leases and loans payable	<u>29.2</u>	<u>16.5</u>	<u>10.6</u>	77.0%	55.7%
Total debt	<u>\$ 50.7</u>	<u>\$ 37.6</u>	<u>\$ 30.4</u>	34.8%	23.7%

The primary sources of revenue available for repayment of debt are System Improvement Charges that are paid by all customers with allocations on our system and Capital Contribution Charges which are paid by all new customers.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

MetCom anticipates about a 7% increase in the total operating revenues for next year compared to FY 2015 actuals. MetCom is implementing a new increasing block rate structure, which includes a Ready-To-Serve charge and a Usage fee for all usage, where the rates increase with usage. The new rate structure allows customers to pay for the volumes used, benefiting lower volume customers. The increasing block rate structure encourages conservation.

The total operating expenses in MetCom's Operating Budget for FY 2016 are \$15.0 million, about \$1.3 million more than the FY 2015 Amended Budget. Salaries are the largest component of MetCom's operating expenses, in FY 2016 salaries are \$6 million, a \$279 thousand increase over FY 2015 Amended Operating Budget. Health insurance is \$1.4 million and OPEB is \$397 thousand to fully fund the Annual Required Contribution, ARC, to the Other Post-Employment Benefit Trust, OPEB. Electricity to operate the water and sewer systems is \$1.1 million in the FY 2016 Operating Budget.

MetCom is in the middle of an aggressive plan to upgrade or replace many of MetCom's existing water and sewer facilities consistent with the guidance provided by the 5th & 8th Sanitary Districts Facilities Plan prepared by CH2M Hill.

CONTACTING METCOM'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of MetCom's finances and show MetCom's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the MetCom Administrative office at 23121 Camden Way, California, Maryland 20619.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION

ASSETS

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 16,564,508	\$ 14,159,362
Accounts receivable	2,663,671	2,434,594
Loans/grants receivable	6,239,143	4,600,921
Inventory	267,137	323,820
Prepaid expenses	<u>351,612</u>	<u>347,563</u>
Total current assets	<u>26,086,071</u>	<u>21,866,260</u>
Noncurrent assets:		
Net capital assets	139,420,927	119,532,065
Unamortized bond discount	<u>79,339</u>	<u>100,245</u>
Total noncurrent assets	<u>139,500,266</u>	<u>119,632,310</u>
Deferred outflow of resources:		
Pension	<u>495,003</u>	<u>451,374</u>
Total assets and deferred outflow of resources	<u>\$ 166,081,340</u>	<u>\$ 141,949,944</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION (CONTINUED)

LIABILITIES AND NET POSITION

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Current liabilities:		
Accounts payable	\$ 2,536,458	\$ 2,002,155
Accrued interest payable	802,155	876,997
Accrued expenses	859,386	876,653
Unearned revenue	29,341	47,366
Bond premiums	351,244	136,798
Bonds payable	1,714,688	1,500,156
Notes, leases and loans payable	<u>1,894,866</u>	<u>920,184</u>
Total current liabilities	<u>8,188,138</u>	<u>6,360,309</u>
Noncurrent liabilities:		
Bonds payable	19,774,689	19,567,253
Notes, leases and loans payable	27,307,041	15,563,271
Net pension liability	<u>3,411,505</u>	<u>3,764,603</u>
Total noncurrent liabilities	<u>50,493,235</u>	<u>38,895,127</u>
Deferred inflow of resources:		
Pension	<u>373,412</u>	<u>-</u>
Total liabilities and deferred inflow of resources	<u>59,054,785</u>	<u>45,255,436</u>
Net position:		
Net investment in capital assets	88,729,643	81,981,201
Restricted	10,637,867	8,629,351
Unrestricted	<u>7,659,045</u>	<u>6,083,956</u>
Total net position	<u>107,026,555</u>	<u>96,694,508</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 166,081,340</u>	<u>\$ 141,949,944</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>Years ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Operating revenue:		
Service charges	\$ 13,911,252	\$ 13,581,393
Miscellaneous	<u>288,292</u>	<u>227,615</u>
Total operating revenue	<u>14,199,544</u>	<u>13,809,008</u>
Operating expenses:		
Direct operating expenses	6,986,284	6,839,562
Administrative expenses	<u>4,674,600</u>	<u>4,679,270</u>
Total operating expenses	<u>11,660,884</u>	<u>11,518,832</u>
Operating income before depreciation	2,538,660	2,290,176
Depreciation	<u>(4,489,898)</u>	<u>(4,248,072)</u>
Operating loss	<u>(1,951,238)</u>	<u>(1,957,896)</u>
Nonoperating revenue (expenses):		
Interest income	15,979	14,552
Debt service charges	9,232,122	8,798,307
House connection charges- net	(15,242)	14,552
Interest expense	(2,506,195)	(2,317,947)
Other fees	<u>150,658</u>	<u>167,869</u>
Total nonoperating revenue, net	<u>6,877,322</u>	<u>6,677,333</u>
Income before contributions	4,926,084	4,719,437
Capital contributions	<u>5,405,963</u>	<u>4,972,479</u>
Change in net position	10,332,047	9,691,916
Total net position- beginning, as restated	96,694,508	90,315,821
Prior period adjustment	<u>-</u>	<u>(3,313,229)</u>
Total net position- ending, as restated	<u>\$ 107,026,555</u>	<u>\$ 96,694,508</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS

	<u>Years ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Receipts from customers	\$ 13,664,150	\$ 12,421,074
Payments to suppliers	(5,421,852)	(6,060,554)
Payments to employees	(5,582,827)	(5,206,023)
Other receipts	<u>288,292</u>	<u>227,615</u>
Net cash provided by operating activities	<u>2,947,763</u>	<u>1,382,112</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	16,076,938	10,798,488
Purchases of capital assets	(19,384,357)	(12,928,673)
Principal paid on capital debt	(4,273,030)	(3,423,457)
Interest paid on capital debt	(2,345,685)	(1,746,104)
Other receipts and payments	<u>9,367,538</u>	<u>8,980,728</u>
Net cash provided (used) by capital and relating financing activities	<u>(558,596)</u>	<u>1,680,982</u>
Cash flows from investing activities:		
Interest received	<u>15,979</u>	<u>14,552</u>
Net increase in cash and cash equivalents	2,405,146	3,077,646
Cash and cash equivalents at beginning of year	<u>14,159,362</u>	<u>11,081,716</u>
Cash and cash equivalents at end of year	<u>\$ 16,564,508</u>	<u>\$ 14,159,362</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>Years ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net		
Cash provided by operating activities:		
Operating loss	\$ (1,951,238)	\$ (1,957,896)
Adjustments to reconcile operating loss		
to net cash provided by operating activities:		
Depreciation	4,599,748	4,357,856
Changes in assets and liabilities:		
Accounts receivable	(229,077)	(1,154,707)
Prepaid expense	(4,049)	(1,591)
Inventory	56,683	(47,772)
Deferred outflows	(43,629)	-
Accounts payable	534,303	48,243
Accrued expenses	(17,267)	143,591
Unearned revenue	(18,025)	(5,612)
Net pension liability	(353,098)	-
Deferred inflows	373,412	-
	<u>2,947,763</u>	<u>1,382,112</u>
Net cash provided by operating activities:	<u>\$ 2,947,763</u>	<u>\$ 1,382,112</u>

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

	<u>Years ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Increase in capital assets	\$ 24,488,610	\$ 16,424,269
Capital contribution	(5,405,963)	(4,972,479)
Change in grants receivable	<u>301,710</u>	<u>1,476,883</u>
Purchase of capital assets	<u>\$ 19,384,357</u>	<u>\$ 12,928,673</u>
Additions to capital debt	\$ 17,413,450	\$ 10,546,172
Change in loans receivable	<u>(1,336,512)</u>	<u>252,316</u>
Proceeds from capital debt	<u>\$ 16,076,938</u>	<u>\$ 10,798,488</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF FIDUCIARY NET POSITION

ASSETS

	<u>Years ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Restricted investments	\$ <u>3,716,032</u>	\$ <u>3,277,779</u>
Total assets	\$ <u>3,716,032</u>	\$ <u>3,277,779</u>

LIABILITIES AND NET POSITION

	<u>Years ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Net assets held in trust for OPEB	\$ <u>3,716,032</u>	\$ <u>3,277,779</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	<u>Years ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
ADDITIONS:		
Contributions	\$ 573,000	\$ 550,000
Interest income	2,928	1,667
Net additions	\$ 575,928	\$ 551,667
 DEDUCTIONS:		
Benefits paid	\$ (117,146)	\$ (118,339)
Administrative expenses	(15,489)	-
Unrealized loss	(5,040)	-
Net deductions	(137,675)	(118,339)
Change in net position	\$ 438,253	\$ 433,328
 NET POSITION:		
Beginning of year	\$ 3,277,779	\$ 2,844,451
End of year	\$ 3,716,032	\$ 3,277,779

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of significant accounting policies

Financial reporting entity

The St. Mary's County Metropolitan Commission (MetCom) is responsible for providing water and wastewater facilities and services within the jurisdiction of St. Mary's County, Maryland. MetCom's commissioners are appointed by the County Commissioners of St. Mary's County. MetCom, a body politic and corporate, organized under section 113 of the code of St. Mary's County, is a component unit of the St. Mary's County Government.

The financial statements of MetCom have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The significant accounting policies are described below.

Fund accounting and basis of accounting

MetCom maintains its accounting system as an enterprise fund to report its nonfiduciary activities. An enterprise fund is used to account for operations that are primarily financed by user charges. Separate financial statements are provided for its fiduciary fund.

Fund accounting is designed to demonstrate legal compliance and to aid in financial management by segregating transactions related to certain government functions or activities. An enterprise fund is used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Both enterprise and fiduciary funds are accounted for using the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net position. Fund equity (i.e., net position) is segregated into net investment in capital assets and restricted and unrestricted components. Enterprise fund-type operating statements present increases (e.g., revenue) and decreases (e.g., expenses) in net position.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of significant accounting policies (continued)

Fund accounting and basis of accounting (continued)

Net position is reported as restricted when constraints placed on net assets use are either externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or imposed by law through legislation.

Use of estimates

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

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits and any highly liquid investments with an initial maturity of three months or less.

Inventory

Inventory is valued at the average cost method. The consumption method of recording inventory is used, which means that the acquisition of materials and supplies is recorded initially in inventory accounts and charged as expenses when used.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Major receivables include inspection fees and water and sewer billings receivable.

Compensated absences

Compensated absences are accrued as incurred and recognized as a current liability in the financial statements. These absences represent vacation leave earned but not taken, and sick leave earned prior to October 2004 that will be paid out at the rate of 50% upon the employees' retirement. The total leave earned but not taken was \$556,115 and \$523,445 at June 30, 2015 and 2014, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of significant accounting policies (continued)

Pensions

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

Capital assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Depreciation expense is calculated on a straight-line basis over the estimated useful lives of the related assets, as follows:

<u>Asset Class</u>	<u>Estimated Life</u>
Utility plants	18 to 50 years
Water plant systems	18 to 50 years
Equipment	3 to 10 years
Capitalized interest	50 years
Buildings	20 to 30 years

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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Capital contributions

Capital grants and contributions from federal and state governments are reported as capital contributions in the statements of revenues, expenses and changes in net position.

Donated assets consist principally of capital assets constructed by developers and subsequently donated to MetCom and reported as capital contributions. They are

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. Summary of significant accounting policies (continued)

Capital contributions (continued)

recorded at estimated fair value using developers' estimated costs to construct the assets. The capital assets and related capital contributions are recognized upon completion of construction.

Bond issue costs

Bond issue costs include legal fees, advertising, rating fees and other costs incurred when bonds were issued. The costs are expensed in the period that the bonds are issued.

2. Deposits and investments

Policy

Maryland law prescribes that local government units such as MetCom must deposit their cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits.

State statutes authorize MetCom to invest in obligations of the United States government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligations. All of the funds were invested in the Maryland Local Government Investment Pool (MLGIP), which qualifies under the statutes.

Deposits

The carrying amount of MetCom's deposits was \$14,292,088 and \$11,432,436 at June 30, 2015 and 2014, respectively, and the bank balances were \$15,425,267 and \$13,704,639, respectively. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2015 and 2014, with the remaining \$15,175,267 and \$13,454,639, respectively, adequately covered by collateral.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2. Deposits and investments (continued)

Deposits (continued)

At June 30, 2015 and 2014, there were no deposits exposed to custodial credit risk, interest rate risk or foreign currency risk.

Cash and cash equivalents consisted of the following as of June 30,

	<u>2015</u>	<u>2014</u>
Investments	\$ 2,271,520	\$ 2,726,026
Cash	14,292,088	11,432,436
Petty cash	<u>900</u>	<u>900</u>
	<u>\$ 16,564,508</u>	<u>\$ 14,159,362</u>

Investments

Investments in the MLGIP are not evidenced by securities. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. Separately issued financial statements may be obtained from the contractor: David Rommel, PNC Bank, Two Hopkins Plaza, Baltimore, Maryland 21201. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments. The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated AAAM by Standard and Poors. As of June 30, 2015 and 2014, MetCom's investments, for both custodial and credit risk purposes, consisted solely of shares in the MLGIP. This investment is not deemed to have either risk. The Pool is managed as a Rule 2a-7 pool. Therefore, MetCom faces no interest rate risk. The cost and fair value of the MLGIP investments at June 30, 2015 and 2014 was \$2,271,520 and \$2,726,026, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

3. Capital assets and depreciation

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets:				
Utility plants	\$ 101,933,646	\$ 4,630,476	\$ -	\$ 106,564,122
Water plant systems	38,134,334	1,832,467	3,260	39,963,541
Equipment	8,013,894	646,794	191,935	8,468,753
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,899,703</u>	<u>-</u>	<u>-</u>	<u>3,899,703</u>
Subtotal	152,799,778	7,109,737	195,195	159,714,320
Not being depreciated:				
Utility plant CIP	12,636,089	20,107,788	4,371,626	28,372,251
Water plant CIP	7,480,586	3,080,405	1,545,837	9,015,154
Land and land rights	<u>771,419</u>	<u>108,143</u>	<u>-</u>	<u>879,562</u>
	<u>173,687,872</u>	<u>30,406,073</u>	<u>6,112,658</u>	<u>197,981,287</u>
Accumulated depreciation:				
Utility plants	37,851,702	2,561,574	-	40,413,276
Water plant systems	9,339,013	1,205,999	3,260	10,541,752
Equipment	5,285,269	650,884	191,935	5,744,218
Capitalized interest	319,098	16,364	-	335,462
Buildings	<u>1,360,725</u>	<u>164,927</u>	<u>-</u>	<u>1,525,652</u>
	<u>54,155,807</u>	<u>4,599,748</u>	<u>195,195</u>	<u>58,560,360</u>
Net capital assets	<u>\$ 119,532,065</u>	<u>\$ 25,806,325</u>	<u>\$ 5,917,463</u>	<u>\$ 139,420,927</u>

Depreciation expense of \$4,599,748 was charged to activities as follows:

Sewer activities	\$ 2,947,823
Water activities	1,504,947
Engineering activities	37,128
Administrative	<u>109,850</u>
Total	<u>\$ 4,599,748</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

3. Capital assets and depreciation (continued)

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets:				
Utility plants	\$ 98,177,788	\$ 3,755,858	\$ -	\$ 101,933,646
Water plant systems	36,851,063	1,283,271	-	38,134,334
Equipment	7,633,107	529,294	148,507	8,013,894
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,899,703</u>	<u>-</u>	<u>-</u>	<u>3,899,703</u>
Subtotal	147,379,862	5,568,423	148,507	152,799,778
Not being depreciated:				
Utility plant CIP	6,175,652	9,727,126	3,266,689	12,636,089
Water plant CIP	3,197,618	4,928,506	645,538	7,480,586
Land and land rights	<u>657,587</u>	<u>113,832</u>	<u>-</u>	<u>771,419</u>
	<u>157,410,719</u>	<u>20,337,887</u>	<u>4,060,734</u>	<u>173,687,872</u>
Accumulated depreciation:				
Utility plants	35,390,967	2,460,735	-	37,851,702
Water plant systems	8,261,261	1,077,752	-	9,339,013
Equipment	4,801,624	630,761	147,116	5,285,269
Capitalized interest	302,734	16,364	-	319,098
Buildings	<u>1,188,481</u>	<u>172,244</u>	<u>-</u>	<u>1,360,725</u>
	<u>49,945,067</u>	<u>4,357,856</u>	<u>147,116</u>	<u>54,155,807</u>
Net capital assets	<u>\$ 107,465,652</u>	<u>\$ 15,980,031</u>	<u>\$ 3,913,618</u>	<u>\$ 119,532,065</u>

Depreciation expense of \$4,357,856 was charged to activities as follows:

Sewer activities	\$ 2,838,292
Water activities	1,362,827
Engineering activities	46,953
Administrative	<u>109,784</u>
Total	<u>\$ 4,357,856</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. Long-term debt

Long-term bonds payable as of June 30, 2015, are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Undrawn</u>
Seventeenth Issue	2005-2018	2.75%-4.40%	\$ 2,145,000	\$ 190,685	\$ -
Twenty-first Issue	2007-2021	3.65%-4.275%	518,300	73,362	-
Twenty-third Issue	2008-2027	3.5%-4.25%	6,740,170	2,014,961	787,930
Twenty-seventh Issue	2011-2030	0.75%-4.31%	6,948,142	2,612,713	3,151,158
Thirtieth Issue	2012-2029	2.96%-3.4%	1,182,891	284,494	-
Thirty-first Issue	2013-2032	0.61%-3.42%	673,064	450,959	6,936,837
Thirty-sixth Issue	2014-2033	4.31%	1,083,002	2,119,629	13,654,398
Thirty-eighth Issue	2015-2034	3.51%	2,198,808	1,097,736	19,146,691
			21,489,377	8,844,539	\$ 43,677,014
Less current portion			1,714,688	919,109	
Total			\$ 19,774,689	\$ 7,925,430	

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2015 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016 (current)	\$ 1,714,688	\$ 919,109
2017	1,766,455	865,833
2018	1,829,876	806,081
2019	1,893,256	741,912
2020	1,353,431	687,987
2021 – 2025	6,883,137	2,753,483
2026 – 2030	5,552,258	1,507,433
2031 – 2034	496,276	562,701
	<u>\$ 21,489,377</u>	<u>\$ 8,844,539</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. Long-term debt (continued)

Long-term bonds payable as of June 30, 2014 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Seventeenth Issue	2005-2018	2.75%-4.40%	\$ 2,620,000	\$ 291,475
Twenty-first Issue	2007-2021	3.65%-4.275%	600,300	98,344
Twenty-third Issue	2008-2027	3.5%-4.25%	7,153,689	2,298,566
Twenty-seventh Issue	2011-2030	0.75%-4.31%	7,395,028	2,880,746
Thirtieth Issue	2012-2029	2.96%-3.4%	1,248,773	321,971
Thirty-first Issue	2013-2032	0.61%-3.42%	825,615	432,635
Thirty-sixth Issue	2014-2033	4.31%	<u>1,224,004</u>	<u>834,428</u>
			21,067,409	7,158,165
Less current portion			<u>1,500,156</u>	<u>851,971</u>
Total			<u>\$ 19,567,253</u>	<u>\$ 6,306,194</u>

Seventeenth issue

On September 4, 2003, MetCom issued Refunding Bonds of 2003 in the principal amount of \$6,105,000. The bonds mature on November 1, in 14 annual installments, beginning in 2005 and ending in 2018. Interest rates on the bonds range from 2.75% to 4.4%. Interest was payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1 to maturity.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
November 1, 2013 through October 31, 2014	101%
November 1, 2014 through October 31, 2015	100-1/2%
After November 1, 2015	100%

The bonds were issued to refund all the outstanding maturities of the St. Mary's County Metropolitan Commission Refunding Bonds of 1993 (Ninth issue).

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. Long-term debt (continued)

Twenty-first issue

On April 15, 2006, the Commission issued Refunding Bonds in the principal amount of \$1,158,700. The bonds mature on May 1, in 15 annual installments, beginning in 2007 and ending in 2021. Interest was payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

These bonds are not subject to prepayment by the Issuer prior to May 1, 2016. On or after May 1, 2017, the bonds are subject to prepayment by the Issuer at 100%.

The bonds were issued to refund outstanding maturities of Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). These bonds were issued with a true interest cost ranging from 3.65% to 4.275% to refund certain maturities of \$620,000 in outstanding 1996 Series A bonds, the Thirteenth Issue, with a coupon rate of 5.579% and \$500,000 in outstanding 1995 Series A bonds, the Tenth issue, with an average interest rate of 6.24%. These bonds were issued to take advantage of a favorable interest rate environment. The net proceeds (including interest and premium) of \$1,131,200 were deposited with an escrow agent to provide for all future debt service payments of the refunded bonds.

MetCom refunded these bonds at a premium to reduce its total debt service payments by \$152,325 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$110,445.

Twenty-third issue

On November 14, 2007, the Commission issued \$10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015 and 2014, MetCom had drawn only \$10,101,170 and \$10,035,589 of the proceeds, respectively.

The bonds mature on May 1, in 20 annual installments, beginning in 2008 and ending in 2027. Interest rates on the bonds range from 3.5%-4.25%. Interest was payable on May 1, 2008 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2017. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. Long-term debt (continued)

Twenty-seventh issue

On August 25, 2010, the Commission issued \$12,613,963 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015 and 2014, MetCom had drawn only \$9,462,805 and \$9,389,991 of the proceeds, respectively.

The bonds mature on May 1, in 20 annual installments, beginning in 2011 and ending in 2030. Interest rates on the bonds range from .75%-4.31%. Interest was payable on November 1, 2010 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2020. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Thirtieth issue

On March 15, 2012, MetCom issued refunding bonds in the principal amount of \$1,448,492. The bonds mature on May 1, in 18 annual installments, beginning in 2012 and ending in 2029. Interest was payable May 1, 2012 and semiannually thereafter on each May 1 and November 1 until maturity.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
May 1, 2020 through April 30, 2021	102%
May 1, 2021 through April 30, 2022	101%
On or after May 1, 2022	100%

The bonds were issued to refund all of the outstanding maturities of Financing Bond Issue number fourteen, issued in conjunction with the Maryland Community Development Administration (CDA). These bonds were issued with an interest rate of 2.96%, that may be increased up to 3.4% in the event of a decrease in the marginal maximum corporate income tax rate. The refunded bonds had a true interest cost ranging from 4.5% to 5.0%. These bonds were issued to take advantage of a favorable interest rate environment.

MetCom refunded these bonds to reduce its total debt service payments by \$249,357 and to obtain an economic gain of \$197,055.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. Long-term debt (continued)

Thirty-first issue

On December 19, 2012, the Commission issued \$8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015 and 2014 MetCom had drawn only \$1,782,678 and \$1,564,728 of the proceeds, respectively.

The bonds mature on May 1, in 20 annual installments, beginning in 2013 and ending in 2032. Interest rates on the bonds range from .61%-3.42%. Interest was payable on May 1, 2013 and semiannually thereafter on each May 1 and November 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2022. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Thirty-sixth issue

On October 2, 2013, the Commission issued \$15,948,168 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015 and 2014, MetCom had drawn only \$2,293,770 and \$1,820,272 of the proceeds, respectively.

The bonds mature on May 1, in 20 annual installments, beginning in 2014 and ending in 2033. The average interest yield on these bonds is 4.31%. Interest was payable on May 1, 2014 and semiannually thereafter on each May 1 and November 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2023. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Thirty-eighth issue

On August 28, 2014, the Commission issued \$22,075,230 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015, MetCom had drawn only \$2,928,539 of the proceeds.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. Long-term debt (continued)

Thirty-eighth issue (continued)

The bonds mature on May 1, in 20 annual installments, beginning in 2015 and ending in 2034. The average interest yield on these bonds is 3.51%. Interest was payable on May 1, 2015 and semiannually thereafter on each May 1 and November 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2024. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Notes, leases and loans payable as of June 30, 2015 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Undrawn</u>
Sixth Issue	2017	6.682%	\$ 32,638	\$ 3,307	\$ -
MD Water Quality Loan #11	2017	4.26%	587,913	37,829	-
MD Water Quality Loan #15	2020	2.70%	252,116	20,784	-
MD Water Quality Loan #16	2023	1.20%	210,568	9,355	-
MD Water Quality Loan #18	2025	1.10%	2,484,850	152,798	-
MD Water Quality Loan #19	2024	1.10%	487,478	27,202	-
MD Water Quality Loan #20	2024	1.10%	532,658	19,984	-
MD Water Quality Loan #22	2027	1.10%	691,704	45,053	-
MD Water Quality Loan #25	2029	1.00%	143,813	11,002	-
MD Water Quality Loan #26	2030	1.00%	447,592	36,639	-
MD Water Quality Loan #28	2030	2.20%	365,080	67,511	-
SunTrust Bank Loan #29	2016	2.03%	79,769	1,220	-
MD Water Quality Loan #32	2034	1.80%	3,913,423	747,769	960,779
MD Water Quality Loan #33	2033	1.70%	375,303	62,096	-
MD Water Quality Loan #34	2035	2.10%	13,444,980	3,180,449	7,637,420
MD Water Quality Loan #35	2035	2.10%	3,361,244	795,444	1,909,356
MD Water Quality Loan #37	2034	2.00%	1,790,778	382,367	809,522
			29,201,907	5,600,809	\$ 11,317,077
Less current portion			1,894,866	597,715	
Total			\$ 27,307,041	\$ 5,003,094	

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2015, are as follows:

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. Long-term debt (continued)

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016 (current)	\$ 1,894,866	\$ 597,715
2017	1,902,571	522,269
2018	1,589,198	480,978
2019	1,616,970	453,206
2020	1,645,264	424,913
2021 - 2025	7,767,916	1,706,041
2026 - 2030	6,464,690	1,037,229
2031 - 2035	<u>6,320,432</u>	<u>378,458</u>
	<u>\$ 29,201,907</u>	<u>\$ 5,600,809</u>

Notes, leases and loans payable as of June 30, 2014 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Sixth Issue	2017	6.682%	\$ 47,441	\$ 6,477
MD Water Quality Loan #11	2017	4.26%	863,979	74,634
MD Water Quality Loan #15	2020	2.70%	298,633	28,847
MD Water Quality Loan #16	2023	1.20%	242,599	12,266
MD Water Quality Loan #18	2025	1.10%	2,718,709	182,704
MD Water Quality Loan #19	2024	1.10%	538,738	33,128
MD Water Quality Loan #20	2024	1.10%	622,279	26,829
MD Water Quality Loan #22	2027	1.10%	753,089	53,337
MD Water Quality Loan #25	2029	1.00%	153,356	12,536
MD Water Quality Loan #26	2030	1.00%	475,123	41,390
MD Water Quality Loan #28	2030	2.20%	385,440	75,991
SunTrust Bank Loan #29	2016	2.03%	134,712	3,450
MD Water Quality Loan #32	2034	1.80%	2,912,010	606,341
MD Water Quality Loan #33	2033	1.70%	35,044	6,293
MD Water Quality Loan #34	2035	2.10%	4,857,058	1,516,497
MD Water Quality Loan #35	2035	2.10%	1,214,265	379,113
MD Water Quality Loan #37	2034	2.00%	<u>230,980</u>	<u>50,978</u>
			16,483,455	3,110,811
Less current portion			<u>920,184</u>	<u>268,939</u>
Total			<u>\$ 15,563,271</u>	<u>\$ 2,841,872</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. Long-term debt (continued)

As of June 30, 2015, MetCom has fifteen loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purpose of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for \$976,700 was used to replace the Lexington Park Wastewater Pumping Station. Loan number twenty for \$1,466,576 was for water meter installations. Loan number twenty-two for \$1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 was used for Patuxent Park Sewer Line Repair and the Marlay-Taylor Methane Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was used for the St. Clements Shore Well. Loan number twenty-nine is with SunTrust Bank in the amount of \$270,682 at an interest rate of 2.03%. Payments are made monthly on this loan from December 2011 through November 2016. The proceeds of this loan were used to purchase a Vactor truck. Loan number thirty-two in the amount of \$4,874,202 is for the Radio Read Meter Project. As of June 30, 2015 and 2014 MetCom had drawn \$3,913,423 and \$2,912,010 of the proceeds, respectively. Loan number thirty-three in the amount of \$394,000 is for the Shangri La Drive/South Essex Drive Sewer Rehabilitation. Loan number thirty-four in the amount of \$21,082,400 is for the Marlay-Taylor Wastewater Reclamation Facility Enhanced Nutrient Removal, ENR, project. Loan number thirty-five in the amount of \$5,270,600 is also for Marlay-Taylor Wastewater Reclamation Facility ENR project. This loan will be paid for by Navy charges and is therefore taxable. As of June 30, 2015 and 2014, MetCom has drawn \$16,806,225 and \$6,071,323 of the proceeds, respectively, on loans thirty-four and thirty-five. Loan number thirty-seven in the amount of \$2,600,300 is for the Route 235 and Route 712 Interceptor Rehabilitation. As of June 30, 2015 and 2014, MetCom had drawn \$1,790,778 and \$230,980 of the proceeds, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

4. Long-term debt (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2015 were as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Amounts Due Within One Year
Bonds payable	\$ 21,067,409	\$ 3,758,381	\$ 3,336,413	\$ 21,489,377	\$ 1,714,688
Notes, leases and loans payable	<u>16,483,455</u>	<u>13,655,069</u>	<u>936,617</u>	<u>29,201,907</u>	<u>1,894,866</u>
Total long-term debt	<u>\$ 37,550,864</u>	<u>\$ 17,413,450</u>	<u>\$ 4,273,030</u>	<u>\$ 50,691,284</u>	<u>\$ 3,609,554</u>

The changes in long-term debt payable for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Amounts Due Within One Year
Bonds payable	\$ 19,798,017	\$ 3,795,393	\$ 2,526,001	\$ 21,067,409	\$ 1,500,156
Notes, leases and loans payable	<u>10,630,132</u>	<u>6,750,779</u>	<u>897,456</u>	<u>16,483,455</u>	<u>920,184</u>
Total long-term debt	<u>\$ 30,428,149</u>	<u>\$ 10,546,172</u>	<u>\$ 3,423,457</u>	<u>\$ 37,550,864</u>	<u>\$ 2,420,340</u>

5. Restricted net assets

Net assets are restricted for the repayment of the following:

- a. Collection of fees for a sinking fund to upgrade the capacity of the main sewage treatment plant at Marley-Taylor WRF are restricted for that purpose. The amount restricted at June 30, 2015 and 2014 is \$707,104.
- b. The Board has restricted net assets per agreement with customers for upgrades and replacements to their water and sewer systems. The amount restricted at June 30, 2015 and 2014 is \$130,894.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

5. Restricted net assets (continued)

- c. The Capital Project Upgrade funds are reserved for the replacement and upgrade of water and sewer facilities. These funds are restricted by law for that purpose. The balance as of June 30, 2015 and 2014 was \$7,932,504 and \$6,515,470, respectively.
- d. The Capital Project New Services funds are reserved for the construction of facilities to serve new customers. These funds are restricted by law for that purpose. The balance as of June 30, 2015 and 2014 was \$1,867,365 and \$1,275,883, respectively.

6. Retirement and pension plan

Nationwide Retirement Solutions

On March 18, 2004, MetCom adopted a Section 457 plan. Under the terms of the plan, employees may contribute up to 100% of their salary, up to the contribution limits, to the plan. No employer contributions are made to this plan.

Maryland State Pension Systems

Effective July 1, 2004, MetCom joined the Maryland State Retirement and Pension System. Under the terms of entry into the system, MetCom will grant 100% credit for prior service of eligible employees. The actuarial cost of entry into the Maryland State Retirement and Pension System for service prior to June 30, 2004 was \$3,392,774. All qualified career employees of MetCom are required to join the Maryland State Employees' Pension Plan.

Description

The State Retirement Agency (the "Agency") is the administrator of the Maryland State Retirement and Pension System (the "System"). The System was established to provide provisions for retirement, death and disability benefits. The Plan is a cost-sharing multiple-employer public employee retirement system. The plan issues a stand-alone financial report that may be obtained at the following website: www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2014.pdf

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

6. Retirement and pension plan (continued)

Benefit terms

All plan benefits are established by, and may be amended by changes to, the State Personnel and Pensions Article of the Annotated Code of Maryland. Participants hired prior to July 1, 2011 become eligible for a vested retirement allowance after 5 years' service. Participants hired on or after July 1, 2011 become vested for a retirement allowance after 10 years' services. For members in the plan prior to July 1, 2011, pensions normally start at age 62 or after 30 years' service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest consecutive three years' pay; the benefit multiplier will be 1.2% for years of credit earned up to June 30, 1998 and 1.8% for years of earned credit after June 30, 1998. Cost of living increases are limited to 3% per annum. For members enrolled on and after July 1, 2011, vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; average final compensation will be a five year average; the benefit multiplier per year will be 1.5%; and, cost of living adjustments on all benefits will be the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate.

Contributions

The State Personnel and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the Pension Systems were required to contribute 7% of earnable compensation for the years ended June 30, 2015 and 2014.

Contribution rates for employer and other "nonemployer" contributing entities are established by annual actuarial valuations using the Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. These contribution rates have been established as the rates necessary to fully fund normal costs and amortize the unfunded actuarial accrued liability.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

6. Retirement and pension plan (continued)

Contributions (continued)

The unfunded actuarial liability (UAAL) was being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000, actuarial valuation was being amortized over a 40-year period (as provided by law) from July 1, 1980 and as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, was being amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the System. The unfunded liability for each System is being amortized over a single closed 25-year period.

The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and more than 150 participating governmental units make all of the employer and other contributions to the System.

MetCom's contribution to the System was \$445,653 and \$447,972 for the years ended June 30, 2015 and 2014, respectively.

Actuarial assumptions

Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Inflation	2.9% general, 3.4% wage
Salary Increases	3.4%-11.9%, including inflation
Discount Rate	7.65%
Investment Rate of Return	7.65%
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2025

Asset allocation

The following was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2014.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

6. Retirement and pension plan (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public Equity	35%	4.70%
Fixed Income	10%	2.00%
Credit	10%	3.00%
Real Return	14%	2.80%
Absolute Return	10%	5.00%
Private Equity	10%	6.30%
Real Estate	10%	4.50%
Cash	1%	1.40%
Total	<u>100%</u>	

Discount rate

A single discount rate of 7.65% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.65%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability

The following presents the plan's net pension liability, calculated using a single discount rate of 7.65%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

(Expressed in thousands)			
	1% Decrease to 6.65%	Current Discount	1% Increase to 8.65%
Total System Net Pension Liability	\$25,575,273	\$17,745,731	\$11,189,338

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

6. Retirement and pension plan (continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2015 MetCom reported a liability of \$3,411,505 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MetCom's proportion of the net pension liability was based on MetCom's share of contributions to the pension plan relative to the contribution of all participating employers. At June 30, 2015, MetCom's proportion was .01922%

For the year ended June 30, 2015, MetCom recognized pension expense of \$434,376, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 49,350	\$ -
Net difference between projected and actual invest earnings on pension plan investments	-	373,412
Contributions subsequent to measurement date	<u>445,653</u>	<u>-</u>
Total	<u>\$ 495,003</u>	<u>\$ 373,412</u>

The \$445,653 reported as deferred outflows of resources related to pensions resulting from MetCom contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. The \$49,350 from the change in assumptions, and the \$373,412 from the difference in earnings, will be amortized over a five year period as follows:

Year ending June 30,

2016	\$ 12,337	\$ 93,353
2017	\$ 12,337	\$ 93,353
2018	\$ 12,338	\$ 93,353
2019	\$ 12,338	\$ 93,353
2020	\$ -	\$ -

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

7. Other post-employment benefits

MetCom adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, MetCom recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on MetCom's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability. To fund the retiree health benefits, MetCom established a trust fund, the Retiree Benefit Trust of St. Mary's County Metropolitan Commission.

Plan description

MetCom provides health, prescription, dental and vision care insurance benefits to eligible retirees, eligible retirees' family members and the family members of deceased employees as a single-employer plan. Eligible persons include employees with a minimum of ten years of eligible MetCom service entering an immediate retirement, family members of eligible retirees and family members of deceased employees. MetCom pays a percentage of premiums based on the date of hire and number of years of service. For employees hired prior to May 10, 2007, the percentage ranges from 53.13% with ten years of service to 85% with 16 or more years of service. The percentages for employees hired on or after May 10, 2007 range from 21.25% with 15 years service to 85% with 30 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by MetCom's Board of Commissioners.

Membership

At June 30 membership consisted of:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Retirees and Beneficiaries Currently Receiving Benefits	10	10	10
Active Employees	<u>67</u>	<u>66</u>	<u>65</u>
Total	<u>77</u>	<u>76</u>	<u>75</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

7. Other post-employment benefits (continued)

Funding policy

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY 2015 Operating Budget included fully funding the OPEB cost. MetCom contributed \$573,000 and \$550,000 to the trust in FY 2015 and FY 2014, respectively. The Net OPEB Obligation is overpaid by \$300,388 as of June 30, 2015.

Annual OPEB costs and net OPEB obligation

MetCom's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of MetCom's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in MetCom's net OPEB obligation:

	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 574,000	\$ 552,000
Interest on NOPEBO	(20,000)	(20,000)
Adjustment to ARC	<u>19,000</u>	<u>18,000</u>
Annual OPEB Cost	573,000	550,000
Contributions Made	573,000	550,000
NOPEBO, (Prepaid) Beginning of Year	<u>\$ (300,388)</u>	<u>\$ (300,388)</u>
NOPEBO, (Prepaid) End of Year	<u>\$ (300,388)</u>	<u>\$ (300,388)</u>

Funded status and funding progress

As of July 1, 2014, the plan was 49.39% funded. The actuarially accrued liability for benefits was \$7,238,000, and the actuarial value of assets was \$3,575,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,663,000. The covered payroll (annual payroll of active employees covered by the plan) was \$4,911,310, and the ratio of UAAL to the covered payroll was 74.58%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

7. Other post-employment benefits (continued)

Funded status and funding progress (continued)

probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions

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

In the October 26, 2012 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 8% and 4.2% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 2.5% rate of inflation assumption. The UAAL is being amortized as a 30-year level percentage of projected payroll, closed basis, with 22 years remaining.

Summary of significant accounting policies

The Trust's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable. The Trust assets are invested with the Maryland Local Government Investment Pool, and the Maryland Association of Counties (MACo) Pooled Other Post-Employment Benefits (OPEB) Trust. The Trust does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or of another entity.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

8. Rate setting

MetCom is required by law to set rates which are sufficient to cover both operating expenses and debt service. Depreciation of the plant and collection systems is not an allowable cost for purposes of setting rates. A reconciliation of the results of operations for financial reporting and rate-setting purposes is as follows:

	<u>Years ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Change in net position – per financial statements	\$ 10,332,047	\$ 9,691,916
Add:		
Depreciation – facilities	3,998,885	3,777,070
Less:		
Principal payment on capital debt	(4,273,030)	(3,415,843)
Repayment of internal pension loan	(113,092)	(113,092)
Capital contributions	<u>(5,405,963)</u>	<u>(4,972,479)</u>
Excess or (deficiency) of revenue over expenses – rate-setting method	<u>\$ 4,538,847</u>	<u>\$ 4,967,572</u>

9. Risk management

MetCom is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and related disasters. MetCom is a member of the Local Government Insurance Trust (LGIT) sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties. LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability, and property coverage.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During FY 2015 and FY 2014, MetCom paid premiums of \$111,813 and \$109,982, respectively, to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any, resulting from these risks have not exceeded commercial coverage in the past fiscal year.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

10. Change in accounting principle/restatement

MetCom implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in the fiscal year ended June 30, 2015. The implementation of the statement required MetCom to record beginning net pension liability and the effects on net position of contributions made by MetCom during the measurement period (fiscal year ended June 30, 2014). As a result, net position decreased by \$3,313,229.

11. Commitment and contingencies

MetCom is required to upgrade the Marlay-Taylor Wastewater Reclamation Facility to meet Enhanced Nutrient Removal (ENR) standards. ENR standards are levels of 3.0 mg/l total nitrogen and 0.3 mg/l total phosphorous in the effluent that flows into the Chesapeake Bay. MetCom has a consent agreement with the Maryland State Department of the Environment (MDE) that extends the deadline for compliance until December 2016. In August 2013, MetCom awarded a construction contract for the ENR project and fully expects to meet this requirement.

MetCom participates in state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. The audits for the year ended June 30, 2015 have not yet been completed. Accordingly, MetCom's compliance with applicable grant requirements will be verified in connection with performing MetCom's Single Audit. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although MetCom expects such amounts, if any, to be immaterial.

12. Subsequent events

In preparing these financial statements, MetCom has evaluated events and transactions for potential recognition or disclosure through September 30, 2015, the date the financial statements were available to be issued.

On August 6, 2015 MetCom issued two refunding bonds with TD Bank: 2015A in the amount of \$2,157,000 at a rate of 1.31%, and 2015B in the amount of \$5,914,800 at a rate of 2.08%. These loans refunded some or all of Bond 17, Bond 21 and Bond 23.

REQUIRED SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT PENSION PLAN

JUNE 30, 2015 AND 2014

Maryland State Retirement and Pension Plan

Schedule of net pension liability and related ratios

Measurement Date	Proportion of Collective NPL (a)	Proportionate Share of Collective NPL (b)	Covered Payroll (c)	NPL as a Percentage of Covered Payroll (b/c)	Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Collective)
06/30/14	0.01922%	\$ 3,411,505	\$ 5,422,160	62.92%	71.87%

Schedule of contributions and related ratios

Measurement Date	Actuarially Determined Contribution (a)	Actual Contribution (b)	Contribution Deficiency (Excess) (c)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
06/30/14	\$ 445,653	\$ 445,653	\$ -	\$ 5,422,160	8.22%

MetCom implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. Information for prior years is not available.

ST. MARY'S COUNTY METROPOLITAN COMMISSION
 INFORMATION ABOUT PENSION PLAN (CONTINUED)

JUNE 30, 2015 AND 2014

Changes in benefit terms

There were no benefit changes during the year.

Changes in assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2014 valuation:

- Investment return assumption changed from 7.70% to 7.65%
- Inflation assumption changed from 2.95% to 2.90%
- Disability mortality assumption for State Police and LEOPS changed to:
 RP-2000 Disabled Mortality: 50% table for males and 75% for females, but not
 less than the RP- 2000 Combined Healthy Mortality table projected to year 2025

Method and assumptions used in calculations of actuarially determined contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years for State system, 25 years for LEOPS Muni, and 32 years for CORS Muni as of June 30, 2014. For ECS Muni, 6 years remaining as of June 30, 2014 for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.90% general, 3.40% wage
Salary Increases	3.40% to 11.90% including inflation
Rate of Return	7.65%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2006-2010
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2025

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN

JUNE 30, 2015 AND 2014

MetCom's Other Post-employment Benefit Plan (OPEB Plan) is administered through the Retiree Benefit Trust of St. Mary's County Metropolitan Commission as an irrevocable trust. Assets of the trust are dedicated to providing post-retirement health, prescription, dental and vision coverage to current and eligible future retirees.

The following schedules present MetCom's actuarially determined funding progress and required contributions for the Trust.

Schedule of Funding Progress for the MetCom Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
07/01/07	\$ -	\$ 4,331,000	\$ 4,331,000	0.00%	\$ 3,400,838	127.35%
07/01/08	\$ 752,000	\$ 4,873,000	\$ 4,121,000	15.43%	\$ 3,724,636	110.64%
07/01/09	\$ 1,219,000	\$ 3,989,000	\$ 2,770,000	30.56%	\$ 3,670,430	75.47%
07/01/10	\$ 1,563,818	\$ 4,476,000	\$ 2,912,182	34.94%	\$ 3,851,158	75.62%
07/01/11	\$ 2,054,000	\$ 5,920,000	\$ 3,866,000	34.70%	\$ 4,162,094	92.89%
07/01/12	\$ 2,344,114	\$ 6,518,000	\$ 4,173,886	35.96%	\$ 4,319,527	96.63%
07/01/13	\$ 2,957,000	\$ 6,595,000	\$ 3,638,000	44.84%	\$ 4,320,628	84.20%
07/01/14	\$ 3,575,000	\$ 7,238,000	\$ 3,663,000	49.39%	\$ 4,911,310	74.58%

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Annual OPEB Cost	Percentage Contributed
06/30/08	\$ 801,984	\$ 518,000	154.82%
06/30/09	\$ 514,000	\$ 514,000	100.00%
06/30/10	\$ 405,000	\$ 405,000	100.00%
06/30/11	\$ 431,000	\$ 431,000	100.00%
06/30/12	\$ 538,000	\$ 538,000	100.00%
06/30/13	\$ 596,404	\$ 580,000	102.83%
06/30/14	\$ 550,000	\$ 550,000	100.00%
06/30/15	\$ 573,000	\$ 573,000	100.00%

MetCom implemented GASB Statement No. 45 for the fiscal year ended June 30, 2008. Information for prior years is not available.

OTHER SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2015

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Operating revenue:				
Service charges	\$ 8,817,106	\$ 4,880,424	\$ 213,722	\$ 13,911,252
Miscellaneous	<u>51,393</u>	<u>163,563</u>	<u>73,336</u>	<u>288,292</u>
Total operating revenue	<u>8,868,499</u>	<u>5,043,987</u>	<u>287,058</u>	<u>14,199,544</u>
Operating expenses:				
Direct operating expenses	4,167,421	2,314,911	503,952	6,986,284
Administrative expenses	<u>2,809,435</u>	<u>1,477,174</u>	<u>387,991</u>	<u>4,674,600</u>
Total operating expenses	<u>6,976,856</u>	<u>3,792,085</u>	<u>891,943</u>	<u>11,660,884</u>
Operating income (loss) before depreciation	1,891,643	1,251,902	(604,885)	2,538,660
Depreciation	<u>(2,947,823)</u>	<u>(1,504,947)</u>	<u>(37,128)</u>	<u>(4,489,898)</u>
Operating loss	<u>(1,056,180)</u>	<u>(253,045)</u>	<u>(642,013)</u>	<u>(1,951,238)</u>
Allocable nonoperating revenue (expense):				
Interest income	269	67	-	336
Debt service charges	6,184,751	3,047,371	-	9,232,122
House connection charges - net	-	(15,242)	-	(15,242)
Debt service - interest and finance charges	<u>(1,332,070)</u>	<u>(1,174,125)</u>	<u>-</u>	<u>(2,506,195)</u>
Total allocable nonoperating revenue	<u>4,852,950</u>	<u>1,858,071</u>	<u>-</u>	<u>6,711,021</u>
Total allocable net income (loss)	<u>\$ 3,796,770</u>	<u>\$ 1,605,026</u>	<u>\$ (642,013)</u>	<u>4,759,783</u>
Nonallocable revenue:				
Interest income				15,643
Other fees				<u>150,658</u>
Total nonallocable revenue				<u>166,301</u>
Capital contribution				<u>5,405,963</u>
Change in fund net position				<u>\$ 10,332,047</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2014

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Operating revenue:				
Service charges	\$ 8,562,650	\$ 4,788,743	\$ 230,000	\$ 13,581,393
Miscellaneous	<u>40,938</u>	<u>160,569</u>	<u>26,108</u>	<u>227,615</u>
Total operating revenue	<u>8,603,588</u>	<u>4,949,312</u>	<u>256,108</u>	<u>13,809,008</u>
Operating expenses:				
Direct operating expenses	4,203,856	2,248,626	387,080	6,839,562
Administrative expenses	<u>2,681,222</u>	<u>1,478,649</u>	<u>519,399</u>	<u>4,679,270</u>
Total operating expenses	<u>6,885,078</u>	<u>3,727,275</u>	<u>906,479</u>	<u>11,518,832</u>
Operating income (loss) before depreciation	1,718,510	1,222,037	(650,371)	2,290,176
Depreciation	<u>(2,838,292)</u>	<u>(1,362,827)</u>	<u>(46,953)</u>	<u>(4,248,072)</u>
Operating loss	<u>(1,119,782)</u>	<u>(140,790)</u>	<u>(697,324)</u>	<u>(1,957,896)</u>
Allocable nonoperating revenue (expense):				
Interest income	374	94	-	468
Debt service charges	5,112,626	3,685,681	-	8,798,307
House connection charges - net	-	14,552	-	14,552
Debt service - interest and finance charges	<u>(899,458)</u>	<u>(1,418,489)</u>	<u>-</u>	<u>(2,317,947)</u>
Total allocable nonoperating revenue	<u>4,213,542</u>	<u>2,281,838</u>	<u>-</u>	<u>6,495,380</u>
Total allocable net income (loss)	<u>\$ 3,093,760</u>	<u>\$ 2,141,048</u>	<u>\$ (697,324)</u>	<u>4,537,484</u>
Nonallocable revenue:				
Interest income				14,084
Other fees				<u>167,869</u>
Total nonallocable revenue				<u>181,953</u>
Capital contribution				<u>4,972,479</u>
Change in fund net position				<u>\$ 9,691,916</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2015

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Service charges:				
Service charge - metered	\$ 1,349,218	\$ 4,510,117	\$ -	\$ 5,859,335
Service charge - nonmetered	7,321,309	240,041	-	7,561,350
Service charge - ready-to-serve	-	77,716	-	77,716
Septage haul revenue	146,579	-	-	146,579
Water meter installation	-	13,080	-	13,080
Review fees	-	-	42,765	42,765
Inspection fees	-	-	166,207	166,207
Residential tap fee sewer	-	-	4,750	4,750
Cut-on cut-off fees	-	39,470	-	39,470
Total service charges	<u>\$ 8,817,106</u>	<u>\$ 4,880,424</u>	<u>\$ 213,722</u>	<u>\$ 13,911,252</u>
Direct operating expenses:				
Salaries	\$ 2,289,943	\$ 1,012,433	\$ 720,717	\$ 4,023,093
Chemicals	177,079	104,370	-	281,449
Contractual employees	2,767	-	14,040	16,807
Employee physicals/uniforms	20,783	5,797	3,073	29,653
Employee training	8,981	4,179	6,096	19,256
Lab/soil testing	8,975	-	-	8,975
Leonardtown - treatment plant	109,622	-	-	109,622
Maintenance	521,904	454,260	500	976,664
Materials and supplies	78,258	49,300	11,240	138,798
Meter reading expense	-	21,292	-	21,292
Miscellaneous	14,828	10,828	1,539	27,195
Oil and gas	75,038	4,888	81	80,007
Power	483,458	542,160	5,440	1,031,058
Professional fees	2,109	-	14,919	17,028
Safety supplies	22,705	6,953	-	29,658
Sludge removal	129,499	-	-	129,499
SSO fines and penalties	17,700	-	-	17,700
Telephone	46,885	10,661	11,504	69,050
Temporary labor	-	-	-	-
Tools purchased	16,574	7,397	-	23,971
Vehicle operating and mileage	143,048	57,250	15,348	215,646
Water testing	-	25,787	-	25,787
Recovery of costs	<u>(2,735)</u>	<u>(2,644)</u>	<u>(300,545)</u>	<u>(305,924)</u>
Total direct operating expenses	<u>\$ 4,167,421</u>	<u>\$ 2,314,911</u>	<u>\$ 503,952</u>	<u>\$ 6,986,284</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2014

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Service charges:				
Service charge - metered	\$ 1,370,158	\$ 4,414,644	\$ -	\$ 5,784,802
Service charge - nonmetered	7,069,524	245,200	-	7,314,724
Service charge - ready-to-serve	-	77,886	-	77,886
Septage haul revenue	122,843	-	-	122,843
Water meter installation	-	13,740	-	13,740
Review fees	-	-	76,410	76,410
Inspection fees	-	-	149,590	149,590
Residential tap fee sewer	-	-	4,000	4,000
Cut-on cut-off fees	125	37,273	-	37,398
Total service charges	<u>\$ 8,562,650</u>	<u>\$ 4,788,743</u>	<u>\$ 230,000</u>	<u>\$ 13,581,393</u>
Direct operating expenses:				
Salaries	\$ 2,225,184	\$ 998,299	\$ 659,533	\$ 3,883,016
Chemicals	186,296	102,395	-	288,691
Contractual employees	-	-	23,963	23,963
Employee physicals/uniforms	20,602	6,881	3,709	31,192
Employee training	22,166	4,369	7,854	34,389
Lab/soil testing	9,228	-	-	9,228
Leonardtown - treatment plant	100,097	-	-	100,097
Maintenance	551,597	339,311	480	891,388
Materials and supplies	80,690	58,270	9,225	148,185
Meter reading expense	-	65,099	-	65,099
Miscellaneous	15,813	10,771	2,215	28,799
Oil and gas	112,152	8,255	1,304	121,711
Power	510,042	555,511	5,859	1,071,412
Professional fees	2,763	-	5,865	8,628
Safety supplies	12,860	6,145	-	19,005
Sludge removal	138,245	-	-	138,245
SSO fines and penalties	900	-	-	900
Telephone	42,869	10,310	11,474	64,653
Temporary labor	-	-	1,771	1,771
Tools purchased	17,347	6,429	-	23,776
Vehicle operating and mileage	161,356	61,382	21,145	243,883
Water testing	-	15,865	-	15,865
Recovery of costs	(6,351)	(666)	(367,317)	(374,334)
Total direct operating expenses	<u>\$ 4,203,856</u>	<u>\$ 2,248,626</u>	<u>\$ 387,080</u>	<u>\$ 6,839,562</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>Years ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Administrative expenses:		
Accounting	\$ 16,590	\$ 17,000
Advertising	25,703	27,569
Bond fees	775	750
Commissioners' salaries	12,083	13,500
Computer services	94,863	76,259
Consulting	4,441	16,808
Contractual employees	96,252	94,983
Depreciation	109,850	109,784
Dues and subscriptions	8,583	7,856
Electric	13,656	14,944
Employee training	21,408	29,269
Hospitalization and disability	1,454,519	1,574,981
Insurance	207,767	198,951
Legal	945	32,423
Mileage and travel	2,954	3,310
Miscellaneous	7,351	4,164
Office and administrative salaries	1,417,325	1,334,152
Office supplies and expenses	111,248	114,488
On-line fees	62,099	2,306
Payroll taxes	423,280	402,287
Postage expense	107,297	99,595
Retirement	434,376	462,378
Telephone and fax	53,417	49,105
Temporary labor	4,473	-
Tuition reimbursement	(1,827)	3,602
Recovery of costs	(14,828)	(11,194)
	<u> </u>	<u> </u>
Total administrative expenses	<u>\$ 4,674,600</u>	<u>\$ 4,679,270</u>
Allocated to services as follows:		
Sewer 60.1% and 57.3%	\$ 2,809,435	\$ 2,681,222
Water 31.6% and 31.6%	1,477,174	1,478,649
Engineering 8.3% and 11.1%	387,991	519,399
	<u> </u>	<u> </u>
	<u>\$ 4,674,600</u>	<u>\$ 4,679,270</u>



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

To the Commissioners of
St. Mary's County Metropolitan Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of St. Mary's County Metropolitan Commission, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise St. Mary's County Metropolitan Commission's basic financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland
September 30, 2015