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 the Municipal Securities Rulemaking Board (the "MSRB") (formerly to each nationally recognized municipal securities information repository and to the appropriate state information depository, if any) in an electronic format as prescribed by the MSRB , 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.

COMMUNITY DEVELOPMENT ADMINISTRATION
LOCAL GOVERNMENT INFRASTRUCTURE BONDS

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

COMMUNITY DEVELOPMENT ADMINISTRATION
LOCAL GOVERNMENT INFRASTRUCTURE BONDS
YEARS ENDED JUNE 30, 2017 AND 2016

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Office of the Secretary
Department of Housing and Community Development
Lanham, Maryland

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, 2017 and 2016, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2017 and 2016, and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Financial Statement Presentation

As discussed in Note 1, the financial statements present only the Fund 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, 2017 and 2016, and the changes in its net position and its cash flows, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 29, 2017, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
September 29, 2017

COMMUNITY DEVELOPMENT ADMINISTRATION
LOCAL GOVERNMENT INFRASTRUCTURE BONDS
STATEMENTS OF NET POSITION
(in thousands)
JUNE 30, 2017 AND 2016

	2017	2016
RESTRICTED ASSETS		
RESTRICTED CURRENT ASSETS		
Cash and Cash Equivalents on Deposit	$ 61,600	$ 59,931
Community Facilities Loans	8,380	6,640
Accrued Interest Receivable	721	299
Total Restricted Current Assets	70,701	66,870
RESTRICTED LONG-TERM ASSETS		
Community Facilities Loans, Net of Current Portion	129,710	113,550
Total Restricted Long-Term Assets	129,710	113,550
Total Restricted Assets	$ 200,411	$ 180,420
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accrued Interest Payable	$ 346	$ 315
Accounts Payable	-	22
Bonds Payable	8,445	6,705
Due to Local Governments	56,332	55,562
Total Current Liabilities	65,123	62,604
LONG-TERM LIABILITIES		
Bonds Payable, Net of Current Portion	132,180	116,089
Advance Trustee Fees	54	33
Other Liabilities	432	-
Total Long-Term Liabilities	132,666	116,122
Total Liabilities	197,789	178,726
NET POSITION		
Restricted	2,622	1,694
Total Liabilities and Net Position	$ 200,411	$ 180,420

See accompanying 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, 2017 AND 2016

	2017	2016
OPERATING REVENUE		
Interest on Community Facilities Loans	$ 4,344	$ 3,943
Interest on Cash and Cash Equivalents	26	9
Fee Income	129	111
Other Operating Revenue	36	-
Total Operating Revenue	4,535	4,063
OPERATING EXPENSES		
Interest Expense on Bonds	4,162	3,748
Professional Fee Expense	32	15
Total Operating Expenses	4,194	3,763
Operating Income	341	300
Transfer of Funds, as Permitted by the Various Bond Indentures	587	332
CHANGE IN NET POSITION	928	632
NET POSITION - RESTRICTED AT BEGINNING OF YEAR	1,694	1,062
NET POSITION - RESTRICTED AT END OF YEAR	$ 2,622	$ 1,694

See accompanying Notes to Financial Statements.

COMMUNITY DEVELOPMENT ADMINISTRATION
LOCAL GOVERNMENT INFRASTRUCTURE BONDS
STATEMENTS OF CASH FLOWS
(in thousands)
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Principal and Interest Received on Community Facilities Loans	$ 12,191	$ 10,273
Origination of Community Facilities Loans	(24,987)	(22,221)
Advance Trustee Fees Received	73	57
Trustee Fees Paid	(52)	(44)
Loan Fees Received	129	111
Professional Fee Expense	(32)	(15)
Other Operating Revenue	36	-
Net Cash Used in Operating Activities	(12,642)	(11,839)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Cash Equivalents	24	8
Net Cash Provided By Investing Activities	24	8
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Sale of Bonds	25,735	18,865
Payments on Bond Principal	(7,900)	(6,385)
Interest on Bonds	(4,135)	(3,709)
Transfer Among Funds	587	332
Net Cash Provided by Noncapital Financing Activities	14,287	9,103
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ON DEPOSIT	1,669	(2,728)
CASH AND CASH EQUIVALENTS ON DEPOSIT - BEGININING OF YEAR	59,931	62,659
CASH AND CASH EQUIVALENTS ON DEPOSIT - END OF YEAR	$ 61,600	$ 59,931
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Income	$ 341	$ 300
Adjustments to Reconcile Operating Income to Net Cash Used in Operating Activities:		
Amortization of Bond Original Issue Premiums	(4)	(4)
Interest Received on Cash Equivalents	(24)	(8)
Interest on Bonds	4,135	3,709
(Increase) Decrease in Assets:		
Community Facilities Loans	(17,900)	(12,540)
Accrued Interest Receivable	(422)	4
Increase (Decrease) in Liabilities:		
Accrued Interest Payable	31	43
Accounts Payable	(22)	22
Due to Local Governments	770	(3,378)
Advance Trustees Fees and Other Liabilities	453	13
Net Cash Used in Operating Activities	$ (12,642)	$ (11,839)

See accompanying Notes to Financial Statements.

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 Fund 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).

Basis of Accounting and Measurement Focus

The basis of accounting for the Fund is determined by measurement focus. The flow of economic resources measurement focus and the accrual basis of accounting are used to account for the Fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of the Fund are included on the Statements of Net Position. The Fund is required to follow all statements of the Governmental Accounting Standards Board (GASB).

Generally Accepted Accounting Principles

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

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.

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 included 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 and 2016, 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, 2017 and 2016.

Accrued Interest Receivable

Accrued interest includes both interest on cash deposits and interest on loans. As of June 30, 2017 and 2016, 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 9 for additional information.

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, 2017, the Fund had $61,600 invested in a money market mutual fund (BlackRock Liquidity FedFund Administration Shares). As of June 30, 2016, the Fund had $59,931 invested in a money market mutual fund (Federated Prime Cash Obligations Fund). Both are classified as cash and cash equivalents. The following represents the GASB evaluation of these assets for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

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 BlackRock Liquidity FedFund Administration Shares invests primarily in cash, U.S. Treasury bills, notes and other obligations issued or guaranteed as to principal and interest by the U.S. Government, its agencies or instrumentalities, and repurchase agreements secured by such obligations or cash. 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. Both operate in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. Both 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 of June 30, 2017 and 2016, the cost of the money market mutual fund approximated fair value.

NOTE 3 CASH AND CASH EQUIVALENTS ON DEPOSIT (CONTINUED)

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, 2017, the BlackRock Liquidity FedFund Administration Shares was rated AAAm by Standard and Poor's and Aaa by Moody's Investors Service. As of June 30, 2016, the Federated Prime Cash Obligations Fund was rated AAAm by Standard and Poor's and Aaa by Moody's Investors Service.

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, 2017 and 2016, 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.

Fair Value Measurements

CDA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2017 and 2016, all investments were in a money market mutual fund which is not subject to the fair value measurement requirements.

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, 2017 and 2016. As of June 30, 2017 and 2016, interest rates on such loans range from 1.76% to 5.09%. Remaining loan terms range from less than 1 year to 28 years and less than 2 years to 29 years, respectively.

(in thousands)

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.

The following is a summary of the bond activity for the year ended June 30, 2017 and bonds payable as of June 30, 2017:

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2016	Bond Activity: New Bonds Issued	Bond Activity: Scheduled Maturity Payments	Debt Outstanding at June 30, 2017	Bond Premium/ Discount Deferred	Bonds Payable at June 30, 2017
Local Government Infrastructure Bonds									
2010 Series A-1	8/25/10	3.00% - 4.00%	2017 - 2030	$ 14,020	$ -	$ (955)	$ 13,065	$ -	$ 13,065
2010 Series A-2	8/25/10	2.35% - 4.00%	2017 - 2030	6,190	-	(415)	5,775	-	5,775
2012 Series A-1	5/17/12	1.30% - 3.50%	2017 - 2032	6,885	-	(695)	6,190	-	6,190
2012 Series A-2	5/17/12	1.40% - 3.60%	2017 - 2032	3,230	-	(310)	2,920	-	2,920
2012 Series B-1	12/19/12	1.05% - 3.125%	2017 - 2032	12,005	-	(740)	11,265	-	11,265
2012 Series B-2	12/19/12	1.10% - 3.125%	2017 - 2032	5,540	-	(340)	5,200	-	5,200
2013 Series A-1	10/3/13	1.45% - 5.00%	2017 - 2043	12,985	-	(575)	12,410	-	12,410
2013 Series A-2	10/3/13	1.50% - 5.05%	2017 - 2043	6,000	-	(245)	5,755	-	5,755
2014 Series A-1	8/28/14	0.70% - 3.50%	2017 - 2034	25,730	-	(1,055)	24,675	-	24,675
2014 Series A-2	8/28/14	0.70% - 5.00%	2017 - 2034	11,920	-	(455)	11,465	100	11,565
2015 Series A-1	8/27/15	0.80% - 3.75%	2017 - 2045	12,740	-	(645)	12,095	-	12,095
2015 Series A-2	8/27/15	0.85% - 3.75%	2017 - 2045	5,445	-	(275)	5,170	-	5,170
2016 Series A-1	8/31/16	0.50% - 2.90%	2017 - 2036	-	18,020	(835)	17,185	-	17,185
2016 Series A-2	8/31/16	0.60% - 2.95%	2017 - 2036	-	7,715	(360)	7,355	-	7,355
Total				$ 122,690	$ 25,735	$ (7,900)	$ 140,525	$ 100	$ 140,625

(in thousands)

NOTE 5 BONDS PAYABLE (CONTINUED)

The following is a summary of the bond activity for the year ended June 30, 2016 and bonds payable as of June 30, 2016:

	Issue Dated	Range of Interest Rates	Range of Maturities	Debt Outstanding at June 30, 2015	Bond Activity: New Bonds Issued	Bond Activity: Scheduled Maturity Payments	Debt Outstanding at June 30, 2016	Bond Premium/ Discount Deferred	Bonds Payable at June 30, 2016
Local Government Infrastructure Bonds									
2010 Series A-1	8/25/10	1.90% - 4.00%	2016 - 2030	$ 14,950	$ -	$ (930)	$ 14,020	$ -	$ 14,020
2010 Series A-2	8/25/10	2.00% - 4.00%	2016 - 2030	6,590	-	(400)	6,190	-	6,190
2012 Series A-1	5/17/12	1.10% - 3.50%	2016 - 2032	7,570	-	(685)	6,885	-	6,885
2012 Series A-2	5/17/12	1.20% - 3.60%	2016 - 2032	3,535	-	(305)	3,230	-	3,230
2012 Series B-1	12/19/12	0.95% - 3.125%	2016 - 2032	12,740	-	(735)	12,005	-	12,005
2012 Series B-2	12/19/12	1.00% - 3.125%	2016 - 2032	5,875	-	(335)	5,540	-	5,540
2013 Series A-1	10/3/13	1.10% - 5.00%	2016 - 2043	13,550	-	(565)	12,985	-	12,985
2013 Series A-2	10/3/13	1.15% - 5.05%	2016 - 2043	6,245	-	(245)	6,000	-	6,000
2014 Series A-1	8/28/14	0.45% - 3.50%	2016 - 2034	26,785	-	(1,055)	25,730	-	25,730
2014 Series A-2	8/28/14	0.45% - 5.00%	2016 - 2034	12,370	-	(450)	11,920	104	12,024
2015 Series A-1	8/27/15	0.40% - 3.75%	2016 - 2045	-	13,215	(475)	12,740	-	12,740
2015 Series A-2	8/27/15	0.45% - 3.75%	2016 - 2045	-	5,650	(205)	5,445	-	5,445
Total				$ 110,210	$ 18,865	$ (6,385)	$ 122,690	$ 104	$ 122,794

NOTE 6 DEBT SERVICE REQUIREMENTS

As of June 30, 2017, 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:

Year Ended June 30,	Interest	Principal
2018	$ 4,152	$ 8,445
2019	4,021	8,535
2020	3,865	8,965
2021	3,669	8,985
2022	3,464	9,130
2023-2027	13,731	43,395
2028-2032	6,948	38,095
2033-2037	1,525	11,985
2038-2042	506	1,685
2043-2047	84	1,305
Total	$ 41,965	$ 140,525

(in thousands)

NOTE 6 DEBT SERVICE REQUIREMENTS (CONTINUED)

As of June 30, 2016, 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:

Year Ended June 30,	Interest	Principal
2017	$ 3,782	$ 6,705
2018	3,689	6,820
2019	3,568	6,900
2020	3,425	7,310
2021	3,245	7,310
2022 - 2026	13,240	35,660
2027 - 2031	7,399	33,900
2032 - 2036	1,909	14,800
2037 - 2041	574	1,615
2042 - 2046	156	1,670
Total	$ 40,987	$ 122,690

(in thousands)

NOTE 7 LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Bonds Payable:		
Beginning Balance at June 30,	$ 122,794	$ 110,318
Additions	25,735	18,865
Reductions	(7,900)	(6,385)
Change in Deferred Amounts for Issuance Premiums	(4)	(4)
Ending Balance at June 30,	140,625	122,794
Less Due Within One Year	(8,445)	(6,705)
Total Long-Term Bonds Payable	132,180	116,089
Other Liabilities - Advance Trustee Fees:		
Beginning Balance at June 30,	33	20
Additions	73	57
Reductions	(52)	(44)
Ending Balance at June 30,	54	33
Total Long-Term Other Liabilities - Advance Trustee Fees	54	33
Other liabilities:		
Beginning Balance at June 30,	-	-
Additions	432	-
Reductions	-	-
Ending Balance at June 30,	432	-
Total Long-Term Other Liabilities	432	-
Total Long-Term Liabilities	$ 132,666	$ 116,122

NOTE 8 INTERFUND ACTIVITY

In accordance with the Resolution, net position in the Fund is restricted and pledged to bondholders. However, restricted assets may be transferred to other Funds, subject to the provisions of the Resolution. As of June 30, 2017, $587 was transferred into the Fund from CDA's General Bond Reserve Fund to meet the debt service reserve requirement to secure the 2016 Series A-2 bonds. As of June 30, 2016, $332 was transferred into the Fund from CDA's General Bond Reserve Fund to meet the debt service reserve requirement to secure the 2015 Series A-2 bonds.

NOTE 9 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 10 SUBSEQUENT EVENTS

CDA has identified the following activity that occurred subsequent to June 30, 2017.

Subsequent to the year ended June 30, 2017, CDA issued $39,035 of 2017 Series A bonds on August 2, 2017.

Local Government Infrastructure Program Indenture (2010-Present)

Infrastructure Loans Financed with the Proceeds of the Bonds

(Outstanding Loans as of June 30, 2017)

Local Government	Location by County	Series of Bonds	Amount of Loan ($)	Remaining Loan Term (in years)	Purpose
Aberdeen	Harford	2010A	$3,645,400.00	13	Water capital purchase
Berlin	Worcester	2012A	$162,800.00	< 1	Refinance existing debt
			$273,700.00	4	Refinance existing debt
			$1,326,300.00	11	Refinance existing debt
			$1,070,800.00	12	Refinance existing debt
Berlin	Worcester	2015A	$2,121,000.00	17	Refinance existing debt
Centreville	Queen Anne's	2012A	$2,037,900.00	15	Street improvements, water distribution system, refi loan
Centreville	Queen Anne's	2016A	$7,445,000.00	19	Roadway and park improvements, refi bank loan, refi USDA debt
Charlestown	Cecil	2012A	$520,400.00	12	Refinance existing debt
			$82,100.00	15	Drainage and water basin installation
Charlestown	Cecil	2014A	$117,000.00	17	Shoreline Protection
Chesapeake Beach	Calvert	2010A	$1,553,300.00	13	Water storage tank and production
Chestertown	Kent	2012A	$1,631,000.00	15	Purchase marina property
Cumberland	Allegany	2012B	$1,190,900.00	15	Capital improvements
Cumberland	Allegany	2014A	$1,069,500.00	7	Vehicle, Equipment, Information System
			$762,500.00	12	Ambulance, ERP System, Vacuum Truck
			$4,555,000.00	17	Facility, Street, Water and Sewer Impts

Local Government Infrastructure Program Indenture (2010-Present)

Infrastructure Loans Financed with the Proceeds of the Bonds

(Outstanding Loans as of June 30, 2017)

Local Government	Location by County	Series of Bonds	Amount of Loan ($)	Remaining Loan Term (in years)	Purpose
Cumberland	Allegany	2015A	$505,000.00 $2,383,500.00	8 18	Equipment purchases Facility, street, water and sewer improvements
District Heights	Prince George's	2016A	$4,065,000.00	19	Senior Center and Youth Counseling Center construction
Federalsburg	Caroline	2013A	$919,500.00	11	Street improvements
Federalsburg	Caroline	2015A	$2,650,000.00	17	Refinance existing debt
Forest Heights	Prince George's	2015A	$452,000.00	13	Road and sidewalk improvements
Havre de Grace	Harford	2016A	$4,295,000.00	14	Opera House improvements and water treatment plant rehabilitation
Hyattsville	Prince George's	2010A	$2,401,500.00	8	Street and sidewalk improvements
Hyattsville	Prince George's	2012B	$1,735,000.00	10	Parking facility improvements, parking meters field renovations, street improvements
Laurel	Prince George's	2012A	$1,499,500.00	5	Fleet purchases, pool improvements, facility maintenance, street improvements, IT purchases
Laurel	Prince George's	2016A	$4,770,000.00	9	Facility maintenance, fleet purchases, IT purchases, park improvements, and street improvements
Manchester	Carroll	2016A	$1,580,000.00	9	Town hall and police station construction
Middletown	Frederick	2010A	$175,500.00	6	Refinance FHA[1] loan

Local Government Infrastructure Program Indenture (2010-Present)

Infrastructure Loans Financed with the Proceeds of the Bonds

(Outstanding Loans as of June 30, 2017)

Local Government	Location by County	Series of Bonds	Amount of Loan ($)	Remaining Loan Term (in years)	Purpose
Middletown	Frederick	2015A	$2,330,000.00 $4,333,000.00	18 28	Street improvements and reservoir cover Water line replacement
Mount Airy	Carroll & Frederick	2012B	$5,504,800.00	15	Refinance existing debt, water main replacements, water pump station
Myersville	Frederick	2014A	$376,500.00	7	Street Improvements
New Carrollton	Prince George's	2015A	$453,000.00	5	Refinance existing debt
North East	Cecil	2014A	$1,783,500.00	17	Road Way Improvement
Oakland	Garrett	2010A	$423,000.00 $1,165,000.00	3 13	Community Center and street improvements Refinance bank loans and USDA[2] loans
Perryville	Cecil		$2,385,000.00	14	Construct police station
Riverdale Park	Prince George's	2013A	$670,800.00 $2,360,700.00	11 26	Street improvements and community center Community center improvements
Snow Hill	Worcester	2012A	$230,500.00	3	Refinance existing loan
Somerset County Sanitary Comm.	Somerset	2013A	$52,800.00 $229,900.00	4 18	Refinance USDA[2] loan Refinance USDA[2] loan
Somerset County Sanitary Comm.	Somerset	2015A	$764,000.00	7	Refinance existing debt

Local Government Infrastructure Program Indenture (2010-Present) **Infrastructure Loans Financed with the Proceeds of the Bonds** **(Outstanding Loans as of June 30, 2017)**					
St. Mary's Metropolitan Commission	St. Mary's	2010A	$9,026,300.00	13	Water and sewer system improvements
St. Mary's Metropolitan Commission	St. Mary's	2012B	$6,852,900.00	15	Water and sewer system improvements
St. Mary's Metropolitan Commission	St. Mary's	2013A	$13,486,300.00	16	Water and sewer system improvements
St. Mary's Metropolitan Commission	St. Mary's	2014A	$19,507,500.00	17	Water and sewer system improvements
Takoma Park	Montgomery	2015A	$1,273,500.00	8	Refinance existing debt
Taneytown	Carroll	2014A	$6,356,973.72 $731,526.28	15 17	Redeem 2008 Bank Loan Wastewater Treatment Plant Upgrade
Westminster	Carroll	2012B	$796,400.00	5	Refinance existing debt
		Total:	**$138,090,000**		

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, 2017, 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 2016 estimate): 112,587

YEAR	**2017**	**2016**	**2015**
ASSESSED VALUE OF TAXABLE PROPERTY:	$11,988,628,664	$11,837,685,758	$11,649,914,444

Summary of General Fund, Year Ended June 30, ____

	2017	**2016**	**2015**
REVENUES:			
Taxes	$ 203,537,212	$ 198,590,144	$ 192,939,503
Highway user revenues	$ 900,948	$ 901,966	$ 762,266
Licenses & permits	$ 1,654,929	$ 1,574,154	$ 1,581,154
Intergovernmental	$ 9,837,258	$ 9,859,122	$ 10,364,668
Charges for services	$ 3,895,412	$ 2,679,243	$ 3,048,393
Fines and forfeitures	$ 289,646	$ 212,776	$ 264,853
Other revenues	$ 527,714	$ 345,909	$ 469,855
Pass-throughs	$ -	$ -	$ -
Total Revenues	$ 220,643,119	$ 214,163,314	$ 209,430,692
EXPENDITURES:			
General government	$ 22,324,501	$ 21,943,087	$ 20,662,550
Public safety	$ 41,428,865	$ 43,357,839	$ 38,266,497
Public works	$ 9,019,174	$ 9,288,129	$ 9,076,657
Health	$ 7,048,799	$ 7,383,969	$ 7,038,830
Social services	$ 4,213,410	$ 4,356,043	$ 4,114,893
Primary and secondary education	$ 104,704,831	$ 99,922,025	$ 95,846,940
Post-secondary education	$ 4,267,365	$ 4,257,845	$ 3,995,506
Parks, recreation, and culture	$ 3,848,472	$ 3,855,553	$ 3,800,521
Libraries	$ 2,684,574	$ 2,588,064	$ 2,498,064
Conservation of natural resources	$ 533,329	$ 478,171	$ 491,408
Economic development	$ 2,118,755	$ 1,818,051	$ 1,515,675
Debt service (P & I)	$ 10,012,559	$ 9,356,779	$ 9,787,899
Other	$ 3,197,456	$ 9,700,366	$ 7,036,710
Pass-throughs	$ -	$ -	$ -
Total Expenditures	$ 215,402,090	$ 218,305,921	$ 204,132,150

	2017	**2016**	**2015**
ASSETS:			
Cash & cash equivalents	$ 81,473,968	$ 62,900,639	$ 71,645,582
Restricted cash and investments	$ -	$ 1,461,058	$ 1,580,054
Taxes receivable	$ 2,507,828	$ 2,525,446	$ 3,361,759
Income tax reserve	$ 8,768,718	$ 8,643,717	$ 8,610,524
Accounts receivable	$ 12,002,499	$ 11,408,896	$ 11,666,667
Inventory	$ 1,315,646	$ 1,253,760	$ 1,277,090
Other	$ 374,444	$ 458,853	$ 361,102
Due from fiduciary fund			
Total Assets	$ 106,443,103	$ 88,652,369	$ 98,502,778

ST. MARY'S COUNTY Cont.

Year Ended June 30, ____

		2017		2016		2015
LIABILITIES:						
Accounts payable	$	2,225,115	$	4,532,976	$	3,095,234
Compensated-related liabilities	$	10,677,098	$	10,261,879	$	9,151,399
Deferred income tax distribution	$	-	$	-	$	-
Unearned revenue	$	553,652	$	230,596	$	295,530
Other liabilities	$	4,185,208	$	4,773,186	$	5,336,828
Due to other funds	$	30,012,052	$	18,401,176	$	23,188,241
Due to other governments	$	190,054	$	191,654	$	191,654
Unavailable income tax distribution	$	8,768,718	$	8,643,717	$	8,610,524
Total Liabilities	$	56,611,897	$	47,035,184	$	49,869,410
FUND BALANCES:						
Undesignated/Unassigned	$	30,394,751	$	21,526,626	$	16,680,164

		2017		2016		2015
LONG-TERM DEBT:						
Governmental activities	$	85,559,569	$	71,447,241	$	79,000,091
Business-type activities	$	304,866	$	547,942	$	492,375
Total L-T Liabilities	$	85,864,435	$	71,995,183	$	79,492,466

Property Taxes and Taxes Receivable: Real Property

	Total assessed Value of Real Property	General tax rate/$100	Actual Tax Levy	Current Year Amount Collected
2017	$11,907,516,250	0.852	$101,487,761	$99,847,984
2016	$11,761,829,760	0.857	$105,246,397	$103,835,253
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

ST. MARY'S COUNTY

Property Taxes and Taxes Receivable: Personal Property

	Total assessed Value of Personal Property	General tax rate/$100	Actual Tax Levy	Current Year Amount Collected
2017	$9,734,466	2.1308	$207,422	$207,422
2016	$8,208,150	2.1425	$174,895	$157,619
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

Property Taxes and Taxes Receivable: Railroads & Public Utilities Property

	Total assessed Value of Railroads & Public Utilities Property	General tax rate/$100	Actual Tax Levy	Current Year Amount Collected
2017	$104,244,462	2.1308	$2,221,241	$2,221,241
2016	$114,224,000	2.1425	$2,433,828	$2,300,566
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

ST. MARY'S COUNTY

State-aid Intercept Pledge : Analysis

Jurisdiction	Available funds received (Period : CY-2016)	Available funds received (Period : CY-2017)	Average of funds received (Period : CY-2006 thru CY-2017)	Maximum Annual Debt Service (MADS) on pledged indebtedness [1]
St. Mary's County	$114,784,784	$108,819,547	$98,821,317	$8,460,868

[1] Total of all existing pledged indebtedness as of December 31, 2017.

COMMISSIONERS OF
ST. MARY'S COUNTY

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2017

Murphy & Murphy, CPA, LLC

Commissioners of St. Mary's County

June 30, 2017

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Commissioners of St. Mary's County

June 30, 2017

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Murphy & Murphy, CPA, LLC
Certified Public Accountants

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, 2017, 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 58.13 percent, 62.45 percent and 89.05 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 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.

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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 aggregrate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners of St. Mary's County, as of June 30, 2017, 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.

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 105 - 113 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 non-major 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 10, 2017, 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 10, 2017

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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, 2017. 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 $259.6 million (*net position*). Approximately $18.1 million, or 6.9%, 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 6% of the total net position, or $16.3 million (*unrestricted net position*), may be used to meet ongoing obligations to citizens and creditors. Other components of the net position are $19.9 million of restricted net position and approximately $223 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 asset position reflects an increase of $16.8 million over the prior year.

- Governmental activities' total indebtedness increased by $14,052,551 during the fiscal year ended June 30, 2017. There was an increase in general obligation bonds of $25 million, an increase in state loans of $99,285 and payments on the debt totaled $10,986,957. The estimated post-closure costs of the landfill decreased by $191,000 and there was a net increase in the accrual for compensated absences of $131,223.

- As of June 30, 2017, the County's governmental funds reported combined fund balances of $78.9 million, an increase of $20.5 million from the prior year. The general fund reflected an increase of $8,214,021. The capital projects fund reflected an increase of $11.6 million. The fund balance for the non-major funds increased $687,379. The County's governmental fund balances at June 30, 2017 include $27.3 million for capital projects, $49.8 million in general funds, and $1.8 million for the other non-major funds. The general fund balance of $49.8 million includes: $2.2 million that is nonspendable, as well as, $14.9 million which is committed to the following: $13.3 million for the Bond Rating Reserve and $1.625 million for County's Rainy Day Fund. In addition, the general fund reflects assigned designations of approximately $2.0 million which includes encumbrances.

- With the FY2017 budget, the State's allocations/funding to the County continue to be level funded or close to the same as in past years. Cost shifts continue and this budget continues to focus on funding recurring expenses with recurring revenues. The County continues to be cognizant with respect to the federal budget situation, with the possibility that the 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, 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. The County approved the budget without the use of unassigned fund balance. Maintaining a healthy fund balance can help the County to weather negative revenue results and avoid sudden disruption or elimination of services, by allowing time for a plan to be developed to address negative trends.

- 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 decrease in net position of $402,604. Fee-based recreation activities posted an increase of $119,113. 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 a decrease of $465,843; reflects the increase of the Environmental Service fee to $72. The Wicomico Golf Course reflects a decrease of $55,874 in net position, reflects the continuation of reduced expenses compared to past years. The enterprise funds are reviewed for sustainability, as a part of the annual budget process. At the same time, increased costs for personal services, utilities and general operating costs has been realized. During FY2018, 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, 2017, the unassigned fund balance for the general fund was $30.4 million, or 14.1% of general fund expenditures. Assigned fund balance of the general fund was $2.0 million, or 4.1% 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 FY2017 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 105 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, the Retiree Benefit Trust of St. Mary's County, Maryland, which addresses the County's retiree health benefits and the Length of Service Awards for Fire & Rescue. 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 104 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 105 to 113 of this report. Other supplementary information can be found on pages 114 to 124.

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 $259.6 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 86% 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 7.7% 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 $16.4 million (6.3% of total net position) which may be used to meet the government's ongoing obligations to citizens and creditors.

NET POSITION

June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
ASSETS						
Current Assets	$ 128,166,385	$ 111,586,482	$ 1,452,139	$ 1,660,731	$ 129,618,524	$ 113,247,213
Other Non-Current Assets	2,715,801	2,636,521	-	-	2,715,801	2,636,521
Capital Assets, Net of Accumulated Depreciation	291,231,490	272,793,854	17,921,670	18,223,532	309,153,160	291,017,386
DEFERRED OUTFLOW OF RESOURCES						
Pension	13,604,540	16,046,423	-	-	13,604,540	16,046,423
Bond Refunding	1,685,498	2,006,421	-	-	1,685,498	2,006,421
Total Assets & Deferred Outflow of Resources	$ 437,403,714	$ 405,069,701	$ 19,373,809	$ 19,884,263	$ 456,777,523	$ 424,953,964
LIABILITIES						
Current Liabilities	$ 25,247,754	$ 26,884,801	$ 875,578	$ 749,930	$ 26,123,332	$ 27,634,731
Non-Current Liabilities	160,945,635	144,820,291	435,275	668,773	161,380,910	145,489,064
DEFERRED INFLOW OF RESOURCES						
Pension	940,006	445,363	-	-	940,006	445,363
Unavailable Income Tax Distribution	8,768,718	8,643,717	-	-	8,768,718	8,643,717
Total Liabilities & Deferred Inflow of Resources	195,902,113	180,794,172	1,310,853	1,418,703	197,212,966	182,212,875
NET POSITION						
Net Investment in Capital Assets	205,671,921	201,346,613	17,616,804	17,675,590	223,288,725	219,022,203
Restricted	19,949,494	17,364,249	-	-	19,949,494	17,364,249
Unrestricted	15,880,186	5,564,667	446,152	789,970	16,326,338	6,354,637
Total Net Position	241,501,601	224,275,529	18,062,956	18,465,560	259,564,557	242,741,089
Total Liabilities, Deferred Inflow of Resources and Net Position	$ 437,403,714	$ 405,069,701	$ 19,373,809	$ 19,884,263	$ 456,777,523	$ 424,953,964

At June 30, 2017, 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

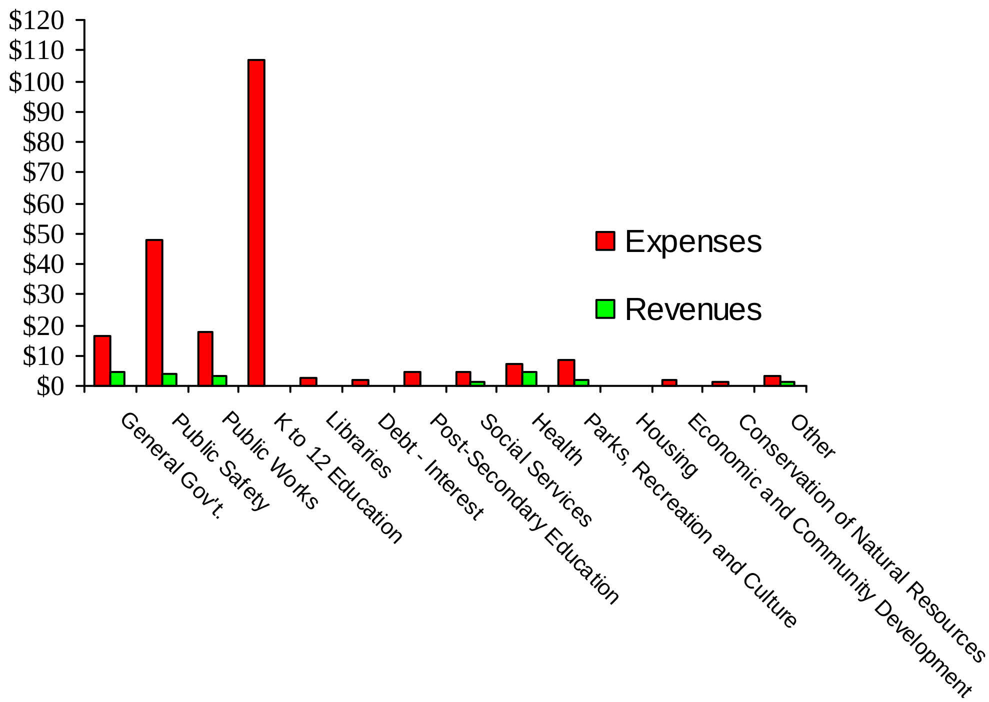
Years ended June 30, 2017 and 2016

	Governmental Activities		Business –Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program Revenues:						
Charges for Services	$ 7,094,639	$ 5,732,399	$ 4,288,090	$ 4,145,710	$ 11,382,729	$ 9,878,109
Environment/Solid Waste Fees	-	-	3,132,609	2,586,093	3,132,609	2,586,093
Operating Grants and Contributions	11,713,502	11,551,791	41,781	29,781	11,755,283	11,581,572
Capital Grants and Dedicated Fees or Taxes	2,544,576	2,672,055	-	-	2,544,576	2,672,055
General Revenues:						
Property Taxes	107,137,471	105,273,048	-	-	107,137,471	105,273,048
Income Taxes	88,167,869	85,525,116	-	-	88,167,869	85,525,116
Other Taxes	17,509,063	15,772,665	-	-	17,509,063	15,772,665
Investment Earnings	355,911	101,644	7,984	348	363,895	101,992
Subsidies to Enterprise Funds	-	-	-	-	-	-
Roads Constructed by Third Parties	9,595,703	6,481,726	-	-	9,595,703	6,481,726
Capital Transfer	156,275	(971,925)	(156,275)	971,925	-	-
Miscellaneous, principally Capital Projects Funding	1,649,889	8,391,792	-	-	1,649,889	8,391,792
Total Revenues	245,924,899	240,530,311	7,314,189	7,733,857	253,239,088	248,264,168
Program Expenses:						
General Government	24,424,948	21,014,903	-	-	24,424,948	21,014,903
Public Safety	47,849,899	45,640,450	-	-	47,849,899	45,640,450
Public Works	13,376,221	21,758,117	4,036,077	3,882,758	17,412,298	25,640,875
Health	7,048,797	7,383,969	-	-	7,048,797	7,383,969
Social Services	4,377,000	4,459,132	-	-	4,377,000	4,459,132
Primary and Secondary Education	106,864,228	104,971,797	-	-	106,864,228	104,971,797
Post-Secondary Education	4,321,929	4,311,220	-	-	4,321,929	4,311,220
Parks, Recreation, and Culture	4,958,135	7,086,204	3,680,716	3,536,053	8,638,851	10,622,257
Libraries	2,868,840	2,770,245	-	-	2,868,840	2,770,245
Conservation of Natural Resources	997,820	1,712,422	-	-	997,820	1,712,422
Economic Development and Opportunity	2,180,192	1,848,637	-	-	2,180,192	1,848,637
Interest on Debt	2,265,408	1,970,528	-	-	2,265,408	1,970,528
Intergovernmental	4,090,196	42,973	-	-	4,090,196	42,973
Other, principally Retirees' Health	3,075,214	9,103,015	-	-	3,075,214	9,103,015
Total Expenses	228,698,827	234,073,612	7,716,793	7,418,811	236,415,620	241,492,423
Increase/(Decrease) in Net position	17,226,072	6,456,699	(402,604)	315,046	16,823,468	6,771,745
Net Position – Beginning, as Previously Stated	224,275,529	252,849,432	18,465,560	18,150,514	242,741,089	270,999,946
Prior Period Adjustment	-	(35,030,602)	-	-	-	(35,030,602)
Net Position – Beginning, as Restated	224,275,529	217,818,830	18,465,560	18,150,514	242,741,089	235,969,344
Net Position - Ending	$ 241,501,601	$ 224,275,529	$ 18,062,956	$ 18,465,560	$ 259,564,557	$ 242,741,089

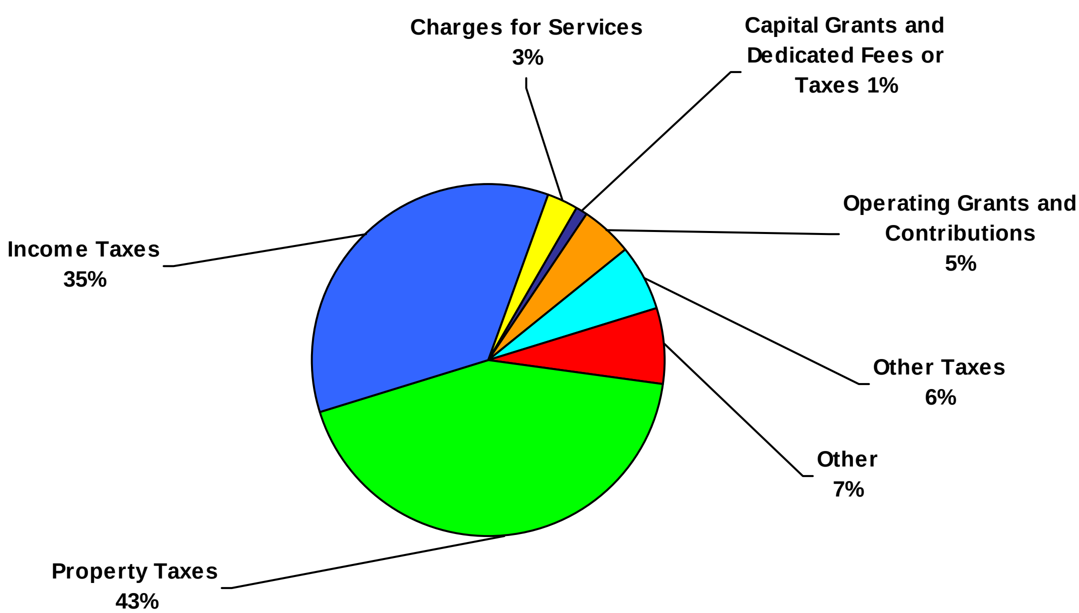
Governmental activities: Governmental activities reflected an increase in net position of $17.2 million.

Business-type activities: Business-type activities reflected a decrease in net position of $402,604.

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, 2017, the Commissioners of St. Mary's County governmental funds reported combined ending fund balances of $78.9 million, an increase of $20.5 million compared to the prior year. The Capital Projects fund accounts for $27.3 million. Approximately $30.3 million, or 38% of this total, constitutes *unassigned fund balance*, which is available for spending at the government's discretion in the General Fund. Assigned fund balance represents encumbrances and miscellaneous revolving fund reserved for specific uses. Restricted and committed fund balances include $27.3 million for capital projects, $13.3 million for the Bond Rating Reserve and $1.625 million for Rainy Day Fund. Non-spendable fund balance includes $1,315,646 committed to liquidate inventories, prepaid expenses of $30,665 and $817,676 in interfund advances. Unassigned fund balance represents almost 14% of general fund expenditures.

The fund balance of the Commissioners of St. Mary's County general fund has increased $8,214,021 in FY2017, when compared to the prior year decrease of $7 million. However, FY2016 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 $27.3 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, 2017. These funds have been budgeted, and the capital projects are in progress. A listing of the unexpended balances appears on pages 123 and 124.

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 ($875,958). The Recreation Activities Fund reflected unrestricted net position of $693,650, and the unrestricted net position of the Solid Waste and Recycling Fund amounted to $628,460. On a combined basis, there was a $343,818 decrease 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 116 through 122 reflects the original and revised budgets as well as the actual results in more detail. FY2017 actual results reflect actual revenues that are about $2 million less than the original budget; however, this is largely attributable to the $2.4 million negative variance in grant revenues. 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 $326,486 and income taxes had a negative variance of $861,048. The FY2017 budget for income tax revenue is based upon an annual growth rate of 4% applied to tax year 2014 results based on returns filed. This growth percentage is the average from Tax Year 2012 through Tax Year 2014, 3.5%. As the information on pages 113 and 114 shows, there are a variety of smaller offsetting variances; these were considered when developing the revenue budget for FY2018. 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 steady at the slower rate of almost 2% annually. 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. During the course of FY2017 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 FY2018 budget is based on updated estimates for salaries and benefits. County departments also realized savings in fuel, utilities, non-public student bus contracts, STS transportation system, other contract services, and grants of about $4.2 million, combined. Unspent funds in the Sheriff's operating budget were $1.9 million, of which almost $821,818 is from personal services costs. Debt Service and Bond Rating Reserve included savings of $1 million, due to timing of bond sale and lower revenues. 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 continued concern of 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 county continues to monitor expenditures and realign savings to reserves to use on non-recurring costs – such as severe weather. Savings are not re-aligned to spend on recurring costs that carry future funding commitments. Instead, the savings are allowed to accrue to fund balance to fund future non-recurring costs, if needed. 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 review the prior year unassigned fund balance and decides if it should be used for non-recurring expenditures or revenue replacement. 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. With the Commissioners Fund Balance policy, it reinforces using fund balance for non-recurring expenses and it also stipulates that County Reserves, which includes the 6% Bond Rating Reserve, Rainy Day Fund and Unassigned fund balance, should be at or above 15% of general fund revenue. FY2017 ratio is 20%. 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's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to $309.1 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, 2017 is $18,135,774. 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)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	$ 38,557,336	$ 36,653,850	$ 1,078,666	$ 1,078,666	$ 39,636,002	$ 37,732,516
Building and Improvements	69,551,804	71,135,256	2,504,099	2,586,210	72,055,903	73,721,466
Facilities Under Construction	16,900,654	9,855,893	-	-	16,900,654	9,855,893
Solid Waste Facilities	-	-	13,220,472	13,220,472	13,220,472	13,220,472
Infrastructure	143,700,305	134,954,321	130,921	147,614	143,831,226	135,101,935
Vehicles	6,068,966	6,173,277	886,136	1,081,459	6,955,102	7,254,736
Equipment	16,452,425	14,021,257	101,376	109,111	16,553,801	14,130,368
	$ 291,231,490	$ 272,793,854	$ 17,921,670	$ 18,223,532	$ 309,153,160	$ 291,017,386

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

- Approximately $12.8 million in road costs were capitalized, including $9.6 million in roads developed /constructed by third parties.
- Parks & recreation facilities increased $2.7 million, principally the acquisition of Snow Hill Park.
- $3.4 million of 911 system & equipment, was capitalized in FY2017.
- Construction in progress totals $16.9 million – Capital Improvements project capitalized in subsequent years.

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

Long-term debt: At June 30, 2017, 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

	June 30, 2017	June 30, 2016	Amounts due within one year
Primary Government			
General Obligation Bonds (GOB) – County	$ 81,158,000	$ 63,633,000	$ 8,516,000
Water Quality Loans	549,872	874,656	328,357
State Loans	1,482,475	1,514,771	131,582
Surplus Property Transfer of Debt	153	300	153
Exempt Financing (Equipment & Vehicles)	2,369,069	5,424,514	881,799
	$ 85,559,569	$ 71,447,241	$ 9,857,891
Business-Type Activities			
Exempt Financing (Equipment)	$ 304,866	$ 547,942	$ 121,654

The Commissioners of St. Mary's County's additions to debt were $25,000,000, reflecting new general obligation bonds issued.

As of June 30, 2017 the County had an AA+ rating from Fitch Ratings, an "AA+" from S & P Global Ratings and an "Aa2" rating from Moody's Investors Service, Inc. which were confirmed with visit to NY in June 2016. In October 2017 the county refunded general obligation funds totaling $15,475,000. At that time Moody's Investors Service, Inc. increased rating to "Aa1". 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 2.15%, to include the debt of St. Mary's Metropolitan Commission, and debt service expense 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 total general fund FY2018 expenditure budget is $221.3 million; unassigned fund balance was not used for non-recurring expenditures. The property tax income is based on information provided by the State as to estimated taxable assessed value of $12.4 billion, a small increase over the prior year's estimate of $12.2 billion. The impact of triennial assessments shows that the minimal increase in the full value are somewhat mitigated by the County's cap of 5%. Assessments continue to reflect slow growth, but steady; this resulted in revenue estimate at 1.4% over the prior year. Initial billings for FY2018 are comparable to the estimates. The real property tax rate was reduced to .8478 per $100 of assessed value, which is the constant yield tax rate. The personal property tax rate, which is 2.5 times the real property tax rate, is $2.1195. The income taxes were budgeted at $92.1 million, based on a 4% growth in local tax returns. This represents an increase of 3.5% over the FY2017 budget, and reflects both the estimated County specific tax returns as well as $5.0 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. As part of 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 FY2019. The County's total share is just over $306,234, 1/20 reduction in FY2019 is estimated to be $15,311 reduction. Preliminary indications, based on the first of the four large distributions paid by the State, indicate the budget may be high, we will continue to monitor and adjust the budget if necessary after the second payment is received in February 2018. Information has recently been received from the State showing TY2016 is 1.8% higher than TY2015, which is above the State average of .9%. This small increase for the State indicates that the State is receiving less tax revenue per unit of economic growth than in the past, compared to last year – the increase over TY2014 was 5.7% for the State. Continual monitoring of the property tax and income tax revenue, which represents 90% of the total revenues, will be a major part of the FY2019 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 continue to grow – which is the busiest flight center in the world. The number of jobs and related services, and the number and diversity of technology companies are relatively stable, actual jobs on the base has reached 25,000 as of May 2016. The Comprehensive Economic Development Strategy (CEDS) with University of Maryland and Towson University was completed which focused 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.

- $2 million in federal funding was secured to construct and initially operate a technology incubator, which includes a 6,000 square foot facility. Ribbon cutting was held in December 2017. This will accommodate eight to twelve start-up and early stage companies and incubator management team.

- The population growth continues and was estimated at 112,587 as of July 1, 2016, 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. 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. In the past three fiscal years, OPEB was budgeted for current retirees only. The County's funded ratio of the OBEB trust is 68.52%, with prepaid OPEB obligation at $18 million.

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. The FY2018 Budget included an approved Multi-year Operating Budget to FY2022. 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 FY2018 budget remains level for over a decade, achieved through use of technology as well as operational stream-lining and privatization. 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 Patuxent River NAS 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 FY2018 remain low compared to other Counties, 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, and includes 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 Baldridge 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, 2017

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
ASSETS							
Cash and cash equivalents	$ 81,473,968	$ 10,000	$ 81,483,968	$ 35,294,364	$ 694,858	$ 24,204,367	$ -
Internal balances	(1,299,604)	1,299,604	-	-	-	-	-
Restricted cash and investments	-	-	-	86,285	99,961	-	-
Taxes receivable	2,573,754	-	2,573,754	-	-	-	-
Income tax reserve, funds held by the state	8,768,718	-	8,768,718	-	-	-	-
Due from other governments	-	-	-	5,612,772	77,542	-	190,054
Special assessments receivable	237,800	-	237,800	-	-	-	-
Notes receivable, Fire and Rescue loans	472,594	-	472,594	-	-	-	-
Accounts receivable	16,238,305	97,252	16,335,557	78,857	166,890	30,995,920	-
Inventory	1,315,646	36,719	1,352,365	143,987	-	323,150	-
Prepaid post-retirement benefit (OPEB)	18,010,760	-	18,010,760	-	146,702	300,388	-
Other, principally prepaid expenses	374,444	8,564	383,008	-	-	107,434	-
Unamortized bond discount	-	-	-	-	-	26,720	-
Fire and Rescue loans receivable, net of short-term portion	2,715,801	-	2,715,801	-	-	-	-
Capital assets	477,965,998	23,334,278	501,300,276	419,399,776	5,666,700	221,467,265	-
Accumulated depreciation	(186,734,508)	(5,412,608)	(192,147,116)	(161,107,492)	(4,321,743)	(63,580,629)	-
Capital assets, net of accumulated depreciation	291,231,490	17,921,670	309,153,160	258,292,284	1,344,957	157,886,636	-
DEFERRED OUTFLOW OF RESOURCES							
Pension	13,604,540	-	13,604,540	3,277,231	-	1,167,311	-
Bond refunding	1,685,498	-	1,685,498	-	-	327,867	-
Total Assets and Deferred Outflow of Resources	$ 437,403,714	$ 19,373,809	$ 456,777,523	$ 302,785,780	$ 2,530,910	$ 215,339,793	$ 190,054

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, 2017

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
LIABILITIES							
Current liabilities:							
Accounts payable	$ 6,167,518	$ 259,837	$ 6,427,355	$ 5,674,381	$ 152,265	$ 1,700,946	$ -
Compensation-related liabilities	10,687,392	308,743	10,996,135	16,594,522	45,330	-	-
Unearned revenue	4,017,582	306,998	4,324,580	4,719,241	-	22,213	-
Other liabilities	4,185,208	-	4,185,208	-	-	1,980,370	-
Due to other governments	190,054	-	190,054	15,498	59,865	-	-
Non-current liabilities:							
Due within one year	9,875,485	121,654	9,997,139	646,220	-	5,998,332	-
Due in more than one year	84,978,538	313,621	85,292,159	71,808,397	103,017	88,703,069	-
Net pension liability	66,091,612	-	66,091,612	13,229,614	-	5,077,596	-
DEFERRED INFLOW OF RESOURCES							
Pension	940,006	-	940,006	348,613	-	134,418	-
Unavailable income tax distribution	8,768,718	-	8,768,718	-	-	-	-
Total Liabilities and Deferred Inflow of Resources	195,902,113	1,310,853	197,212,966	113,036,486	360,477	103,616,944	-
NET POSITION							
Net investment in capital assets	205,671,921	17,616,804	223,288,725	257,985,598	1,344,957	91,131,949	-
Restricted for:							
Capital assets purchases	-	-	-	-	-	-	-
Capital projects	19,657,111	-	19,657,111	105,845	-	-	-
Other purposes	292,383	-	292,383	-	181,283	11,922,819	-
Unrestricted	15,880,186	446,152	16,326,338	(68,342,149)	644,193	8,668,081	190,054
Total Net Position	241,501,601	18,062,956	259,564,557	189,749,294	2,170,433	111,722,849	190,054
Total Liabilities, Deferred Inflow of Resources and Net Position	$ 437,403,714	$ 19,373,809	$ 456,777,523	$ 302,785,780	$ 2,530,910	$ 215,339,793	$ 190,054

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, 2017

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Dedicated Fees or Taxes	Program Revenues: Total Revenues
General government	$ 24,424,948	$ 3,397,372	$ 1,013,662	$ 494,518	$ 4,905,553
Public safety	47,849,899	1,531,803	2,165,282	-	3,697,085
Public works	13,376,221	910,346	2,212,112	-	3,122,458
Health	7,048,797	-	4,770,624	-	4,770,624
Social services	4,377,000	1,092	1,185,240	-	1,186,332
Primary and secondary education	106,864,228	-	-	-	-
Post-secondary education	4,321,929	-	-	-	-
Parks, recreation, and culture	4,958,135	167,650	78,884	1,907,780	2,154,314
Libraries	2,868,840	-	-	-	-
Conservation of natural resources	997,820	-	-	(34,668)	(34,668)
Economic development and opportunity	2,180,192	26,259	287,698	-	313,957
Debt interest	2,265,408	-	-	-	-
Intergovernmental	4,090,196	-	-	-	-
Other, including OPEB	3,075,214	1,060,117	-	176,946	1,237,063
TOTAL GOVERNMENTAL ACTIVITIES	228,698,827	7,094,639	11,713,502	2,544,576	21,352,718
Business-type activities:					
Recreation activity	2,410,851	2,500,183	29,781	-	2,529,964
Wicomico	1,269,865	1,213,648	-	-	1,213,648
Solid waste/recycling	4,036,077	574,259	12,000	-	586,259
TOTAL BUSINESS-TYPE ACTIVITIES	7,716,793	4,288,090	41,781	-	4,329,871
TOTAL PRIMARY GOVERNMENT	236,415,620	11,382,729	11,755,283	2,544,576	25,682,589
COMPONENT UNITS:					
Public schools	267,183,241	2,685,743	43,809,983	5,377,149	51,872,875
Library	5,034,250	137,856	1,195,923	-	1,333,779
MetCom	21,723,061	23,665,330	-	-	23,665,330
Building authority	1,600	-	-	-	-
	$ 293,942,152	$ 26,488,929	$ 45,005,906	$ 5,377,149	$ 76,871,984

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
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, 2017

Net (Expense) Revenue and Changes in Net Position						
Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Public Schools	Library	MetCom	Building Authority
$ (19,519,395)	$ -	$ (19,519,395)	$ -	$ -	$ -	$ -
(44,152,814)	-	(44,152,814)	-	-	-	-
(10,253,763)	-	(10,253,763)	-	-	-	-
(2,278,173)	-	(2,278,173)	-	-	-	-
(3,190,668)	-	(3,190,668)	-	-	-	-
(106,864,228)	-	(106,864,228)	-	-	-	-
(4,321,929)	-	(4,321,929)	-	-	-	-
(2,803,821)	-	(2,803,821)	-	-	-	-
(2,868,840)	-	(2,868,840)	-	-	-	-
(1,032,488)	-	(1,032,488)	-	-	-	-
(1,866,235)	-	(1,866,235)	-	-	-	-
(2,265,408)	-	(2,265,408)	-	-	-	-
(4,090,196)	-	(4,090,196)	-	-	-	-
(1,838,151)	-	(1,838,151)	-	-	-	-
(207,346,109)	-	(207,346,109)	-	-	-	-
-	119,113	119,113	-	-	-	-
-	(56,217)	(56,217)	-	-	-	-
-	(3,449,818)	(3,449,818)	-	-	-	-
-	(3,386,922)	(3,386,922)	-	-	-	-
(207,346,109)	(3,386,922)	(210,733,031)	-	-	-	-
-	-	-	(215,310,366)	-	-	-
-	-	-	-	(3,700,471)	-	-
-	-	-	-	-	1,942,269	-
-	-	-	-	-	-	(1,600)
-	-	-	(215,310,366)	(3,700,471)	1,942,269	(1,600)
107,137,471	-	107,137,471	-	-	-	-
88,167,869	-	88,167,869	-	-	-	-
17,509,063	-	17,509,063	-	-	-	-
355,911	7,984	363,895	128,094	6,090	115,716	-
-	-	-	193,414,356	3,531,845	-	-
-	-	-	-	-	-	-
-	3,132,609	3,132,609	-	-	-	-
9,595,703	-	9,595,703	-	-	-	-
156,275	(156,275)	-	-	-	-	-
1,649,889	-	1,649,889	875,395	27,163	1,612,186	-
224,572,181	2,984,318	227,556,499	194,417,845	3,565,098	1,727,902	-
17,226,072	(402,604)	16,823,468	(20,892,521)	(135,373)	3,670,171	(1,600)
224,275,529	18,465,560	242,741,089	210,641,815	2,305,806	108,052,678	191,654
$ 241,501,601	$ 18,062,956	$ 259,564,557	$ 189,749,294	$ 2,170,433	$ 111,722,849	$ 190,054

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, 2017

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 81,473,968	$ -	$ -	$ 81,473,968
Due from other funds	-	27,000,485	1,711,963	28,712,448
Restricted cash and investments	-	-	-	-
Taxes receivable	2,507,828	-	65,926	2,573,754
Income tax reserve, funds held by the state	8,768,718	-	-	8,768,718
Special tax assessments receivable	-	-	544	544
Notes receivable, Fire and Rescue loans	-	-	472,594	472,594
Accounts receivable	12,002,499	4,235,806	-	16,238,305
Inventory	1,315,646	-	-	1,315,646
Other	374,444	-	-	374,444
Fire and Rescue loans receivable, net of short-term portion	-	-	2,715,801	2,715,801
Special tax assessments receivable, net of short-term portion	-	-	237,256	237,256
Total Assets	$ 106,443,103	$ 31,236,291	$ 5,204,084	$ 142,883,478
LIABILITIES				
Accounts payable	$ 2,225,115	$ 3,940,752	$ 1,651	$ 6,167,518
Compensation-related liabilities	10,677,098	-	10,294	10,687,392
Unearned revenue	553,652	36,743	3,427,187	4,017,582
Other liabilities	4,185,208	-	-	4,185,208
Due to other funds	30,012,052	-	-	30,012,052
Due to other governments	190,054	-	-	190,054
DEFERRED INFLOW OF RESOURCES				
Unavailable income tax distribution	8,768,718	-	-	8,768,718
Total Liabilities and Deferred Inflow of Resources	56,611,897	3,977,495	3,439,132	64,028,524
FUND BALANCES				
Nonspendable	2,163,987	-	-	2,163,987
Restricted	292,383	23,150,808	-	23,443,191
Committed	14,955,021	4,107,988	1,764,952	20,827,961
Assigned	2,025,064	-	-	2,025,064
Unassigned	30,394,751	-	-	30,394,751
Total Fund Balances	49,831,206	27,258,796	1,764,952	78,854,954
Total Liabilities, Deferred Inflow and Resources and Fund Balances	$ 106,443,103	$ 31,236,291	$ 5,204,084	$ 142,883,478

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, 2017

	General Fund	Capital Projects	Non-Major	Total
REVENUES				
Property taxes	$ 107,137,471	$ -	$ -	$ 107,137,471
Income taxes	88,167,869	-	-	88,167,869
Energy taxes	973,359	-	-	973,359
Recordation taxes	5,656,026	-	-	5,656,026
Transfer taxes	-	5,954,273	-	5,954,273
Agricultural/development taxes	-	578,195	-	578,195
Impact fees	-	1,959,657	-	1,959,657
Other local taxes	1,602,487	-	-	1,602,487
Highway user revenues	900,948	-	-	900,948
Licenses and permits	1,654,929	-	-	1,654,929
Intergovernmental	9,837,258	2,872,542	-	12,709,800
Charges for services	3,895,412	-	-	3,895,412
Fines and forfeitures	289,646	-	-	289,646
Special assessments	-	-	176,946	176,946
Other revenues	527,714	-	3,287,250	3,814,964
Sub-total	220,643,119	11,364,667	3,464,196	235,471,982
Pass-throughs	-	-	-	-
TOTAL REVENUES	220,643,119	11,364,667	3,464,196	235,471,982
EXPENDITURES				
General government	22,324,501	3,663,811	-	25,988,312
Public safety	41,428,865	3,542,613	2,932,365	47,903,843
Public works	9,019,174	9,428,109	-	18,447,283
Health	7,048,799	-	-	7,048,799
Social services	4,213,410	-	-	4,213,410
Primary and secondary education	104,704,831	2,159,397	-	106,864,228
Post-secondary education	4,267,365	-	-	4,267,365
Parks, recreation and culture	3,848,472	4,387,217	-	8,235,689
Libraries	2,684,574	-	-	2,684,574
Conservation of natural resources	533,329	436,521	-	969,850
Economic development and opportunity	2,118,755	-	-	2,118,755
Debt service - principal and interest	10,012,559	174,040	42,369	10,228,968
Other	3,197,456	-	-	3,197,456
Sub-total	215,402,090	23,791,708	2,974,734	242,168,532
Pass-throughs	-	-	-	-
TOTAL EXPENDITURES	215,402,090	23,791,708	2,974,734	242,168,532
Excess of Revenues Over (Under) Expenditures	5,241,029	(12,427,041)	489,462	(6,696,550)
OTHER FINANCING SOURCES AND USES				
Bond issuance	-	25,000,000	-	25,000,000
Bond premium	-	2,254,855	-	2,254,855
Fire & rescue loan repayments	-	-	487,917	487,917
Loans to fire and rescue	-	-	(590,000)	(590,000)
Fire & rescue revolving loan fund - capital projects fund transfer	-	(300,000)	300,000	-
Capital projects - general fund pay-go	2,972,992	(2,972,992)	-	-
Total other financing sources / uses	2,972,992	23,981,863	197,917	27,152,772
Net Increase/(Decrease) in Fund Balances	8,214,021	11,554,822	687,379	20,456,222
FUND BALANCE				
Beginning of the year	41,617,185	15,703,974	1,077,573	58,398,732
End of year	$ 49,831,206	$ 27,258,796	$ 1,764,952	$ 78,854,954

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, 2017

Balances reflected as Fund Balance for Governmental Funds are different from Net Position for Governmental Activities because:		
Fund Balance - Governmental Funds	$	78,854,954
Capital assets, net of accumulated depreciation, are not reported in the balance sheet for governmental funds		291,231,490
Prepaid OPEB is not reported in the balance sheet for governmental funds		18,010,760
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		(94,854,023)
Net pension liability		(66,091,612)
Deferred inflow of resources - pension obilgation		(940,006)
Deferred outlfow of resources - general obligation bond refunding		1,685,498
Deferred outlfow of resources - pension obligation		13,604,540
Net position - governmental activities	$	241,501,601

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	$	20,456,222
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. Capital outlays:		30,465,356
Depreciation expense:		(11,950,129)
Cost of capital assets disposed less accumulated depreciation which is reported in the statement of activities, but not reflected as an expenditure for governmental activities		(77,591)
Repayment of debt		11,177,957
Issuance of long-term debt		(25,230,508)
Effect of refunding		(320,923)
Recognized pension costs less than the pension amount contributed		(5,009,319)
Decrease in prepaid OPEB not reported on balance sheet for governmental funds		(2,284,993)
Increase (decrease) in net position of governmental activities	$	17,226,072

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, 2017

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ -	$ 10,000	$ -	$ 10,000
Due from other funds	1,048,782	175,764	892,734	2,117,280
Accounts receivable	11,863	-	85,389	97,252
Inventory	-	36,719	-	36,719
Other, prepaids	-	8,564	-	8,564
Total Current Assets	1,060,645	231,047	978,123	2,269,815
Non-current assets:				
Capital assets	313,302	6,467,833	16,553,143	23,334,278
Accumulated depreciation	(186,885)	(2,805,493)	(2,420,230)	(5,412,608)
Capital assets, net of accumulated depreciation	126,417	3,662,340	14,132,913	17,921,670
Total Assets	$ 1,187,062	$ 3,893,387	$ 15,111,036	$ 20,191,485
LIABILITIES				
Current liabilities:				
Accounts payable	$ 59,136	$ 61,169	$ 139,532	$ 259,837
Compensation-related liabilities	88,615	76,675	143,453	308,743
Unearned revenue	219,244	87,754	-	306,998
Noncurrent Liabilities:				
Due within one year:				
Financing agreements	-	-	121,654	121,654
Advance from general fund	-	72,274	-	72,274
Due in more than one year:				
Financing agreements	-	-	183,212	183,212
Advance from general fund	-	745,402	-	745,402
Compensated absences	-	63,731	66,678	130,409
Total Liabilities	366,995	1,107,005	654,529	2,128,529
NET POSITION				
Net investment in capital assets	126,417	3,662,340	13,828,047	17,616,804
Unrestricted	693,650	(875,958)	628,460	446,152
Total Net Position	820,067	2,786,382	14,456,507	18,062,956
Total Liabilities and Net Position	$ 1,187,062	$ 3,893,387	$ 15,111,036	$ 20,191,485

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, 2017

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
OPERATING REVENUES				
Charges for services	$ 2,500,183	$ 1,213,648	$ 574,259	$ 4,288,090
Environmental/solid waste fees	-	-	3,132,609	3,132,609
	2,500,183	1,213,648	3,706,868	7,420,699
OPERATING EXPENSES				
Personal services	1,432,153	659,651	1,030,257	3,122,061
Operating supplies	233,572	236,717	32,390	502,679
Professional services	267,195	73,786	1,384,792	1,725,773
Communications	9,812	3,360	5,949	19,121
Transportation	48,367	24,379	58,365	131,111
Rentals	149,982	40,868	57,650	248,500
Public utilities	195,208	62,021	31,488	288,717
Other operating costs	7,697	13,201	-	20,898
Tipping fees	-	-	1,208,341	1,208,341
Retiree health benefits (OPEB)	-	36,000	23,000	59,000
Interest expense	-	182	7,109	7,291
Equipment	48,257	12,705	12,564	73,526
Depreciation	18,608	106,995	184,172	309,775
Total operating expenses	2,410,851	1,269,865	4,036,077	7,716,793
Operating Income (Loss)	89,332	(56,217)	(329,209)	(296,094)
Non-operating revenue:				
Other	-	343	7,641	7,984
Use of exempt financing	-	-	(156,275)	(156,275)
Grants revenue	29,781	-	12,000	41,781
Increase/(Decrease) in net position	119,113	(55,874)	(465,843)	(402,604)
NET POSITION				
Beginning of the year	700,954	2,842,256	14,922,350	18,465,560
End of year	$ 820,067	$ 2,786,382	$ 14,456,507	$ 18,062,956

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

COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Charges for services	$ 2,635,043	$ 1,200,332	$ 3,681,125	$ 7,516,500
Personal services	(1,448,189)	(656,367)	(1,018,936)	(3,123,492)
Other expenses	(932,653)	(492,143)	(2,793,011)	(4,217,807)
Net cash provided (used) by operating activities	254,201	51,822	(130,822)	175,201
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:				
Net change in interfund loans	(276,069)	(147,663)	345,200	(78,532)
Grant revenue	29,781	-	12,000	41,781
Other revenue	-	-	7,641	7,641
Net cash provided (used) by non-capital and related financing activities	(246,288)	(147,663)	364,841	(29,110)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Construction / purchase of capital assets	(7,913)	-	(156,275)	(164,188)
Principal payments on long-term debt	-	(9,059)	(234,017)	(243,076)
Other reductions in long-term debt	-	(70,365)	-	(70,365)
Net cash used by capital and related financing activities	(7,913)	(79,424)	(390,292)	(477,629)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	-	343	-	343
Net increase (decrease) in cash	-	(174,922)	(156,273)	(331,195)
CASH				
Beginning of year	-	184,922	156,273	341,195
End of year	$ -	$ 10,000	$ -	$ 10,000
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$ 89,332	$ (56,217)	$ (329,209)	$ (296,094)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Depreciation	18,608	106,995	184,172	309,775
(Increase) decrease in accounts receivable	56,474	461	(25,743)	31,192
(Increase) decrease in inventory	-	(4,898)	-	(4,898)
Increase (decrease) in accounts payable	27,437	15,974	28,637	72,048
Increase (decrease) in compensation-related liabilities	(16,036)	3,284	11,321	(1,431)
Increase (decrease) in unearned revenue	78,386	(13,777)	-	64,609
Net cash provided (used) by operating activities	$ 254,201	$ 51,822	$ (130,822)	$ 175,201
SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES:				
Total capital asset additions	$ 7,913	$ -	$ -	$ 7,913
Less amount financed	-	-	156,275	156,275
Net cash used for purchase of capital assets	$ 7,913	$ -	$ 156,275	$ 164,188

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, 2017

	Sheriff's Office Retirement Plan
ASSETS	
Cash and cash equivalents	$ 4,820,149
Restricted cash and investments	73,447,069
Total assets	$ 78,267,218
NET POSITION	
Net position held in trust for pension benefits	$ 78,267,218
Total net position	$ 78,267,218

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, 2017

	Sheriff's Office Retirement Plan
ADDITIONS	
Contributions - employer	$ 5,149,772
Contributions - employee	1,083,736
	6,233,508
Interest and dividends	1,402,242
Realized gain	1,161,936
Net unrealized loss on investments	5,495,177
	8,059,355
Total additions	14,292,863
DEDUCTIONS	
Benefits	(3,672,386)
Administrative costs	(428,762)
Total deductions	(4,101,148)
Change in net position	10,191,715
NET POSITION	
Beginning of year	68,075,503
End of year	$ 78,267,218

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, MARYLAND

JUNE 30, 2017

		Retiree Benefit Trust of St. Mary's County, Maryland
ASSETS		
Restricted cash and investments	$	71,754,847
Total assets	$	71,754,847
NET POSITION		
Net position restricted for other post-employment benefits	$	71,754,847
Total liabilities and net position	$	71,754,847

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, MARYLAND
YEAR ENDED JUNE 30, 2017

	Retiree Benefit Trust of St. Mary's County, Maryland
ADDITIONS	
Contributions to the trust - employer	$ -
Payments to retirees - employer	3,009,007
	3,009,007
Interest and dividends	1,807,899
Realized gain	6,293,817
Net unrealized gain/(loss) on investments	457,307
	8,559,023
Total additions	11,568,030
DEDUCTIONS	
Benefits paid directly to retirees	(3,009,007)
Administrative costs	(406,658)
Total deductions	(3,415,665)
Change in net position	8,152,365
NET POSITION	
Beginning of year	63,602,482
End of year	$ 71,754,847

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, MARYLAND

JUNE 30, 2017

	LOSAP of St. Mary's County, Maryland
ASSETS	
Restricted cash and investments	$ 1,602,992
Total assets	$ 1,602,992
NET POSITION	
Net position restricted for benefits	$ 1,602,992
Total liabilities and net position	$ 1,602,992

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, MARYLAND
YEAR ENDED JUNE 30, 2017

	LOSAP of St. Mary's County, Maryland
ADDITIONS	
Contributions to the trust - employer	$ 1,460,347
Interest and dividends	7,812
Total additions	1,468,159
DEDUCTIONS	
Benefits paid directly to retirees	(860,347)
Administrative costs	-
Total deductions	(860,347)
Change in net position	607,812
NET POSITION	
Beginning of year	995,180
End of year	$ 1,602,992

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

Commissioners of St. Mary's County

Index - Notes to Financial Statements

June 30, 2017

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 below 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.

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.

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

Financial reporting entity (continued)

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.

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 Baldridge Street
P.O. Box 653, Chesapeake Building
Leonardtown, Maryland 20650

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

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.

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

Fund financial statements

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.

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. Non major funds by category are summarized into a single column.

Governmental funds

The measurement focus of the governmental fund financial statements is based 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 based upon determination of operating income, changes in net position, financial position, and cash flows. 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). 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.

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

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

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.

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

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.

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.

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.

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.

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

Capital assets (continued)

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:

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

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

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.

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 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.

2. Cash, cash equivalents and investments (continued)

PRIMARY GOVERNMENT (continued)

Cash deposits

At year end, the carrying amount of the County's deposits was $70,554,936 (in addition, petty cash totaling $12,600 at various County Departments) and the collected bank balance was $72,635,856. Of the collected bank balance, $700,258 was covered by Federal Deposit Insurance Corporation (FDIC), and $71,935,598 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. The fiduciary funds have separate formal investment policies which allow alternative investments at the discretion of the Trustees.

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. As permited by GASB 79, 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 Standards and Poor's. The County is not subject to any limitations or restrictions on withdrawals of its investments in the MLGIP.

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

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

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

2. Cash, cash equivalents and investments (continued)

PRIMARY GOVERNMENT (continued)

Investments (continued)

The summary below identifies the fair market value levels of the investments of the primary government and fiduciary funds as of June 30, 2017.

	Level 1	Level 2	Level 3	Balance
Investments at fair value level				
Retiree Benefit Trust (OPEB):				
Cash and equivalents	$ 161,127	$ -	$ -	$ 161,127
Common stock/equity funds	-	43,738,093	-	43,738,093
Bond funds	-	13,238,357	-	13,238,357
Venture/ltd. partnership/closely held	-	-	14,617,270	14,617,270
Pension Fund: Sheriff's Office Retirement Plan:				
Cash and equivalents	4,820,149	-	-	4,820,149
Bond funds	-	16,203,366	-	16,203,366
Common stock	-	15,348,182	-	15,348,182
Venture/ltd. partnership/closely held	-	-	6,479,187	6,479,187
Equity funds	-	33,839,594	-	33,839,594
Other - miscellaneous	-	1,576,740	-	1,576,740
Total investments at fair value	$ 4,981,276	$ 123,944,332	$ 21,096,457	$ 150,022,065
Investments carried at amortized cost				
Government-wide financials:				
MLGIP	$ -	$ -	$ -	$ 10,916,432
Length of Service Awards Trust (LOSAP):				
MLGIP	-	-	-	1,602,992
Total investments at amortized cost	$ -	$ -	$ -	$ 12,519,424
Total investments	$ 4,981,276	$ 123,944,332	$ 21,096,457	$ 162,541,489

In FY2015, the County joined the Maryland Association of Counties (MACo) Pooled OPEB Trust (the "Trust"). There are nine members to this wholly-owned instrumentality of its members. The Trust is a common trust fund which is comprised of shares or units in a commingled fund that is not publicly traded. The assets of the Trust are managed by a Board of Trustees and consist of U.S. treasury obligations, U.S. government agencies, corporate & foreign bonds, municipal obligations, taxable fixed income securities, mutual funds, global funds and international equity securities.

At June 30, 2017 the net position of the Trust was valued at $80.4 million; the County's interest was $1.1 million. Contributions to the Trust Fund qualify as "contributions in relation to the actuarial required contribution" within the meaning of GASB Statement No. 45 and the Trust Fund qualifies as a "trust or equivalent arrangement" under the meaning of GASB Statement No. 43. The Trust is audited annually by an independent CPA firm. Separately issued financial statements may be obtained by sending a request to the following address: Board of the MACo Pooled Investment Trust, 169 Conduit Street, Annapolis, MD 21401.

2. Cash, cash equivalents and investments (continued)

PRIMARY GOVERNMENT (continued)

Investments (continued)

The summary below identifies the fair market value levels of the investments of the MACo Pooled Investment Trust as of June 30, 2017.

	Investments at fair value			
	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S. Treasury obligations	$ -	$ 2,673,538	$ -	$ 2,673,538
U.S. Governmental agencies	-	187,444	-	187,444
Corporate & foreign bonds	-	4,236,920	-	4,236,920
Municipal obligations	-	476,781	-	476,781
Equity Investments:				
Taxable fixed income funds	-	1,081,346	-	1,081,346
Mutual funds	12,191,732	-	-	12,191,732
Global funds	1,611,002	-	-	1,611,002
International	3,482,827	-	-	3,482,827
Total	$ 17,285,561	$ 8,656,029	$ -	$ 25,941,590

Transactions are recorded on the trade date. Realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis.

The County may terminate its membership in the Trust and withdrawal its allocated investment balance by providing written notification to the Trust six months prior to the intended withdrawal date.

COMPONENT UNITS

St. Mary's County Public Schools

Deposits - Custodial credit risk

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, 2017 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.

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, 2017, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The school system has no policy on credit risk.

2. Cash, cash equivalents and investments (continued)

COMPONENT UNITS (continued)
St. Mary's County Public Schools (continued)

Investments (continued)

The carrying amount and market value of such investments were $14,424,047, $409,227, and $586,111 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, which is MLGIP's share price.

The School System is not subject to any limitations or restrictions on withdrawals of its investments in MLGIP.

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, 2017, the carrying amount of the Library's cash was $278,961, and the bank balances totaled $351,424. The Library's bank balance is insured by the Federal Deposit Insurance Corporation up to $250,000. As of June 30, 2017, the uninsured and uncollateralized bank balance totaled $101,424.

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.

	Carrying Amount	Market Value
Unrestricted:		
Investment in Maryland Local Government Investment Pool	$ 415,897	$ 415,897
Restricted:		
The Vanguard Group	$ 99,961	$ 99,961

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.

2. Cash, cash equivalents and investments (continued)

COMPONENT UNITS (continued)

St. Mary's County Metropolitan Commission (MetCom)

Deposits

Of the bank balances, all of the CDARS deposits are covered by FDIC insurance. The other bank deposits were covered by $250,000 FDIC insurance at June 30, 2017, with the remaining $6,635,825 adequately covered by collateral.

At June 30, 2017, there were no deposits exposed to custodial credit risk, interest rate risk or foreign currency risk.

MetCom has certificates of deposits that have been issued through the Certificate of Deposit Account Registry Service (CDARS). The CDARS program allows a banking customer to maintain federal depository insurance on balances in excess of the FDIC limit. Regulatory guidelines require that deposits placed through the CDARS program be considered brokered deposits. The cost and fair value of the CDARS broker deposits at June 30, 2017 was $10,000,000.

Cash and cash equivalents consisted of the following:

Investments - MLGIP	$ 7,317,042
Broker deposits – CDARS	10,000,000
Cash	6,885,821
Petty cash	1,500
	$ 24,204,363

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, One East Pratt Street, 5th Floor West, Baltimore, Maryland 21202. 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, 2017, 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, 2017 was $7,317,042.

MetCom also joined the MACo Pooled OPEB trust in FY2015. Its interest in the trust at June 30, 2017 was $4.1 million.

3. Changes in capital assets

PRIMARY GOVERNMENT

A summary of changes in capital assets is as follows:

	Balance June 30, 2016	Additions	Transfers/ Disposals	Balance June 30, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 36,653,850	$ 1,903,486	$ -	$ 38,557,336
Construction in progress	9,855,893	17,218,328	(10,173,567)	16,900,654
911 system & equipment	1,423,733	-	-	1,423,733
Total capital assets not being depreciated	47,933,476	19,121,814	(10,173,567)	56,881,723
Capital assets being depreciated:				
Buildings & improvements	116,305,904	643,635	-	116,949,539
Computer equipment	2,604,247	99,098	-	2,703,345
Other equipment	285,160	43,375	-	328,535
Vehicles - licensed	15,284,768	1,130,053	(1,072,817)	15,342,004
Off-road vehicles	2,147,382	106,365	-	2,253,747
Miscellaneous equipment	6,399,379	264,686	(12,325)	6,651,740
Roads	199,859,387	12,804,246	-	212,663,633
Curbing	946,791	-	-	946,791
Sidewalks	1,128,839	-	-	1,128,839
Guardrails	1,560,217	41,500	-	1,601,717
Airport infrastructure	4,910,724	-	-	4,910,724
Airport equipment	579,104	-	-	579,104
Baseball fields	802,670	-	-	802,670
Bridges	8,544,435	82,535	-	8,626,970
Parks & recreation	14,180,324	2,728,390	-	16,908,714
Marinas & docks	8,176,125	175,962	-	8,352,087
Irrigation systems	241,853	-	-	241,853
Signage	475,433	-	-	475,433
Parking lots	1,067,134	-	-	1,067,134
911 system & equipment	15,152,432	3,397,264	-	18,549,696
Total capital assets being depreciated	400,652,308	21,517,109	(1,085,142)	421,084,275
Accumulated depreciation for:				
Buildings & improvements	(45,170,648)	(2,227,087)	-	(47,397,735)
Computer equipment	(2,214,165)	(120,388)	-	(2,334,553)
Other equipment	(192,961)	(13,160)	-	(206,121)
Vehicles - licensed	(9,697,680)	(1,191,514)	996,777	(9,892,417)
Off-road vehicles	(1,561,193)	(73,175)	-	(1,634,368)
Miscellaneous equipment	(4,129,672)	(419,522)	10,774	(4,538,420)
Roads	(85,554,579)	(5,930,138)	-	(91,484,717)
Curbing	(747,846)	(19,524)	-	(767,370)
Sidewalks	(536,649)	(25,058)	-	(561,707)
Guardrails	(565,130)	(36,056)	-	(601,186)
Airport infrastructure	(4,582,106)	(41,947)	-	(4,624,053)
Airport equipment	(539,799)	(8,735)	-	(548,534)

3. Changes in capital assets (continued)

PRIMARY GOVERNMENT (continued)

	Balance June 30, 2016	Additions	Transfers/ Disposals	Balance June 30, 2017
Accumulated depreciation for: (continued)				
Baseball fields	$ (467,385)	$ (15,288)	$ -	$ (482,673)
Bridges	(2,939,657)	(172,010)	-	(3,111,667)
Parks & recreation	(5,225,245)	(484,835)	-	(5,710,080)
Marinas & docks	(5,307,615)	(282,710)	-	(5,590,325)
Irrigation systems	(136,649)	(5,787)	-	(142,436)
Signage	(428,141)	(7,976)	-	(436,117)
Parking lots	(448,609)	(65,320)	-	(513,929)
911 equipment	(5,346,201)	(809,899)	-	(6,156,100)
Total accumulated depreciation	(175,791,930)	(11,950,129)	1,007,551	(186,734,508)
Total capital assets being depreciated, net	224,860,378	9,566,980	(77,591)	234,349,767
Governmental activities capital assets, net	$ 272,793,854	$ 28,688,794	$ (10,251,158)	$ 291,231,490
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 1,078,666	$ -	$ -	$ 1,078,666
Solid waste facilities	13,220,472	-	-	13,220,472
Total capital assets not being depreciated	14,299,138	-	-	14,299,138
Capital assets being depreciated:				
Buildings & improvements	4,334,174	-	-	4,334,174
Computer equipment	57,188	-	-	57,188
Other equipment	39,359	-	-	39,359
Vehicles - licensed	2,433,064	-	(163,272)	2,269,792
Off-road vehicles	1,237,950	-	-	1,237,950
Miscellaneous equipment	578,778	7,913	-	586,691
Irrigation systems	509,986	-	-	509,986
Total capital assets being depreciated	9,190,499	7,913	(163,272)	9,035,140
Accumulated depreciation for:				
Buildings & improvements	(1,747,964)	(82,111)	-	(1,830,075)
Computer equipment	(57,188)	-	-	(57,188)
Other equipment	(38,764)	(130)	-	(38,894)
Vehicles - licensed	(1,676,733)	(134,321)	163,272	(1,647,782)
Off-road vehicles	(912,822)	(61,002)	-	(973,824)
Miscellaneous equipment	(470,262)	(15,518)	-	(485,780)
Irrigation systems	(362,372)	(16,693)	-	(379,065)
Total accumulated depreciation	(5,266,105)	(309,775)	163,272	(5,412,608)
Total capital assets being depreciated, net	3,924,394	(301,862)	-	3,622,532
Business-type activities capital assets, net	$ 18,223,532	$ (301,862)	$ -	$ 17,921,670

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	$	1,483,647
Public Safety		2,233,501
Public Works		6,977,135
Social Services		107,820
Post -Secondary Education		49,328
Parks, Recreation, and Culture		911,975
Libraries		184,266
Economic Development and Opportunity		2,457
Total Depreciation - Governmental Activities	$	11,950,129
Business-type activities		
Recreation Activity Fund	$	18,608
Solid Waste/Recycling		184,172
Wicomico		106,995
Total Depreciation - Business-Type Activities	$	309,775

3. Changes in capital assets (continued)

COMPONENT UNITS

St. Mary's County Public Schools

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
Governmental activities				
Capital assets not being depreciated:				
Land	$ 3,636,073	$ 106,686	$ -	$ 3,742,759
Construction in process	21,529,772	3,890,491	(320,660)	25,099,603
	25,165,845	3,997,177	(320,660)	28,842,362
Capital assets being depreciated:				
Buildings and improvements	372,265,361	641,440	-	372,906,801
Furniture and equipment	8,990,363	691,133	(589,124)	9,092,372
Equipment leased under financing agreements	6,676,139	-	-	6,676,139
	387,931,863	1,332,573	(589,124)	388,675,312
Accumulated depreciation for:				
Buildings and improvements	(138,444,336)	(8,992,955)	-	(147,437,291)
Furniture and equipment	(10,876,541)	(1,957,237)	552,575	(12,281,203)
	(149,320,877)	(10,950,192)	552,575	(159,718,494)
Governmental activities capital assets, net	$ 263,776,831	$ (5,620,442)	$ (357,209)	$ 257,799,180
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	$ 1,848,816	$ 33,286	$ -	$ 1,882,102
Accumulated depreciation for:				
Furniture and equipment	(1,289,832)	(99,166)	-	(1,388,998)
Business-type activities capital Assets, net	$ 558,984	$ (65,880)	$ -	$ 493,104

3. Changes in capital assets (continued)

COMPONENT UNITS (continued)
St. Mary's County Public Schools (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2017, as follows:

Governmental activities	
Administration	$ 18,392
Mid-level administration	836,358
Other instructional costs	953,693
Special education	6,869
Student personnel services	682
Student transportation services	126,402
Operation of plant	8,992,955
Maintenance of plan	14,841
Total governmental activities depreciation expenses	$ 10,950,192
Business-type activities	
Food services	$ 99,166

St. Mary's County Library

Activity for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
Capital assets:				
Furnishings and equipment	$ 952,535	$ 13,800	$ -	$ 966,335
Leasehold improvements	87,735	-	-	87,735
Vehicles	34,944	-	-	34,944
Books	5,053,520	398,809	874,643	4,577,686
	6,128,734	412,609	874,643	5,666,700
Accumulated depreciation:				
Furnishings and equipment	901,159	26,121	-	927,280
Leasehold improvements	10,530	1,755	-	12,285
Vehicles	26,870	3,808	-	30,678
Books	3,815,700	410,443	874,643	3,351,500
	4,754,259	442,127	874,643	4,321,743
Net capital assets	$ 1,374,475	$ (29,518)	$ -	$ 1,344,957

Governmental activities depreciation expense of $442,127 was charged to Library services.

3. Changes in capital assets (continued)

COMPONENT UNITS (continued)
St. Mary's County Metropolitan Commission

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets:				
Utility plants	$ 133,917,751	$ 12,980,624	$ 1,797,873	$ 145,100,502
Water plant systems	46,581,703	3,958,133	-	50,539,836
Equipment	8,761,275	572,629	43,726	9,290,178
Capitalized interest	818,201	-	-	818,201
Buildings	3,866,631	52,977	-	3,919,608
Subtotal	193,945,561	17,564,363	1,841,599	209,668,325
Not being depreciated:				
Utility plant construction in process	7,908,508	7,191,948	12,980,624	2,119,832
Water plant construction in process	7,239,322	5,212,944	3,958,133	8,494,133
Land/land rights	1,066,817	118,158	-	1,184,975
	210,160,208	30,087,413	18,780,356	221,467,265
Accumulated depreciation:				
Utility plants	39,933,186	3,818,021	1,797,873	41,953,334
Water plant systems	11,113,169	1,579,391	-	12,692,560
Equipment	6,132,004	667,818	43,726	6,756,096
Capitalized interest	351,826	16,364	-	368,190
Buildings	1,652,283	158,166	-	1,810,449
	59,182,468	6,239,760	1,841,599	63,580,629
Net capital assets	$ 150,977,740	$ 23,847,653	$ 16,938,757	$ 157,886,636

Depreciation expenses of $6,239,760 was charged to activities as follows:

Sewer activities	$ 4,207,752
Water activities	1,915,596
Engineering activities	27,701
Administrative	88,711
Total	$ 6,239,760

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 if 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, 2017, was $.8523 per $100 of assessed value based on the full valuation method. The Constant Yield tax rate for FY2017 was $.8468. The personal property tax rate during the year ended June 30, 2017 was $2.1308 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, 2017, net of the allowance for uncollectibles of $705,755, is $1,901,603 (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, 2017, the amount of delinquent special assessment receivables due from taxpayers was $266.

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, 2017, of $3,705,973.

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 $761,960 for construction projects at 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 $12,486 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2018.

6. Long-term obligations

PRIMARY GOVERNMENT

Governmental activities	June 30, 2016	Additions	Deductions	Principal Repayment	June 30, 2017	Amounts due within one year
General obligation bonds - county	$ 63,633,000	$ 25,000,000	$ -	$ (7,475,000)	$ 81,158,000	$ 8,516,000
Water quality loans	874,656	-	-	(324,784)	549,872	328,357
State loans	1,514,771	99,285	-	(131,581)	1,482,475	131,582
Surplus property transfer of debt	300	-	-	(147)	153	153
Exempt financing	5,424,514	-	-	(3,055,445)	2,369,069	881,799
	71,447,241	25,099,285	-	(10,986,957)	85,559,569	9,857,891
Landfill post-closure costs	4,230,000	-	-	(191,000)	4,039,000	-
Compensated absences (long-term)	5,124,231	131,223	-	-	5,255,454	17,594
	9,354,231	131,223	-	(191,000)	9,294,454	17,594
Amount reported in statement of net position	$ 80,801,472	$ 25,230,508	$ -	$ (11,177,957)	$ 94,854,023	$ 9,875,485
Business-type activities						
Exempt financing	$ 547,942	$ -	$ 7,640	$ (235,436)	$ 304,866	$ 121,654
Compensated absences (long-term)	120,831	9,578	-	-	130,409	-
Amount reported in statement of net position	$ 668,773	$ 9,578	$ 7,640	$ (235,436)	$ 435,275	$ 121,654

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

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities

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 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.

On July 26, 2016, the County issued General Obligation Bonds ($25,000,000 Consolidated Public Improvement Bonds). The Consolidated Public Improvement Bonds will mature on August 1, in 20 annual serial installments, beginning in the year 2017 and ending with the year 2036. Interest on the Bonds is payable semiannually on each February 1 and August 1 to maturity with an average interest rate of 2.25%.

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities (continued)

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, 2017, based on the final loan amount of $3,934,347, are as follows:

Years ending June 30,	Principal	Interest	Administrative fee	Total
2018	$ 328,357	$ 6,049	$ 11,448	$ 345,854
2019	221,515	2,437	11,448	235,400
Total	$ 549,872	$ 8,486	$ 22,896	$ 581,254

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, 2017, the principal and interest payments through 2018 are as follows:

Years ending June 30,	Principal	Interest	Total
2018	$ 153	$ 6	$ 159
Total	$ 153	$ 6	$ 159

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities (continued)

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 exempt financing equipment lease as of June 30, 2017, based on the total final lease amount of $1,910,000 are as follows:

Years ending June 30,	Principal	Interest	Total
2018	$ 304,649	$ 9,208	$ 313,857
2019	309,076	4,638	313,714
Total	$ 613,725	$ 13,846	$ 627,571

2016 Exempt financing equipment lease

On October 29, 2016, Commissioners of St. Mary's County entered into an agreement with Banc of America Public Capital Corp. to borrow $3,200,000 for the purchase of vehicles. The lease bears interest at a rate of 1.37% per annum, payable annually through 2020. 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 2016 exempt financing equipment lease as of June 30, 2017, based on the total final lease amount of $3,200,000 are as follows:

Years ending June 30,	Principal	Interest	Total
2018	$ 577,150	$ 24,113	$ 601,263
2019	585,078	16,185	601,263
2020	593,116	8,148	601,264
Total	$ 1,755,344	$ 48,446	$ 1,803,790

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities (continued)

Long-term obligations at June 30, 2017 consist of the following:

Description	Due	Rate	Amount
MD Water quality loans and other state loans			
Maryland department of natural resources:			
Point Breeze	1993-2018	None	$ 8,142
Holly Point Shores	2008-2032	None	150,427
Murray Road Revetment	2004-2028	None	39,952
Maryland Water Quality Loan	2005-2019	1.10%	549,872
Piney Point Lighthouse	2009-2026	None	302,733
Villas on Water Edge	2009-2032	None	326,940
Kingston Creek II	2010-2037	None	210,871
North Patuxent Beach	2009-2025	None	226,424
Thomas Road	2016-2030	None	124,320
Gibson Road	2017-2031	None	92,666
	Total state loans		2,032,347
General obligation bonds			
2009 General Obligation Bonds, Series A	2010-2020	2.5-4.0%	4,185,000
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%	8,605,000
2011 Refunding Bonds	2012-2024	2.25-2.41%	17,929,000
2014 Refunding Bonds	2016-2025	2.32%	8,494,000
2016 General Obligation Bonds	2017-2037	2.25%	25,000,000
	Total general obligation bonds		81,158,000
Total state loans and bonds			83,190,347
Surplus property transfer of debt			153
Accrued landfill closure and postclosure costs			4,039,000
Exempt Financing			2,369,069
Accumulated unpaid annual leave			5,255,454
Total			$ 94,854,023

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Business-type activities

2015 Exempt financing equipment lease

The annual requirements to amortize the business-type activities portion of the 2015 exempt financing equipment lease as of June 30, 2017, based on the total final lease amount of $1,910,000 are as follows:

Years ending June 30,	Principal	Interest	Total
2018	$ 63,596	$ 1,922	$ 65,518
2019	64,693	968	65,661
Total	$ 128,289	$ 2,890	$ 131,179

2016 Exempt financing equipment lease

The annual requirements to amortize the business-type activities portion of the 2016 exempt financing equipment lease as of June 30, 2017, based on the total final lease amount of $3,200,000 are as follows:

Years ending June 30,	Principal	Interest	Total
2018	$ 58,058	$ 2,426	$ 60,484
2019	58,856	1,628	60,484
2020	59,663	820	60,483
Total	$ 176,577	$ 4,874	$ 181,451

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2017 is composed of the following loans payable to the Maryland Department of Natural Resources:

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.	$	150,427
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.		326,940
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.		210,871
	$	688,238

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.

The annual requirements to amortize all debt outstanding as of June 30, 2017, including interest of $16,637,639, 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:

	Governmental Activities		
Years ending June 30,	Principal	Interest	Total
2018	$ 8,647,582	$ 2,381,596	$ 11,029,178
2019	8,871,440	2,125,014	10,996,454
2020	9,113,440	1,869,187	10,982,627
2021	6,926,440	1,648,762	8,575,202
2022	7,130,440	1,456,667	8,587,107
2023-2027	20,975,957	4,824,145	25,800,102
2028-2032	12,692,463	1,806,249	14,498,712
2033-2037	8,282,713	526,019	8,808,732
Total	$ 82,640,475	$ 16,637,639	$ 99,278,114

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

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

	General Obligation Bonds	State Loans	Special Assessment Fund	Total
Principal	$ 81,158,000	$ 794,237	$ 688,238	$ 82,640,475
Interest	16,637,639	-	-	16,637,639
	$ 97,795,639	$ 794,237	$ 688,238	$ 99,278,114

COMPONENT UNITS

St. Mary's County Public Schools

Long-term liabilities

Long-term debt at June 30, 2017, 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, 2017.

	June 30, 2016	Additions	Deductions	June 30, 2017	Amounts due within one year
Governmental activities:					
Equipment financing agreements	$ 765,449	$ -	$ (458,763)	$ 306,686	$ 123,519
Compensated absences	4,929,865	565,004	(587,702)	4,907,167	510,215
Net OPEB obligation	51,302,049	22,393,000	(6,630,000)	67,065,049	-
Net pension obligation	12,514,609	715,005	-	13,229,614	-
	$ 69,511,972	$ 23,673,009	$ (7,676,465)	$ 85,508,516	$ 633,734
Business-type activities:					
Compensated absences	$ 185,829	$ -	$ -	$ 185,829	$ 12,486

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 $47,810, and quarterly payments of $1,824, at interest rates ranging from 3.74% to 7.88% expiring through April 2020. 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 when due. Principal payments are reported as reductions of long-term obligations in the government-wide financial statements.

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Long-term liabilities (continued)

The future minimum lease payments and the new present value of the minimum lease payments as of June 30, 2017, under these equipment financing agreements are as follows:

Years ending June 30,

2018	$ 131,756
2019	103,654
2020	86,380
	321,790
Less amount representing interest	(15,104)
Present value of minimum lease payments	$ 306,686

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, 2017:

June 30, 2016	Increases	Decreases	June 30, 2017	Amounts due within one year
$ 97,607	$ 5,410	$ -	$ 103,017	$ -

6. Long-term obligations (continued)

COMPONENT UNITS (continued)
St. Mary's Metropolitan Commission

Long-term debt - bonds

Long-term bonds payable as of June 30, 2017 are as follows:

Bonds payable description	Due	Rate	Principal	Interest
Twenty-third Issue	2008-2027	3.5 - 4.25%	$ 1,096,500	$ 66,751
Twenty-seventh Issue	2011-2030	0.75 - 4.31%	9,026,300	2,750,969
Thirtieth Issue	2012-2029	2.96 - 3.4%	1,044,592	215,520
Thirty-first Issue	2013-2032	0.61 - 3.42%	6,852,900	1,808,097
Thirty-sixth Issue	2014-2033	4.31%	13,486,300	5,771,203
Thirty-eighth issue	2015-2034	3.51%	19,507,500	6,985,727
Thirty-ninth issue	2015-2021	1.31%	1,472,000	32,698
Forieth issue	2015-2027	2.08%	5,519,000	737,443
			58,005,092	18,368,408
Less current portion			3,880,837	1,945,893
			$ 54,124,255	$ 16,422,515

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2017 are as follows:

Years ending June 30,	Principal	Interest	Total
2018 (current)	$ 3,880,834	$ 1,945,893	$ 5,826,727
2019	3,968,206	1,861,366	5,829,572
2020	3,410,908	1,765,971	5,176,879
2021	3,446,339	1,681,952	5,128,291
2022	3,483,393	1,591,476	5,074,869
2023-2027	19,064,257	6,326,661	25,390,918
2028-2032	16,675,655	2,954,065	19,629,720
2033-2034	4,075,500	241,024	4,316,524
Total	$ 58,005,092	$ 18,368,408	$ 76,373,500

6. Long-term obligations (continued)

COMPONENT UNITS (continued)
St. Mary's Metropolitan Commission (continued)

Long-term debt - bonds (continued)

Twenty-first issue

On April 15, 2006, MetCom 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.

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.

On August 6, 2015 MetCom refinanced $432,600 of this debt with TD bank. This bond was paid in full as of June 30, 2016.

Twenty-third issue

On November 14, 2007, MetCom 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.

On August 6, 2015 MetCom refinanced $5,914,800 of this debt with TD bank.

Twenty-seventh issue

On August 25, 2010, MetCom issued $12,613,963 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017, the unspent proceeds were $2,467,518.

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.

6. Long-term obligations (continued)

COMPONENT UNITS (continued)
St. Mary's Metropolitan Commission (continued)

Long-term debt - bonds (continued)

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:

Period	Price
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, MetCom issued $8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017, the unspent proceeds were $4,739,483.

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, MetCom issued $15,948,168 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017, the unspent proceeds were $10,701,202.

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.

6. Long-term obligations (continued)

COMPONENT UNITS (continued)
St. Mary's Metropolitan Commission (continued)

Long-term debt - bonds (continued)

Thirty-eighth issue

On August 28, 2014, MetCom issued $22,075,230 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017, the unspent proceeds were $17,646,141.

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.

Thirty-ninth issue

On August 6, 2015, MetCom issued Refinancing Bonds Series 2015A in the principal amount of $2,157,000. These bonds were issued with a true interest cost of 1.31% to refund certain maturities of MetCom's Refunding Bonds of 2003, the Seventeenth Issue, with a coupon rate ranging from 2.75% to 4.4% and certain maturities of MetCom's 2006 Series A Bonds, the Twenty-first Issue, issued in conjunction with the Maryland Community Development Administration (CDA), with a coupon rate ranging from 3.65% to 4.275% and for the cost to refinance the loans.

These bonds were issued to take advantage of a favorable interest rate environment. Funds in the amount of $449,973 were deposited with an escrow agent to provide for all future debt service payments of the refinanced bonds. Funds in the amount of $1,680,395 were used to complete the defeasance of MetCom's Refunding Bonds of 2003. The remaining proceeds were used for prepayment fees and bond issuance costs.

MetCom refunded these bonds at a premium to reduce its total debt service payments by $87,229 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $102,135.

Fortieth issue

On August 6, 2015, MetCom issued Refinancing Bonds Series 2015B in the principal amount of $5,619,000. These bonds were issued with a true interest cost of 2.08% to refund certain maturities of MetCom's 2007 Series B Bonds, the Twenty-third Issue, issued in conjunction with the Maryland Community Development Administration (CDA), with a coupon rate ranging from 3.5% to 4.25% and for the cost to refinance the loans.

These bonds were issued to take advantage of a favorable interest rate environment. Funds in the amount of $6,310,569 were deposited with an escrow agent to provide for all future debt service payments of the refinanced bonds. The remaining proceeds were used for prepayment fees and bond issuance costs.

MetCom refunded these bonds at a premium to reduce its total debt service payments by $537,674 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $431,337.

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Notes, leases and loans payable as of June 30, 2017 are as follows:

Note description	Due	Rate	Principal	Interest	Undrawn
MD Water Quality Loan #15	2020	2.700%	$ 155,280	$ 16,599	$ -
MD Water Quality Loan #16	2023	1.200%	145,347	12,656	-
MD Water Quality Loan #18	2025	1.100%	2,009,386	200,980	-
MD Water Quality Loan #19	2024	1.100%	383,259	36,530	-
MD Water Quality Loan #20	2024	1.100%	350,447	27,902	-
MD Water Quality Loan #22	2027	1.100%	566,899	61,908	-
MD Water Quality Loan #25	2029	1.000%	124,439	14,885	-
MD Water Quality Loan #26	2030	1.000%	391,702	48,833	-
MD Water Quality Loan #28	2030	2.200%	323,007	71,548	-
MD Water Quality Loan #32	2034	1.800%	3,981,648	899,865	452,841
MD Water Quality Loan #33	2033	1.700%	339,001	69,325	-
MD Water Quality Loan #34	2035	2.100%	19,224,057	5,186,237	122,151
MD Water Quality Loan #35	2035	2.100%	4,806,014	1,296,578	30,539
MD Water Quality Loan #37	2034	2.000%	2,190,323	504,435	-
Leonardtown #41	2037	1.800%	1,705,500	435,932	-
			36,696,309	8,884,213	$ 605,531
Less current portion			2,117,498	849,288	
			$ 34,578,811	$ 8,034,925	

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2017, are as follows:

Years ending June 30,	Principal	Interest	Total
2018 (current)	$ 2,117,498	$ 849,288	$ 2,966,786
2019	2,156,049	808,910	2,964,959
2020	2,195,341	769,566	2,964,907
2021	2,154,658	726,753	2,881,411
2022	2,098,732	682,976	2,781,708
2023-2027	10,233,659	2,779,549	13,013,208
2028-2032	9,901,803	1,734,438	11,636,241
2033-2037	5,838,569	532,733	6,371,302
Total	$ 36,696,309	$ 8,884,213	$ 45,580,522

6. Long-term obligations (continued)

COMPONENT UNITS (continued)
St. Mary's Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

As of June 30, 2017, MetCom has fourteen 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 thirty-two in the amount of $4,874,202 is for the Radio Read Meter Project. As of June 30, 2017, MetCom had drawn $4,421,361 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 Wastewater Reclamation Facility ENR project. This loan will be paid for by Navy charges and is therefore taxable. As of June 30, 2017, MetCom has drawn $26,200,310 of the proceeds on loans thirty-four and thirty-five. Loan number thirty-seven in the amount of $2,420,291 is for the Route 235 and Route 712 Interceptor Rehabilitation.

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 forty-one in the amount of $1,705,500 is for MetCom's share of Leonardtown's MDE loan for the ENR project.

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2017 were as follows:

	June 30, 2016	Additions	Deductions	June 30, 2017	Amounts due within one year
Bonds payable	$ 61,777,902	$ -	$ 3,772,810	$ 58,005,092	$ 3,880,834
Notes, Leases and loans payable	37,267,433	1,808,371	2,379,495	36,696,309	2,117,498
Total long-term debt	$ 99,045,335	$ 1,808,371	$ 6,152,305	$ 94,701,401	$ 5,998,332

7. Fund balances

A summary of the nonspendable, restricted, committed, assigned and unassigned fund balances as of June 30, 2017 is as follows:

		Special Revenue Funds		Debt Service Fund	
	General Fund	Fire & Rescue Revolving	Emergency Support	Special Assessments	Capital Projects Fund
Nonspendable					
Inventory	$ 1,315,646	$ -	$ -	$ -	$ -
Prepaid expenses	30,665				
Interfund advance (Wicomico)	817,676	-	-	-	-
Total nonspendable	2,163,987	-	-	-	-
Restricted					
Domestic Violence Programs	5,190	-	-	-	-
County matching funds for approved grants	287,193	-	-	-	-
Funding sources specified for capital projects					
Land preservation	-	-	-	-	1,722,075
Various capital projects - transfer tax	-	-	-	-	13,297,910
County pay-go					3,493,697
Roads- impact fees	-	-	-	-	188,861
Roads- mitigation	-	-	-	-	295,472
Parks- impact fees	-	-	-	-	231,705
Parks- mitigation	-	-	-	-	46,753
Schools-impact fees	-	-	-	-	3,840,210
Schools-mitigation	-	-	-	-	34,125
Total restricted	292,383	-	-	-	23,150,808
Committed					
Bond rating reserve	13,330,021	-	-	-	-
Rainy day fund	1,625,000	-	-	-	-
Operating budget, non-recurring items	-	-	-	-	-
Other, net, including grants	-	369,741	999,146	396,065	4,107,988
Total committed	14,955,021	369,741	999,146	396,065	4,107,988
Assigned	2,025,064	-	-	-	-
Unassigned	30,394,751	-	-	-	-
Total fund balances	$ 49,831,206	$ 369,741	$ 999,146	$ 396,065	$ 27,258,796

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, 2017, 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 FY2017, but for which the period extends beyond June 30, 2017. 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.

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	$ 1,149,786
Miscellaneous revolving fund	875,278
	$ 2,025,064

7. Fund balances (continued)

As a part of our FY2018 budget process, unassigned fund balance was not used.

When unassigned fund balance is used, it is for one-time, non-recurring expenses.

In May 2017, as a part of the approval of the FY2018 budget, the Board approved not to use unassigned fund balance to increase reserves percent to revenue above 15% per fund balance policy.

UNASSIGNED ($21,526,626)
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.

8. Retirement plans

PRIMARY GOVERNMENT

For the year ended June 30, 2017, the County recognized aggregated pension expense of $8,824,462 for all three pension systems.

State retirement and pension system of Maryland

Plan description

All permanent, full-time employees of the County, (other than those covered by the Sheriff's Office Retirement Plan) are eligible to participate in the 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. 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 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.

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))

   - 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

   - 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. Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.
   - 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))

   - 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.
   - The cost of living adjustments for RCPB 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 (currently 7.5%). The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate.

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.

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.

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	In the 2012 actuarial valuation: 8 years remaining as of June 30, 2012 for prior UAAL existing on June 30, 2000, and 25 years from each subsequent valuation date for each year's additional UAAL for the State systems and ECS Muni. 27 years for LEOPS Muni, and 34 years for CORS Muni. In the 2013 actuarial valuation: 25 years for the State Systems, 26 years for LEOPS Muni, and 32 years for CORS Muni. For ECS Muni: 7 years remaining for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL. In the 2014 actuarial valuation: 24 years for the State Systems, 25 years for LEOPS Muni, and 31 years for CORS Muni. For ECS Muni: 6 years remaining 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	2.70% general, 3.20% wage
Salary Increases	3.3% to 9.2% including inflation
Discount Rate	7.55%
Investment Rate of Return	7.55%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience
Note	There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumption change in the 2016 valuation: Inflation assumption changed from 2.90% to 2.70%

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

Investments

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37%	6.60%
Credit Opportunity	9%	4.20%
Rate Sensitive	20%	1.3%
Private Equity	10%	7.40%
Real Assets	15%	4.70%
Absolute Return	9%	3.70%
Total	100%	

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, 2016.

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 1.10%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 amoritized over a single closed 25-year period. Employee contributions, which are applied to normal cost, for fiscal year 2016 totaled approximately $764,414,000. The County's contribution to the System for the year ended June 30, 2017 was $2,012,485.

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.

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)
State retirement and pension system of Maryland (continued)

Discount rate

A single discount rate of 7.55% 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 7.55%. 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 7.55%, 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 6.55%	Current Discount Rate 7.55%	1% Increase to 8.55%
Total System Net Pension Liability	$32,408,443	$23,594,027	$16,259,113

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

At June 30, 2017, Commissioners of St. Mary's County reported liability of $23,903,575 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2017, Commissioners of St. Mary's County proportion was .101312%.

For the year ended June 30, 2017, Commissioners of St. Mary's County recognized pension expense of $2,744,071 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ -
Net difference between projected and actual investment earnings	2,371,066	-
Difference between actual and expected experience	-	261,901
Contributions subsequent to measurement date	2,012,485	-
Total	$ 4,383,551	$ 261,901

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)

The $2,012,485 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, 2018. The $261,901 from the difference between actual and expected experience will be amortized over the service life of all employees, and the difference between projected and actual earnings of $2,371,066 will be amortized over a five year period. The amortization is as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Years ending June 30,		
2018	$592,767	$65,475
2019	$592,767	$65,475
2020	$592,766	$65,475
2021	$592,766	$65,476
2022 and thereafter	-	-

Sheriff's office retirement plan

Plan description

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. 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 participated in the plan. Also, each Sheriff's Department covered employee who was 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, 2016 was as follows:

Retirees and beneficiaries currently receiving benefits	91
Terminated plan members entitled to but not yet receiving benefits	51
Active plan members	203
Total	345

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)
Sheriff's office retirement plan (continued)

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.

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.

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)
Sheriff's office retirement plan (continued)

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

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

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 five 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 his 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.

8. Retirement plans (continued)

PRIMARY GOVERNMENT (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, 2017, were as follows:

Total pension liability	$ 120,455,255
Plan fiduciary net position	(78,267,218)
County's net pension liability	$ 42,188,037
Plan fiduciary net position as a percentage of the total pension liability	64.98%

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2016 rolled forward to June 30, 2017 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-2014 Combined Healthy tables with Blue Collar adjustment and generational projection by Scale MP-2016

The above is a summary of key actuarial assumptions. Full descriptions of the actuarial assumptions are available in the July 1, 2016 actuarial valuation report.

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)
Sheriff's office retirement plan (continued)

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	$60,799,425	$42,188,037	$27,205,123

Asset allocation

The long-term nominal 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
Domestic equity	38.2%
International equity	20.5%
Fixed income	22.4%
Hedge funds	8.7%
Private equity	2.4%
Real assets	2.6%
Cash equivalents	5.2%
Total	100%

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

At June 30, 2017, the Sheriff's office retirement plan reported a net pension liability of $42,188,037. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2017.

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)
Sheriff's office retirement plan (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, 2017, the Sheriff's office retirement plan recognized pension expense of $8,475,197 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 3,090,166	$ -
Net difference between projected and actual earnings on pension plan investments	4,032,175	-
Net difference between actual and expected experience	536,385	-
Contributions subsequent to measurement date	-	-
Total	$ 7,658,726	$ -

The $3,090,166 from the change in assumptions will be amortized over the service life of all employees, and the $4,032,175 from the difference between projected and actual earnings on pension plan investments will be amortized over a five year period as follows:

Years ending June 30,	
2018	$2,645,550
2019	$2,645,551
2020	$1,586,242
2021	$ 228,773
2022	$ 276,306
2023 and thereafter	$ 276,304

Discount rate

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

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.

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)
Sheriff's office retirement plan (continued)

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 37.8% 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 $15,794,931 and the Sheriff's Department's total payroll for all employees is $19,280,814. The following employer contributions were made during the fiscal year ended June 30, 2017:

	Contributions	% of Covered Payroll
Actuarially determined	$ 5,148,862	37.8%

Volunteer fire departments, rescue squads and advanced life support unit

Plan description

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.

8. Retirement plans (continued)

PRIMARY GOVERNMENT (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).

8. Retirement plans (continued)

PRIMARY GOVERNMENT (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, 2017 was $931,529.

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 $5,879,367 or 4.67% of current covered payroll, and the State of Maryland made contributions on behalf of the School System totaling $13,102,614 or 10.40% of current covered payroll for fiscal year 2016. 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, 2017, the School System reported a liability $13,229,614 or .056% of the total liability of $23,594,027,003.

St. Mary's County Library

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2017, the Library's total payroll and payroll for covered employees were $2,327,611 and $2,081,447, respectively. No contributions were made by the Library for the year ended June 30, 2017.

For fiscal year 2017, the State contributed $355,134 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 17.06% of covered payroll.

St. Mary's Metropolitan Commission

Retirement and pension plan

MetCom's contribution to the System was $456,447 for year ended June 30, 2017.

At June 30, 2017, MetCom reported a liability of $5,077,598 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2017, MetCom's proportion was .02152%

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.

9. Interfund balances

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2017:

	Interfund Receivables	Interfund Payables
PRIMARY GOVERNMENT		
General fund		
Fire & Rescue Revolving Loan Fund	$ -	$ 369,741
Emergency Services Support Fund	-	945,165
Debt Service Fund	-	397,057
Capital Projects Fund	-	27,000,485
Enterprise Fund	-	1,299,604
Special Revenue Funds		
General Fund	1,314,906	-
Debt Service Fund		
General Fund	397,057	-
Capital Projects Fund		
General Fund	27,000,485	-
Enterprise Funds		
General Fund	1,299,604	-
Total due from/to other funds	$ 30,012,052	$ 30,012,052
COMPONENT UNITS		
St. Mary's County Building Authority Commission	$ 190,054	$ -
Primary Government-General Fund	-	190,054
Total due to Primary Government from Component Unit	$ 190,054	$ 190,054

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, 2017 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, 2017, 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 $3,609,442.

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 5%. 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, 2017, management anticipates a refund in the amount of $1,074,673.

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

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 (General Employees) and the St. Mary's County Sheriff's Department Retirement Plan (Sheriff Employees). 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.

The OPEB Plan is administered through the single-employer Retiree Benefit Trust of St. Mary's County, Maryland 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 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, the Maryland Association of Counties (MACo) OPEB Trust, and limited partnerships. 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.

At June 30, membership consisted of:

	2017	2016	2015
Retirees and their Beneficiaries Currently Receiving Benefits	434	418	391
Active Employees	656	668	655
Total	1,090	1,086	1,046

11. Other post-employment benefits (continued)

PRIMARY GOVERNMENT (continued)

Plan description (continued)

The Trustees determine how much is contributed to the OPEB Trust as part of the budget process. The County'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 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 of thirty years. The County contributed the pay-go amount of $3,009,007 to the trust in FY 2017, rather than the ARC. The Net OPEB Obligation is overpaid by $18,010,760 as of June 30, 2017.

Investments

The County's investment authority is established in the Investment Policy for the Retiree Benefit Trust of St. Mary's County, Maryland. The assets allocation of the Trust, per the policy is as follows:

	Lower Limit	Strategic Allocation	Upper Limit
Domestic Large Cap Equities	12%	22%	32%
Domestic Small/Mid Cap Equities	5%	9%	14%
Real Estate Equities	4%	8%	12%
International Equities	7%	10%	13%
Emerging Market Equities	0%	5%	7%
Domestic Fixed Income	16%	22%	36%
TIPS	0%	5%	7%
High Yield Fixed Income	0%	5%	7%
Real Estate Alternatives	0%	6%	6%
Private Equity	0%	12%	12%
Cash Equivalents	0%	0%	10%

As of June 30, 2017, 20% of the Trust assets are in real estate alternatives.

For the year ended June 30, 2017, the annual money-weighted rate of return of the MACo OPEB trust investments, net of the MACo OPEB trust expense was 6.08%. The money-weighted rate of return reflects investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB liability

The components of the net OPEB liability of the County at June 30, 2017 were;

Total OPEB liability	$96,646,688
Plan fiduciary net position	(70,346,467)
Net OPEB liability	$ 26,300,221
Plan fiduciary net position as a percentage of the total OPEB liability	72.79%

11. Other post-employment benefits (continued)

PRIMARY GOVERNMENT (continued)

Net OPEB liability (continued)

The total OPEB liability was determined by an actuarial valuation as of July 1, 2015 with data rolled forward to June 30, 2017. In the October 29, 2014 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method for GASB 45, and the Entry Age Normal (EAN) cost method as required by GASB74. The actuarial assumptions included a 6% annual rate of return. The medical cost trend varied between 8% and 5% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 3.5% payroll increase rate.

The following table presents the County's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher.

	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	$81,892,007	$96,646,688	$115,615,546
Net OPEB Liability/(Asset)	$11,545,540	$26,300,221	$45,269,079

The long-term nominal expected rate of return on OPEB plan investments was determined using a building-block method where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. Spread and the risk free rate are used for fixed income; and dividends, earnings growth and valuation are used for equity. These return expectations are weighted based on asset/target amounts. The arithmetic real rates of return for the MACo OPEB Trust as of June 30, 2017 was 6.68%.

The discount rate used to measure the total OPEB liability was 6.96%. The projection of cash flows used to determine this discount rate assumed that the County's contributions will be made at rates equal to the pay-go amount and not the actuarially determined contribution rates. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be unavailable to make all projected future benefit payments of current plan members after 2084. Therefore, a blended discount rate was determined based on the fully funded rate of 7.08% when assets are available prior to 2084, and the unfunded rate of 3.58% for 2084 and beyond. The blended rate of 6.96% was determined based on this method

The following table presents the County's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher, than the 6.96% discount rate.

	1% Decrease	Discount Rate	1% Increase
	5.96%	6.96%	7.96%
Total OPEB Liability	$113,424,142	$96,646,688	$83,367,650
Net OPEB Liability/(Asset)	$43,077,675	$26,300,221	$13,021,183

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:

11. Other post-employment benefits (continued)

PRIMARY GOVERNMENT (continued)

Annual OPEB costs and net OPEB obligation (continued)

	2017	2016	2015
Annual Required Contribution	$ 5,217,000	$ 5,021,000	$ 6,097,000
Interest on Net OPEB	(1,360,000)	(1,360,000)	(1,255,000)
Adjustment to ARC	1,437,000	1,387,000	1,237,000
Annual OPEB Cost	5,294,000	5,048,000	6,079,000
Contributions Made to the Trust	-	-	4,797,918
Payments to Retirees	3,009,007	2,685,268	2,281,082
Net OPEB Obligation (Prepaid), Beginning of Year	(20,295,753)	(22,658,485)	(21,658,485)
Net OPEB Obligation (Prepaid), End of Year	$ (18,010,760)	$ (20,295,753)	$ (22,658,485)
The funded status of the plan was as follows:			
Actuarial Accrued Liability (AAL)	$ 101,369,000	$ 95,612,000	$ 98,927,000
Actuarial Value of Plan Assets	69,456,000	63,635,000	49,035,000
Unfunded Actuarial Accrued Liability	$ 31,913,000	$ 31,977,000	$ 49,892,000
Funded Ratio (Value of Plan Assets/AAL)	68.52%	66.56%	49.57%
Covered Payroll (Active Plan Members)	$ 39,755,794	$ 35,433,314	$ 37,522,510
UAAL as a percentage of covered payroll	80.27%	90.25%	132.97%

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, 3.5% annual salary increases 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.

11. Other post-employment benefits (continued)

COMPONENT UNITS

St. Mary's County Library

For the year ended June 30, 2017, the cost of post-employment benefits was $62,970.

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:

	2017	2016	2015
Retirees and Beneficiaries Currently Receiving Benefits	8	11	9
Active Employees	22	21	20
Total	30	32	29

Funding policy

During FY2008, 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 $146,702 as of June 30, 2017.

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:

	2017	2016	2015
Annual Required Contribution	$ 98,000	$ 94,000	$ 112,000
Interest on Net OPEB	(14,000)	(14,000)	(8,000)
Adjustment to ARC	15,000	14,000	8,000
Annual OPEB Cost	99,000	94,000	112,000
Contributions Made	(62,970)	(44,768)	(91,361)
Net OPEB Obligation, Beginning of Year	(182,732)	(231,964)	(252,603)
Net OPEB Obligation, End of Year	$ (146,702)	$ (182,732)	$ (231,964)

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)
St. Mary's County Library (continued)

Annual OPEB costs and net OPEB obligation (continued)

	2017	2016	2015
The funded status of the plan was as follows:			
Actuarial Accrued Liability (AAL)	$ 1,621,000	$ 1,540,000	$ 1,712,000
Actuarial Value of Plan Assets	882,000	800,000	646,000
Unfunded Actuarial Accrued Liability	$ 739,000	$ 740,000	$ 1,066,000
Funded Ratio (Value of Plan Assets/AAL)	54.41%	51.95%	37.73%
Covered Payroll (Active Plan Members)	$ 2,081,447	$ 1,806,916	$ 1,951,389
UAAL as a percentage of covered payroll	35.50%	40.95%	54.63%

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 6.5%, 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 closed 21 year period for the year ended June 30, 2017.

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.

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, 2016 asset figure of $882,000.

St. Mary's Metropolitan Commission

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

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Plan description (continued)

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.

MetCom's OPEB Plan is administered through the single-employer 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 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) 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.

At June 30, membership consisted of:

	2017	2016	2015
Retirees and their Beneficiaries Currently Receiving Benefits	10	10	10
Active Employees	71	71	67
Total	81	81	77

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 2017 Operating Budget included fully funding the OPEB cost. 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 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 of thirty years. MetCom contributed $526,000 to the trust in FY 2017. The net OPEB obligation is overpaid by $300,388 as of June 30, 2017.

Investments

MetCom's investment authority is established in the Retiree Benefit Trust of St. Mary's County Metropolitan Commission. Assets are allocated 85% in the MACo OPEB Trust as of June 30, 2017 and 2016.

For the year ended June 30, 2017, the annual money-weighted rate of return of the MACo OPEB trust investments, net of the MACo OPEB trust expense was 6.08%. The money-weighted rate of return reflects investment performance, net of investment expense, adjusted for the changing amounts actually invested.

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)
St. Mary's Metropolitan Commission (continued)

Net OPEB liability

The components of the net OPEB liability of MetCom at June 30, 2017 were;

Total OPEB liability	$ 8,367,000
Plan fiduciary net position	(4,833,876)
Net OPEB liability	$ 3,533,124
Plan fiduciary net position as a percentage of the total OPEB liability	57.77%

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016 with data rolled forward to June 30, 2017. In the November 13, 2014 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method for GASB 45, and the Entry Age Normal (EAN) cost method as required by GASB 74. The EAN actuarial cost method requires a salary scale assumption; we used the State of Maryland salary scale assumption for general employees. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 6.5% 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 following table presents the Commission's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher.

	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	$6,954,000	$8,367,000	$10,199,000
Net OPEB Liability/(Asset)	$2,106,043	$3,533,124	$5,351,043

The long-term nominal expected rate of return on OPEB plan investments was determined using a building-block method where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. Spread and the risk free rate are used for fixed income; and dividends, earnings growth and valuation are used for equity. These return expectations are weighted based on asset/target amounts. The arithmetic real rates of return for the MACo OPEB Trust as of June 30, 2017 was 6.68%.

The discount rate used to measure the total OPEB liability was 6.68%. The projection of cash flows used to determine this discount rate assumed that MetCom contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB 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 OPEB investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the Commission's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher, than the 6.68% discount rate.

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)
St. Mary's Metropolitan Commission (continued)

Net OPEB liability (continued)

	1% Decrease 5.68%	Discount Rate 6.68%	1% Increase 7.68%
Total OPEB Liability	$9,883,000	$8,367,000	$7,158,000
Net OPEB Liability/(Asset)	$5,035,043	$3,533,124	$2,310,043

Annual OPEB costs and net OPEB obligation

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:

	2017	2016	2015
Annual Required Contribution	$ 526,000	$ 508,000	$ 574,000
Interest on Net OPEB	(21,000)	(21,000)	(20,000)
Adjustment to ARC	21,000	20,000	19,000
Annual OPEB Cost	526,000	507,000	573,000
Contributions Made	526,000	507,000	573,000
Net OPEB Obligation, Beginning of Year	(300,388)	(300,388)	(300,388)
Net OPEB Obligation, End of Year	$ (300,388)	$ (300,388)	$ (300,388)

The funded status of the plan was as follows:

	2017	2016	2015
Actuarial Accrued Liability (AAL)	$ 7,386,000	$ 6,763,000	$ 7,238,000
Actuarial Value of Plan Assets	4,524,000	3,908,000	3,575,000
Unfunded Actuarial Accrued Liability	$ 2,862,000	$ 2,855,000	$ 3,663,000
Funded Ratio (Value of Plan Assets/AAL)	61.25%	57.79%	49.39%
Covered Payroll (Active Plan Members)	$ 5,194,244	$ 5,195,578	$ 4,911,310
UAAL as a percentage of covered payroll	55.10%	54.95%	74.58%

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 are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools

Plan description

In addition to providing the pension benefits described previously, 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.

Membership of the OPEB Plan currently enrolled in medical /drug coverage consisted of the following at July 1, 2016, the date of the latest actuarial valuation:

Number of participants	
Active employees	1,621
Retirees – pre-medicare	236
Retirees – post-medicare	739
	2,596

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)
St. Mary's County Public Schools (continued)

Plan description (continued)

The School System contributes the pay as you go portion, along with an annually budgeted prefunding amount of the annual required contribution (ARC) of the employer, 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 18.17% of annual covered payroll. The ARC consisted of the normal cost of $11,002,000 and the amortization of unfunded accrued liability of $11,889,000. The School System contributed $6,630,000 for the year ended June 30, 2017, entirely consisting of contributions towards current healthcare and life insurance premiums accounted for in the general fund with no additional contributions in the current year to prefund future benefits to the retirement benefit trust fund.

Investments

Investment policy: The school System's policy in regard to the allocation of invested assets is established and may be amended by the School System board by a majority vote of its members. It is the policy of the board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The School System's target asset allocation policy was 100% in the MABE Trust as of June 30, 2017.

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 11.29 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

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

Total OPEB liability	$ 352,847,000
Plan fiduciary net position	(41,396,912)
Net OPEB liability	$ 311,450,088
Plan fiduciary net position as a percentage of the total OPEB liability	11.73%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions below, applied to all periods included in the measurement, unless otherwise specified.

Actuarial assumptions used in the latest actuarial valuation were:

Inflation rate	2.40%
Salary increases	2.00 to 6.50%
Investment rate of return	4.00%
Discount rate	3.58%
Healthcare cost trend rate	5.40% initially reduced annually to an ultimate rate of 3.90% attained in 2077
Mortality RP 2014 fully generational	

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of a study for the period July 1, 2013 to December 31, 2016.

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)
St. Mary's County Public Schools (continued)

Net OPEB Liability (continued)

The long-term expected rate of return on OPEB 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 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 target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the MABE Trust as of June 30, 2017 was 3.58%.

Discount rate. The discount rate used to measure the total OPEB liability was 3.58 percent. The projection of cash flow used to determine the discount rate assumed that the School System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.
The following presents the net OPEB liability of the School System, as well as what the School System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Total OPEB Liability	$390,791,088	$311,450,088	$250,731,088

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate.
The following presents the net OPEB liability of the School System, as well as what the School System's net OPEB liability would be if it were calculated using healthcare cost trend rate that is 1-percentage-point lower (2.90%) or 1-percentage-point higher (4.90%) than the current healthcare cost trend rate:

	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	$247,895,088	$311,450,088	$397,586,088

Annual OPEB Cost and Net OPEB Obligation: The School System had an actuarial valuation performed as of July 1, 2016, 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, 2017. The annual OPEB cost (expense) for the year ended June 30, 2017, was $22,393,000, which was comprised of the ARC of $22,891,000 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:

Fiscal year ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$ 13,550,000	60.48%	$ 40,997,310
2016	16,413,000	37.22%	51,302,049
2017	22,393,000	29.61%	67,065,049

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Funded Status and Funding Progress

As of July 1, 2016, the plan was 13.46% funded. The actuarially accrued liability for benefits was $276,400,000, and the actuarial value of assets was $37,196,206, resulting in an unfunded actuarial accrued liability (UAAL) of $239,203,794. The covered payroll (annual payroll of active employees covered by the plan) was $125,980,783 and the ratio of UAAL to the covered payroll was 189.87%. 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.

In the July 1, 2016, 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 4.00% per year compounded annually, (b) projected salary increases of 3.50% compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 2.00% to 6.50% per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 5.40% initially, reduced annually to arrive at an ultimate healthcare cost trend of 3.90%, (e) rates of mortality based upon RP 2014 Combined Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.00% to 18.00%, disablement rates based on age, ranging from 0.03% to 0.46%, (h) retirement rates based on age, sex, and length of service, ranging from 1.00% to 33.00%, and (i) medical claims including prescription drugs are based on actual experience during the period from July 1, 2013 through December 31, 2016, and were projected with annual increases of 5.00% for medical claims and 5.00% 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 22 years for the year ended June 30, 2017.

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 $4,039,000 reported as landfill closure and postclosure care liability at June 30, 2017, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

12. Landfill closure and postclosure cost (continued)

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.

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 2017 the County paid premiums of $561,624 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, 2017. The unpaid claims also include liabilities for incurred but not reported (IBNR) claims as of June 30, 2017.

15. New accounting principles

GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal year 2018. The County has begun analyzing the effects of this pronouncement which is expected to have a material effect on the County's financial statements. The County expects implementation of GASB Statement No. 75, to reduce the beginning net position by approximately $23.6 million in fiscal year 2018.

16. Subsequent events

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through November 10, 2017, the date the financial statements were available to be issued.

On October 24, 2017, the County issued $15,475,000 in Refunding Consolidated Public Improvement Build America Bonds, Series 2009B. Moody's Rating was increased from AA2 to AA1 during October 2017 Bond Rating Review.

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, 2017

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
REVENUES				
Property taxes	$ 106,810,985	$ 106,810,985	$ 107,137,471	$ 326,486
Income taxes	89,028,917	89,028,917	88,167,869	(861,048)
Energy taxes	1,300,000	1,300,000	973,359	(326,641)
Recordation taxes	5,100,000	5,100,000	5,656,026	556,026
Other Local taxes	1,180,000	1,180,000	1,602,487	422,487
Highway user revenues	821,775	821,775	900,948	79,173
Licenses and permits	1,570,350	1,570,350	1,654,929	84,579
State/federal grants	12,325,194	11,851,927	9,837,258	(2,014,669)
Charges for services	2,848,602	3,196,401	3,832,461	636,060
Fines and forfeitures	42,000	42,000	26,481	(15,519)
Investment and other revenues	139,200	143,181	410,799	267,618
Sub-total	221,167,023	221,045,536	220,200,088	(845,448)
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND REVENUES	221,167,023	221,045,536	220,200,088	(845,448)
EXPENDITURES				
General government	24,769,601	24,161,693	22,352,141	1,809,552
Public safety	43,286,759	43,608,948	41,523,708	2,085,240
Public works	9,524,239	9,603,109	8,856,766	746,343
Health	7,263,198	7,069,489	7,048,799	20,690
Social services	4,245,744	4,127,881	4,052,348	75,533
Primary and secondary education	104,732,856	104,732,856	104,704,831	28,025
Post-secondary education	4,267,365	4,267,365	4,267,365	-
Parks, recreation and culture	4,017,578	3,890,338	3,848,472	41,866
Libraries	2,684,573	2,684,573	2,684,574	(1)
Conservation of natural resources	507,184	523,337	509,074	14,263
Economic development and opportunity	4,007,555	4,030,755	2,428,419	1,602,336
Debt service	10,654,319	10,028,820	10,012,559	16,261
Inter-governmental	43,943	43,943	43,943	-
Other	3,065,000	3,065,000	3,075,214	(10,214)
Sub-total	223,069,914	221,838,107	215,408,213	6,429,894
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND EXPENDITURES	223,069,914	221,838,107	215,408,213	6,429,894
OTHER FINANCING SOURCES AND USES				
Fund balance	-	432,830	-	(432,830)
Reserves - grants (expenditures)	(1,000,000)	(1,121,487)	-	1,121,487
Reserves - grants (revenues)	1,000,000	1,121,487	-	(1,121,487)
Reserves - emergency appropriations	(670,101)	(2,213,251)	-	2,213,251
Reserves - bond rating	(400,000)	(400,000)	-	400,000
General fund transfer/pay-go - capital projects	2,972,992	2,972,992	2,972,992	-
TOTAL OTHER FINANCING SOURCES AND USES	1,902,891	792,571	2,972,992	2,180,421
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	$ -	$ -	$ 7,764,867	$ 7,764,867

See Independent Auditor's Report.

COMMISSIONERS OF ST. MARY'S COUNTY
NOTES TO THE 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, 2017

A reconciliation of the revenues and expenditures of the general fund

	Net Change in Fund Balance	End of Year Fund Balance
Budgetary basis – general fund	$ 7,764,867	$ 48,660,989
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	760,425	1,000,108
Beginning of year encumbrances, rolled into FY2017	(481,380)	-
Appropriation from prior year rolled to FY2017 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2017	481,380	481,380
Budgeted use of fund balance	-	-
Increase in bond rating reserve	-	-
Restricted cash & investments:		
FY2017	-	-
FY2016	(1,461,058)	(1,461,058)
End of year encumbrances included in budget basis expenditures, not included for GAAP	1,149,787	1,149,787
GAAP basis	$ 8,214,021	$ 49,831,206

Maryland State Retirement and Pension Plan

Schedule of net pension liability and related ratios

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)
06/30/15	0.0937813%	$ 16,643,117	$ 20,945,112	79.46%	71.87%
06/30/16	0.1046456%	$ 21,747,150	$ 22,117,812	98.32%	68.78%
06/30/17	0.1013120%	$ 23,903,575	$ 23,960,863	99.76%	65.79%

Schedule of contributions and related ratios

Date	Actuarially Determined Contribution (a)	Actual Contribution (b)	Contribution Deficiency (Excess) (c)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
06/30/15	$ 2,205,647	$ 2,205,647	$ -	$ 20,945,112	10.53%
06/30/16	$ 1,973,642	$ 1,973,642	$ -	$ 22,117,812	8.92%
06/30/17	$ 2,012,485	$ 2,012,485	$ -	$ 23,960,863	8.40%

The County implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. Information for prior years is not available.

Maryland State Retirement and Pension Plan (continued)

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 2016 valuation:

- Inflation assumption changed from 2.90% to 2.70%

Method and assumptions used in calculations of actuarially determined contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	In the 2012 actuarial valuation: 8 years remaining as of June 30, 2012 for prior UAAL existing on June 30, 2000, and 25 years from each subsequent valuation date for each year's additional UAAL for the State systems and ECS Muni. 27 years for LEOPS Muni, and 34 years for CORS Muni. In the 2013 actuarial valuation: 25 years for the State Systems, 26 years for LEOPS Muni, and 32 years for CORS Muni. For ECS Muni: 7 years remaining for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL. In the 2014 actuarial valuation: 24 years for the State Systems, 25 years for LEOPS Muni, and 31 years for CORS Muni. For ECS Muni: 6 years remaining 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	2.70% general, 3.20% wage
Salary Increases	3.30% to 9.20% including inflation
Rate of Return	7.55%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

COMMISSIONERS OF ST. MARY'S COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLANS
FOR THE YEAR ENDED JUNE 30, 2017

Sheriff's Office Retirement Plan

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

	2017	2016	2015
Total pension liability:			
Service cost	$ 3,979	$ 3,826	$ 3,687
Interest	7,867	7,317	6,564
Changes of benefit terms	-	-	-
Differences between expected and actual experience	626	-	-
Changes of assumptions	1,308	-	3,445
Benefit payments, including refunds of member contributions	(3,672)	(3,436)	(3,193)
Net change in total pension liability	10,108	7,707	10,503
Total pension liability – beginning	110,347	102,640	92,137
Total pension liability – ending (a)	$ 120,455	$ 110,347	$ 102,640
Plan fiduciary net position			
Contributions – employer	$ 5,149	$ 4,816	$ 5,197
Contributions – member	1,085	1,011	945
Net investment income	7,724	(1,803)	(465)
Benefit payments, including refunds of member contributions	(3,672)	(3,436)	(3,193)
Administrative expense	(93)	(122)	(79)
Other	-	-	-
Net change in plan fiduciary net position	10,193	466	2,405
Plan fiduciary net position – beginning	68,075	67,609	65,204
Plan fiduciary net position – ending (b)	$ 78,268	$ 68,075	$ 67,609
County's Net Pension Liability – ending (a) – (b)	$ 42,187	$ 42,272	$ 35,031
Plan fiduciary net position as a percentage of the total pension liability	64.98%	61.69%	65.87%
Covered employee payroll	13,981	12,740	12,774
County's net pension liability as a percentage of covered employee payroll	301.75%	331.81%	274.24%
Expected average remaining service years of all participants	7	7	7

Notes to Schedule:
Information for FY2013 and earlier is not available.
Benefit changes: None.
Changes of assumptions: None.

COMMISSIONERS OF ST. MARY'S COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLANS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

Sheriff's Office Retirement Plan (continued)

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

	2017	2016	2015
Actuarially determined contribution	$ 5,149	$ 4,816	$ 5,197
Contributions in relation to the actuarially determined contribution	5,149	4,816	5,197
Contribution deficiency (excess)	-	-	-
Covered employee payroll	$ 13,981	$ 12,740	$ 12,774
Contributions as a percentage of covered employee payroll	36.83%	37.80%	40.68%

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 over all years of service
Remaining amortization period	21 years (closed)
Asset valuation method	5-year smoothed market
Inflation	3.0 percent compounded annually
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 with generational projection by Scale AA

COMMISSIONERS OF ST. MARY'S COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED JUNE 30, 2017

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)
06/30/16	$ 5,048,000	$ 2,685,268	53%	$ (20,295,753)
06/30/17	$ 5,294,000	$ 3,009,007	57%	$ (18,010,760)

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
06/30/08	$ 10,000,000	$ 60,135,000	$ 50,135,000	16.6%	$ 34,115,335	147.0%
06/30/09	$ 13,458,000	$ 64,561,000	$ 51,103,000	20.8%	$ 35,716,358	143.1%
06/30/10	$ 24,400,000	$ 73,285,000	$ 48,885,000	33.3%	$ 35,562,940	137.5%
06/30/11	$ 28,799,000	$ 78,251,000	$ 49,452,000	36.8%	$ 35,556,564	139.1%
06/30/12	$ 31,418,000	$ 79,275,000	$ 47,857,000	39.6%	$ 35,208,044	135.9%
06/30/13	$ 36,614,000	$ 84,788,000	$ 48,174,000	43.2%	$ 35,221,122	136.8%
06/30/14	$ 42,404,000	$ 93,108,000	$ 50,704,000	45.5%	$ 36,772,533	137.9%
06/30/15	$ 49,035,000	$ 98,927,000	$ 49,892,000	49.6%	$ 37,522,510	133.0%
06/30/16	$ 63,635,000	$ 95,612,000	$ 31,977,000	66.6%	$ 35,433,314	90.2%
06/30/17	$ 69,456,000	$ 101,369,000	$ 31,913,000	68.5%	$ 39,755,794	80.3%

COMMISSIONERS OF ST. MARY'S COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

		2017
Total OPEB liability		
Service Cost	$	2,120,630
Interest Cost		6,255,588
Changes in Benefit Terms		-
Differences Between Expected and Actual Experience		50,557
Changes of Assumptions		(1,199,833)
Benefit Payments		(3,009,007)
Net Change in Total OPEB Liability		4,217,935
Total OPEB liability - Beginning of Year		92,428,753
Total OPEB Liability - End of Year	$	96,646,688

Plan Fiduciary Net Position
Last 10 Fiscal Years

		2017
Contributions - Employer	$	3,009,007
Net Investment Income		5,355,287
Benefit Payments		(3,009,007)
Administrative Expense		(50,659)
Net Change in Fiduciary Net Position		5,304,628
Fiduciary Net Position - Beginning of Year		65,041,839
Fiduciary Net Position - End of Year		70,346,467
Net OPEB Liability		26,300,221
Fiduciary Net Position as a % of Total OPEB Liability		72.79%
Covered-Employee Payroll	$	39,755,794
Net OPEB Liability as a % of Payroll		41.14%
Expected Average Remaining Service Years of All Participants		7

Notes to Schedule:

Benefit changes: None.

Changes of assumptions: Retirement, termination, and disability assumptions were updated to the most recent tables by the State of Maryland Pension Plan.

Discount rate:

06/30/17 6.96%

COMMISSIONERS OF ST. MARY'S COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

Schedule of Contributions and Related Ratios

Date	Actuarially Determined Contribution (a)	Contributions in Relation to the Actuarially Determined Contribution (b)	Contribution Deficiency (Excess) (c)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
06/30/08	$ 4,617,000	$ 14,788,623	$ (10,171,623)	$ 34,115,335	43.35%
06/30/09	$ 4,762,000	$ 10,762,000	$ (6,000,000)	$ 35,716,358	30.13%
06/30/10	$ 4,888,000	$ 4,888,000	$ -	$ 35,562,940	13.74%
06/30/11	$ 5,145,000	$ 5,145,000	$ -	$ 35,556,564	14.47%
06/30/12	$ 5,400,000	$ 7,076,862	$ (1,676,862)	$ 35,208,044	20.10%
06/30/13	$ 5,669,000	$ 8,479,000	$ (2,810,000)	$ 35,221,122	24.07%
06/30/14	$ 5,872,000	$ 6,872,000	$ (1,000,000)	$ 36,772,533	18.69%
06/30/15	$ 6,079,000	$ 7,079,000	$ (1,000,000)	$ 37,522,510	18.87%
06/30/16	$ 5,048,000	$ 2,685,268	$ 2,362,732	$ 35,433,314	7.58%
06/30/17	$ 5,294,000	$ 3,009,007	$ 2,284,993	$ 39,755,794	7.57%

OTHER SUPPLEMENTARY INFORMATION

COMMISSIONERS OF ST. MARY'S COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
ASSETS				
Due from other funds	$ 397,057	$ 369,741	$ 945,165	$ 1,711,963
Special tax assessments receivable, current portion	544	-	-	544
Notes receivable, fire and rescue loans, current portion	-	472,594	-	472,594
Emergency support services taxes receivable	-	-	65,926	65,926
Notes receivable, fire and rescue loans (net of current portion)	-	2,715,801	-	2,715,801
Special tax assessments receivable (net of current portion)	237,256	-	-	237,256
Total assets	$ 634,857	$ 3,558,136	$ 1,011,091	$ 5,204,084
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ -	$ -	$ 1,651	$ 1,651
Unearned revenue	238,792	3,188,395	-	3,427,187
Compensation - related liabilities	-	-	10,294	10,294
Due to other funds	-	-	-	-
Total liabilities	238,792	3,188,395	11,945	3,439,132
FUND BALANCES				
Nonspendable	-	-	-	-
Committed	396,065	369,741	999,146	1,764,952
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	396,065	369,741	999,146	1,764,952
Total liabilities and fund balances	$ 634,857	$ 3,558,136	$ 1,011,091	$ 5,204,084

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, 2017

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
REVENUES				
Special assessments	$ 176,946	$ -	$ -	$ 176,946
Emergency services support tax	-	-	2,987,250	2,987,250
Other	-	-	300,000	300,000
	176,946	-	3,287,250	3,464,196
EXPENDITURES				
Debt service:				
Debt service	42,369	-	128,523	170,892
Public safety:				
LOSAP, pension and OPEB	-	-	1,524,944	1,524,944
Fire & rescue operating allocations	-	-	671,287	671,287
Advanced life support	-	-	408,404	408,404
Emergency services committee	-	-	144,028	144,028
Emergency management	-	-	55,179	55,179
	42,369	-	2,932,365	2,974,734
Excess of revenues over (under) expenditures	134,577	-	354,885	489,462
OTHER FINANCING SOURCES AND USES				
Fire and rescue loan repayments	-	487,917	-	487,917
Loans to fire and rescue	-	(590,000)	-	(590,000)
Capital projects fund transfer	-	300,000	-	300,000
	-	197,917	-	197,917
Net increase/(decrease) in fund balances	134,577	197,917	354,885	687,379
FUND BALANCES				
Beginning of year	261,488	171,824	644,261	1,077,573
End of year	$ 396,065	$ 369,741	$ 999,146	$ 1,764,952

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, 2017

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
PROPERTY TAXES:				
Real property taxes	$ 101,864,391	$ 101,864,391	$ 101,926,456	$ 62,065
Payments in lieu of taxes	338,091	338,091	294,059	(44,032)
Personal property	168,010	168,010	207,422	39,412
Public utilities	2,484,859	2,484,859	2,221,241	(263,618)
Ordinary business corporations	3,192,183	3,192,183	2,867,426	(324,757)
Additions and abatements	(500,000)	(500,000)	199,579	699,579
Penalties and interest	800,000	800,000	876,869	76,869
State homeowners credit (circuit breaker)	800,000	800,000	881,642	81,642
Homeowners tax credit (county)	(800,000)	(800,000)	(881,642)	(81,642)
Other tax credits	(1,536,549)	(1,536,549)	(1,455,581)	80,968
Total property taxes	106,810,985	106,810,985	107,137,471	326,486
Income Tax				
Local income tax	89,028,917	89,028,917	88,167,869	(861,048)
Other Local Taxes				
Recordation taxes	5,100,000	5,100,000	5,656,026	556,026
Energy taxes	1,300,000	1,300,000	973,359	(326,641)
Public accommodations tax	775,000	775,000	1,146,862	371,862
Trailer park tax	295,000	295,000	307,304	12,304
Admissions and amusement	110,000	110,000	148,321	38,321
Total other local taxes	7,580,000	7,580,000	8,231,872	651,872
State-shared taxes - highway users	821,775	821,775	900,948	79,173
TOTAL TAXES	204,241,677	204,241,677	204,438,160	196,483
LICENSES AND PERMITS:				
Business	267,850	267,850	295,948	28,098
Marriage/animal licenses	12,500	12,500	6,560	(5,940)
Other	290,000	290,000	292,304	2,304
CATV franchise fees	1,000,000	1,000,000	1,060,117	60,117
TOTAL LICENSES AND PERMITS	1,570,350	1,570,350	1,654,929	84,579
INTER-GOVERNMENTAL:				
General government	930,103	1,002,982	848,495	(154,487)
Public safety	1,765,470	1,738,659	1,583,478	(155,181)
Public works	1,600,132	1,356,364	1,309,239	(47,125)
Social services	875,189	814,199	965,323	151,124
Health	5,044,300	4,850,591	4,770,623	(79,968)
Parks, recreation and culture	70,000	54,305	78,884	24,579
Economic development & opportunity	2,040,000	2,034,827	281,216	(1,753,611)
TOTAL INTER-GOVERNMENTAL	12,325,194	11,851,927	9,837,258	(2,014,669)

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, 2017
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
CHARGES FOR SERVICES:				
General government	$ 676,378	$ 987,671	$ 1,437,318	$ 449,647
Public safety	1,403,820	1,442,218	1,561,162	118,944
Public works	452,294	454,402	456,898	2,496
Social services	106,060	102,060	201,340	99,280
Parks, recreation and culture	150,050	150,050	149,484	(566)
Reimbursement - housing authority	60,000	60,000	26,259	(33,741)
TOTAL CHARGES FOR SERVICES	2,848,602	3,196,401	3,832,461	636,060
FINES AND FORFEITURES:				
General government	42,000	42,000	23,121	(18,879)
Public safety	-	-	3,360	3,360
TOTAL FINES AND FORFEITURES	42,000	42,000	26,481	(15,519)
OTHER REVENUES				
General Government				
Interest	60,000	60,000	340,934	280,934
Grant reserve	1,000,000	1,121,487	-	(1,121,487)
Contributions and donations	79,200	83,181	69,865	(13,316)
TOTAL OTHER REVENUES	1,139,200	1,264,668	410,799	(853,869)
TOTAL, BEFORE PASS-THROUGH PROCEEDS	222,167,023	222,167,023	220,200,088	(1,966,935)
Pass-through proceeds	-	-	-	-
OTHER FINANCING SOURCES				
Appropriation of fund balance	-	432,830	-	(432,830)
TOTAL REVENUES INCLUDING PASS-THROUGHS	$ 222,167,023	$ 222,599,853	$ 220,200,088	$ (2,399,765)

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, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Favorable (Unfavorable) Variance
GENERAL GOVERNMENT:				
Legislative/county commissioners:				
Legislative/county commissioners	$ 475,923	$ 457,423	$ 437,409	$ 20,014
County administrator	402,935	394,435	379,391	15,044
Public information	243,235	243,235	233,561	9,674
County attorney	681,776	681,326	662,807	18,519
Legislative/county commissioners	1,803,869	1,776,419	1,713,168	63,251
Department of finance:				
Administration/budget	700,404	706,699	687,376	19,323
Accounting	579,319	565,319	555,600	9,719
Auditing	46,060	46,060	48,299	(2,239)
Procurement	313,328	295,328	288,970	6,358
Department of finance	1,639,111	1,613,406	1,580,245	33,161
Department of emergency services & technology:				
Technology	2,923,935	2,999,907	2,898,302	101,605
Department of human resources:				
Human resources	1,096,001	1,038,715	867,559	171,156
Risk management	811,684	816,229	636,887	179,342
Grants	-	7,760	9,560	(1,800)
Department of human resources	1,907,685	1,862,704	1,514,006	348,698
Department of public works & transportation:				
Building services	4,081,931	3,938,290	3,564,199	374,091
Grants (STS)	-	8,433	23,077	(14,644)
Development review	231,225	186,225	173,203	13,022
Mailroom/messenger services	143,730	96,730	86,904	9,826
Vehicle maintenance shop	1,566,171	1,557,490	1,455,667	101,823
Department of public works & transportation	6,023,057	5,787,168	5,303,050	484,118
Department of land use & growth management:				
Administration	745,773	737,273	660,364	76,909
Board of electrical examiners	14,300	14,300	13,773	527
Comprehensive planning	730,050	526,044	513,516	12,528
Development services	434,639	376,401	346,702	29,699
Inspections & compliance	699,103	602,103	532,773	69,330
Permit services	381,925	345,925	337,840	8,085
Zoning administration	305,746	330,746	320,199	10,547
Building code appeals board	2,900	2,900	-	2,900
Commission on the environment	2,825	2,825	1,025	1,800
Plumbing & gas board	1,850	1,850	1,479	371
Planning commission	23,851	24,711	22,342	2,369
Boards and commissions	21,654	21,654	17,611	4,043
Historical preservation	3,580	3,580	2,279	1,301
Grants	41,100	22,500	33,967	(11,467)
Department of land use & growth management	3,409,296	3,012,812	2,803,870	208,942
Circuit court:				
Administration	986,444	969,144	904,721	64,423
Law library	67,166	67,166	65,666	1,500
Grants	661,907	728,268	608,525	119,743
Orphan's court	48,268	57,268	55,791	1,477
Circuit court	1,763,785	1,821,846	1,634,703	187,143
Office of the state's attorney:				
Judicial	2,809,109	2,790,609	2,720,224	70,385
Grants	641,314	662,992	602,189	60,803
Office of the state's attorney	3,450,423	3,453,601	3,322,413	131,188
County treasurer	447,659	461,659	453,254	8,405

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, 2017
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
Alcohol beverage board	$ 285,596	$ 280,986	$ 196,539	$ 84,447
Supervisors of elections	1,114,352	1,090,352	931,941	158,411
Ethics commission	833	833	650	183
Total general government	$ 24,769,601	$ 24,161,693	$ 22,352,141	$ 1,809,552
PUBLIC SAFETY:				
Department of emergency services & technology:				
Emergency management	$ 334,650	$ 348,990	$ 308,978	$ 40,012
Animal control	807,501	782,501	721,621	60,880
Emergency activation	-	37,917	37,622	295
Emergency communications center	2,715,113	2,581,672	2,570,359	11,313
Emergency radio communications	2,344,318	2,358,827	2,336,371	22,456
Grants	744,451	744,622	561,662	182,960
Department of emergency services & technology	6,946,033	6,854,529	6,536,613	317,916
Office of the sheriff:				
Law enforcement	22,321,471	23,143,163	22,495,701	647,462
Corrections	12,465,071	12,049,239	11,062,302	986,937
Training	402,889	402,889	332,823	70,066
Canine	25,900	25,900	22,118	3,782
Court security	801,834	827,317	797,070	30,247
Grants	323,561	305,911	277,081	28,830
Office of the sheriff	36,340,726	36,754,419	34,987,095	1,767,324
Total public safety	$ 43,286,759	$ 43,608,948	$ 41,523,708	$ 2,085,240
PUBLIC WORKS:				
Department of PW and transportation:				
Administration	$ 439,472	$ 382,602	$ 390,543	$ (7,941)
Engineering services	788,038	783,448	780,323	3,125
Construction & inspections	646,149	894,307	893,544	763
County highways	4,298,526	4,468,580	4,353,864	114,716
St Mary's county airport	42,470	42,470	10,640	31,830
St. Mary's transit system	3,309,584	3,031,702	2,427,852	603,850
Department of PW and transportation	9,524,239	9,603,109	8,856,766	746,343
Total public works	$ 9,524,239	$ 9,603,109	$ 8,856,766	$ 746,343
HEALTH:				
Operating allocation:				
Health department	$ 2,122,503	$ 2,122,503	$ 2,122,503	$ -
Mosquito control	16,197	16,197	16,153	44
Operating allocation	2,138,700	2,138,700	2,138,656	44
Human services:				
Human services	422,450	427,450	368,841	58,609
Grants	4,702,048	4,503,339	4,541,302	(37,963)
Human services	5,124,498	4,930,789	4,910,143	20,646
Total health	$ 7,263,198	$ 7,069,489	$ 7,048,799	$ 20,690

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, 2017
(CONTINUED)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Favorable (Unfavorable) Variance
SOCIAL SERVICES:				
Department on aging:				
Department on aging	$ 1,705,292	$ 1,672,963	$ 1,638,827	$ 34,136
Grants	1,076,629	1,020,512	985,179	35,333
Non Profit Allocation	906,415	906,415	906,415	-
Department on aging	3,688,336	3,599,890	3,530,421	69,469
Department of social services	447,408	417,991	411,927	6,064
Operating allocation:				
Tri-County Youth Services Bureau	110,000	110,000	110,000	-
Operating allocation	110,000	110,000	110,000	-
Total social services	$ 4,245,744	$ 4,127,881	$ 4,052,348	$ 75,533
PRIMARY AND SECONDARY EDUCATION:				
Board of Education	$ 102,690,393	$ 102,690,393	$ 102,690,393	$ -
Non-public school bus transportation	2,024,288	2,024,288	1,996,263	28,025
Operating allocation:				
Non Profit Allocation	18,175	18,175	18,175	-
Total primary and secondary education	$ 104,732,856	$ 104,732,856	$ 104,704,831	$ 28,025
POST-SECONDARY EDUCATION:				
College of Southern Maryland - general operations	$ 4,207,365	$ 4,207,365	$ 4,207,365	$ -
Operating allocation:				
Southern Md. Higher Education Center	60,000	60,000	60,000	-
Total post-secondary education	$ 4,267,365	$ 4,267,365	$ 4,267,365	$ -
PARKS, RECREATION AND CULTURE:				
Department of recreation and parks:				
Administration	$ 1,214,323	$ 1,206,223	$ 1,189,249	$ 16,974
Parks maintenance	2,085,308	2,066,426	2,044,221	22,205
Museum division	560,367	478,367	445,102	33,265
Non Profit Agency - Miscellaneous	87,580	87,580	87,580	-
Grants	70,000	51,742	82,320	(30,578)
Department of recreation and parks	4,017,578	3,890,338	3,848,472	41,866
Total parks, recreation and culture	$ 4,017,578	$ 3,890,338	$ 3,848,472	$ 41,866

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, 2017
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
LIBRARIES:				
County funding - general operations	$ 2,684,573	$ 2,684,573	$ 2,684,574	$ (1)
CONSERVATION OF NATURAL RESOURCES:				
Cooperative Extension Service	$ 260,958	$ 255,123	$ 241,528	$ 13,595
Soil Conservation District	73,946	74,926	74,920	6
Conservation of natural resources	334,904	330,049	316,448	13,601
Allocation of agriculture and seafood (Division of DECD)	157,310	178,318	177,656	662
Operating allocation:				
SMC Forest Conservation District Board	2,500	2,500	2,500	-
Southern Md. Resource Conservation/Dev.	12,470	12,470	12,470	-
Operating allocation	14,970	14,970	14,970	-
Total conservation of natural resources	$ 507,184	$ 523,337	$ 509,074	$ 14,263
ECONOMIC DEVELOPMENT AND OPPORTUNITY:				
Department of economic & community development:				
Administration/office of the director	$ 417,210	$ 417,210	$ 410,105	$ 7,105
Tourism development	480,719	471,779	418,680	53,099
Agriculture & seafood development	209,747	237,757	236,875	882
Less allocation (see above)	(157,310)	(178,318)	(177,656)	(662)
Business development/lexington park revitalization	411,181	444,911	404,700	40,211
Misc Operating Allocation	28,580	28,580	28,580	
Grants	2,040,000	2,034,827	541,131	1,493,696
Department of economic & community development	3,430,127	3,456,746	1,862,415	1,594,331
Office of Community Services:				
Office of community services	458,578	451,178	445,033	6,145
Human relations commission	1,850	1,850	-	1,850
Commission for the disabled	2,300	2,300	2,300	-
Commission for women	4,500	8,481	8,471	10
	467,228	463,809	455,804	8,005
Operating allocation:				
Tri-County Comm Action Com	16,000	16,000	16,000	-
Tri-County Council	94,200	94,200	94,200	-
Operating allocation	110,200	110,200	110,200	-
Total economic development and opportunity	$ 4,007,555	$ 4,030,755	$ 2,428,419	$ 1,602,336
DEBT SERVICE:				
Debt service	$ 10,654,319	$ 10,028,820	$ 10,012,559	$ 16,261
INTER-GOVERNMENTAL:				
Leonardtown tax rebate	$ 43,943	$ 43,943	$ 43,943	$ -
Total inter-governmental	$ 43,943	$ 43,943	$ 43,943	$ -

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, 2017
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
OTHER:				
Employer contributions-retiree health benefits	$ 3,000,000	$ 3,000,000	$ 3,026,204	$ (26,204)
Unemployment compensation	40,000	40,000	30,768	9,232
Bank service fees	25,000	25,000	18,242	6,758
Total other	$ 3,065,000	$ 3,065,000	$ 3,075,214	$ (10,214)
Total expenditures, before pass-throughs	$ 223,069,914	$ 221,838,107	$ 215,408,213	$ 6,429,894
Pass-through expenditures	-	-	-	-
Total expenditures, including pass-throughs	$ 223,069,914	$ 221,838,107	$ 215,408,213	$ 6,429,894
RESERVES:				
Reserve - grants	$ 1,000,000	$ 1,121,487	$ -	$ 1,121,487
Reserve - bond rating	400,000	400,000	-	400,000
Reserve - emergency appropriations	670,101	2,213,251	-	2,213,251
Reserves	2,070,101	3,734,738	-	3,734,738
Total reserves	$ 2,070,101	$ 3,734,738	$ -	$ 3,734,738
Total expenditures, including pass-throughs and reserves	$ 225,140,015	$ 225,572,845	$ 215,408,213	$ 10,164,632
Transfer:				
Capital projects - general fund transfer/pay-go	(2,972,992)	(2,972,992)	(2,972,992)	-
Total expenditures and other financing uses	$ 222,167,023	$ 222,599,853	$ 212,435,221	$ 10,164,632

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2017

LAND PRESERVATION		
Agriculture Preservation	$ 4,939,219	
Critical Area Planting	234,480	$ 5,173,699
HIGHWAYS		
FDR Blvd. Extended	$ 12,801,222	
Regional Water Quality & Nutrient Removal	5,649,939	
Patuxent Park Neighborhood Preservation	5,303,014	
Buck Hewitt Road	922,322	
MD 235 - MD4 Woodland Acres	500,000	
Buck Hewitt Road - Northside	481,566	
Asphalt Overlay	384,136	
Roadside Obstacles	285,801	
Retrofit Sidewalk Program	78,878	
Dr. Johnson Rd. Bridge Structure	55,174	
Bridge/Culvert Replacement	30,946	
Roadway Base Widening & Repairs	25,891	
Modified Seal Surface Treatment	6,754	
Streetscape Improvement	3,543	26,529,186
MARINE		
St. Jerome's Creek Jetties	$ 5,621,241	
Ellis Road Revetment	360,000	
St. Jerome's Creek Jetties	180,000	6,161,241
PUBLIC WORKS		
Airport Master Plan	$ 7,683,927	
Sheriff District 4 Office	2,345,114	
800 MHz Radio Enhancement	2,281,691	
So MD Higher Education Center Building Three	1,250,000	
ADC Upgrades	1,019,961	
Building Maintenance & Repairs	638,114	
Navy Museum Buildings B & C Upgrades	546,293	
Leonardtown Library/Garvey Sr. Center	381,620	
Base Realignment & Closure	227,008	
Airport Wetlands Mitigation	173,803	
Advanced Life Support New Building	172,864	
Energy Efficiency and Conservation	155,921	
Farmers Market Improvements	143,570	
Northern Senior Center Activity Cnt	96,000	
Tri-County Animal Shelter	95,020	
Airport Improvements	75,113	
Paging System Enhancement	50,000	
Parking and Site Improvements	37,922	
CSM Tech Infrastructure Upgrade	16,345	
Patuxent River Naval Museum-New	5,438	17,395,724

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2017
(CONTINUED)

PIERS AND BOAT RAMPS				
Clarkes Landing Boat Ramp	$	254,260		
St. Inigoes Landing Bulkhead Replacement		176,558		
Derelict Boat Removal		5,000	$	435,818
PUBLIC SCHOOLS				
Piney Point Elementary School Roof Replacement	$	1,068,789		
New Elementary School Central County		1,043,000		
Track Resurfacing		819,728		
Relocatables for Various Sites		777,309		
Auditorium Lighting Replacement		547,510		
Captain Duke Elementary School		266,001		
Fairlead Academy Relocatables		264,000		
Site Acquisition Various		263,661		
DSS IT & Warehouse Facility		169,000		
Great Mills HS Roof Top Unit		158,195		
Tennis Court Resurfacing		156,558		
Fairlead Academy Building		119,937		
Playground Equipment		62,993		
Spring Ridge MS Relocatables		42,889		
Esperanza Middle School Soil Erosion		41,489		
Qualified Zone Academy Bond		31,435		
Site Paving - Parking Lots & Sidewalks		17,607		
Lettie Dent ES Roof Top Unit		14,342		
Aging School Program		7,515		5,871,958
RECREATION & PARKS				
Nicolet Park Entrance	$	985,950		
Recreation Facility Improvements		638,398		
Leonardtown Park		461,353		
Parks Land Acquisition		353,080		
Three Notch Trail		307,648		
Chaptico Park - Phased Dev		175,000		
Piney Point Lighthouse Museum		139,421		
Fireman's Heritage Museum		105,000		
Snow Hill Property		54,100		
St. Clements Isl Mus Remov		30,000		
Lancaster Park Improvements		28,765		
Elms Beach Park Improvements		26,206		
Park Planning Grant		351		3,305,272
SOLID WASTE				
Landfill Mitigation		63,845		
Convenience Center Expansion		5,300		69,145
Total			$	64,942,043

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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 Standards* 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, 2017, 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 10, 2017. 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.

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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 10, 2017

ST. MARY'S COUNTY METROPOLITAN COMMISSION

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

Murphy & Murphy, CPA, LLC

CONTENTS

Murphy & Murphy, CPA, LLC
Certified Public Accountants

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, 2017 and 2016, 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 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.

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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, 2017 and 2016, 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.

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 schedules on pages 4 through 10, 47 through 48, and 49 through 51, 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 audits 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 audits were 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 52 through 56 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 October 30, 2017, 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
October 30, 2017

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, 2017 and 2016. Please read it in conjunction with MetCom's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- MetCom's total net position increased by $3.6 million and $1.1 million, or 3.4% and 1%, as a result of operations in FY 2017 and 2016, respectively.

- During the current year, MetCom's revenue from operations was $13.8 million, representing an increase of 4.5% over the prior year. The current year increase is mostly due to a 3.75% increase in sewer rates and a 1.75% increase in water rates. Operating revenues in FY 2016 were $13.2 million, a 7.3% decrease. The decrease in FY 2016 was due to the implementation of a new rate structure composed of Water and Sewer Ready-To-Serve Charges based on meter size and tiered water usage rates based on the volume and size of the meter and a sewer usage rate based on water usage.

- MetCom's operating expenses excluding depreciation were $13.2 million during FY 2017 and $12.6 million in FY 2016.

- Depreciation expense totaled $6.2 million, a decrease of $3.3 million over FY 2016. FY 2016 included extra depreciation on Marlay-Taylor Wastewater Treatment Plant and water meters that were retired before they were fully depreciated, which was a one-time expense.

- MetCom's nonoperating revenue was $8.0 million during the current year and $6.4 million in FY 2016, representing an increase of 25.9% in the current year and a decrease of 7.4% in the prior year. The increase in the current year was mainly attributable to the increase in debt service charges. Most of the increase was due to an increase in the number of Capital Contribution Charges paid in FY 2017 compared to FY 2016. Capital Contribution Charges paid in FY 2016 were artificially low because many customers prepaid the charges in FY 2015 to take advantage of the lower FY 2015 rates.

- 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 $4.8 million as of 6/30/17 and $4.1 million as of 6/30/16. In FY 2017 MetCom contributed $526 thousand, to fully fund the annual required contribution.

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, 2017 and 2016. 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, 2017 and 2016. 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 customer 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 $3.6 million in FY 2017 and $1.1 million in FY 2016. FY 2015 has been restated to include unspent/undrawn loan proceeds in Bonds Payable. Most of the current year and prior year's increases are attributable to the change in capital assets. MetCom has had 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. In addition, a project to upgrade the Marlay-Taylor Wastewater Reclamation Facility to comply with the new Maryland Department of the Environment (MDE) Enhanced Nutrient Removal (ENR) requirements is almost complete. The following condensed statements show the changes in assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2017, 2016 and 2015.

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

	June 30,		
	2017	2016	2015
Current and other assets	$ 55.90	$ 64.60	$ 69.80
Capital assets	157.90	151.00	139.40
Deferred outflows	1.50	1.10	0.50
Total assets and deferred outflows	$ 215.30	$ 216.70	$ 209.70
Long-term debt outstanding	$ 88.70	$ 93.00	$ 88.90
Pension liabilities	5.10	4.40	3.40
Other liabilities	9.70	11.10	10.00
Deferred inflow	0.10	0.10	0.40
Total liabilities and deferred inflow	$ 103.60	$ 108.60	$ 102.70
Net position			
Net invested in capital assets	$ 91.10	$ 87.50	$ 88.70
Restricted	11.90	11.30	10.60
Unrestricted	8.70	9.30	7.70
Total net position	$ 111.70	$ 108.10	$ 107.00

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

	Years ended June 30,		
	2017	2016	2015
Operating revenues	$ 13.80	$ 13.20	$ 14.20
Operating expenses	(13.20)	(12.60)	(11.70)
Depreciation expense	(6.20)	(9.50)	(4.50)
Operating loss	(5.60)	(8.90)	(2.00)
Nonoperating revenues	8.00	6.40	6.90
Capital contributions	1.20	3.60	5.40
Change in net position	3.60	1.10	10.30
Net position at beginning of year, restated	108.10	107.00	96.70
Net position at end of year, restated	$ 111.70	$ 108.10	$ 107.00

MetCom's operating revenues totaled $13.8 million during the current year. Total operating revenues increased by $.6 million or 4.5% over the prior year, compared to operating revenue in the prior year of $13.2 million which was a decrease of 7.3% over FY 2015. The current year increase is mostly due to a 3.75% increase in sewer rates and a 1.75% increase in water rates and an increase in Miscellaneous Revenue. The decrease in FY 2016 was due to the implementation of a new rate structure composed of Water and Sewer Ready-To-Serve charges based on meter size and tiered water usage rates based on the volume and size of the meter and a sewer usage rate based on water used. The decrease was not unexpected. When the new rate structure was implemented it was discussed that the rate structure might need to be adjusted over several years.

Expenses from MetCom's operating activities excluding depreciation totaled $13.2 million during the current year and $12.6 million in the prior year, an increase of $.6 million. 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 $8.7 million, or 65.7% of operating expenses. Power for plant operations was $1.2 million, or 9.3%. Maintenance of the system was $.9 million or 6.5% of operating expenses. The remaining $2.4 million, or 18.5%, related to direct and administrative costs. Depreciation Expense totaled $6.2 million, a decrease of $3.3 million over FY 2016. Depreciation decreased in FY 2017 because FY 2016 included depreciation on assets, Marlay-Taylor Wastewater Treatment Plant and water meters, that were retired before they were fully depreciated, which was a one-time expense.

Total Nonoperating Revenue increased $1.6 million to $8 million in the current year. Debt service Charges increased by $1.5 million and interest expense went down by $.1 million. The Debt Service Charges are made up of $8.1 million of System Improvement Charges and $2 million of Capital Contribution Charges. System Improvement Charges increased $.3 million or 3.3%. The increase is due to customer growth and a 2.62% average increase in Water and Sewer System Improvement rates. Capital Contribution Charges increased by $1.2 million. Most of the increase, $1 million, was due to an increase in the number of Capital Contribution Charges paid compared to FY 2016. Capital Contribution payments were artificially low in FY 2016 because many customers prepaid the lower FY 2015 Sewer Capital Contribution Charges in FY 2015 to avoid the rate increase of 28% in FY 2016. There was also an increase in FY 2017 Water Capital Contribution Charge rates of 15.36%, which contributed to the increase in Capital Contribution Charge revenue.

Capital contributions, which include both grants and assets built by developers and donated to MetCom, were $1.2 million in FY 2017, a decrease of $2.4 million from FY 2016. Grants decreased $3.2 million in FY 2017, while donated assets increased by $.8 million. Grants decreased by $1.6 million in FY 2016 compared to FY 2015, while donated assets decreased by $.2 million in FY 2016. The grants received in FY 2016 were for the Enhanced Nutrient Removal (ENR) Project and the Radio Read Meter Project. These projects are almost complete, which is the reason for the decline in Grants.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At June 30, 2017, MetCom had $221.5 million prior to depreciation invested in capital assets. This represents a 5.4% increase over the previous year. The majority of the increase was for the completed portions of the Marlay-Taylor Water Reclamation Facility ENR project, Patuxent Park 3 Water and Sewer and the Lynn Drive Wastewater Pump Station. At June 30, 2016, MetCom had $210.2 million prior to depreciation invested in capital assets. This represents an increase of 6% over the FY 2015. 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):

	June 30,		
	2017	2016	2015
Utility plants	$ 145.10	$ 133.90	$ 106.50
Water plants	50.60	46.60	40.00
Equipment	9.30	8.80	8.50
Capitalized interest	.80	.80	.80
Buildings	3.90	3.90	3.90
Land	1.20	1.10	.90
Construction in process	10.60	15.10	37.40
Total before depreciation	221.50	210.20	198.00
Accumulated depreciation	(63.60)	(59.20)	(58.60)
Net capital assets	$ 157.90	$ 151.00	$ 139.40

This year's major capital asset additions included:

- The Marlay-Taylor Water Reclamation Facility Enhanced Nutrient Removal, ENR project, $7.5 million of which was put in service in FY 2017. This project was funded with a grant and loan from MDE and a loan from DHCD. Part of the existing Marlay-Taylor Water Reclamation Facility was retired during construction of the ENR upgrade.

- Patuxent Park 3 Water and Sewer upgrade, $3.5 million, was put into service in FY 2017. This project was funded with a loan from DHCD.

- Lynn Drive Wastewater Pump Station upgrade, $1.8 million was put into service in FY2017. This project was funded with a loan from DHCD.

MetCom's FY 2018 Capital Improvement Budget for water is $4.6 million, which includes $2.9 million for water lines, $.7 million for water storage tanks and $1.0 million for miscellaneous projects. The largest FY 2018 project is the Town Creek Water System at $2.7 million.

The FY 2018 Capital Improvement Budget for sewer is $1.8 million, $.3 million for replacement projects and $1.5 million for upgrades/expansions. The largest project is $.5 million for the planning/design for the St. Clements Shores Wastewater Treatment Plant Expansion Phase B.

Debt administration

At the end of FY 2017 and FY 2016, MetCom had a total of $94.7 million and $99.0 million in debt outstanding, respectively. FY 2015 was restated to include undrawn DHCD loans. As of June 30, 2017 MetCom has $.6 million available on existing MDE debt, MDE loans in place that have not been fully drawn down. The undrawn amount of MDE loans is not included in Notes Payable.

On August 6, 2015, MetCom closed on two loans with TD Bank, for $7.8 million to refinance some or all of Bond 17, Bond 21 and Bond 23.

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

	Years ended June 30,		
	2017	2016	2015
Bonds payable	$ 58.0	$ 61.8	$ 65.2
Notes, leases and loans payable	36.7	37.2	29.2
Total debt	$ 94.7	$ 99.0	$ 94.4

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.

MDE has authorized loans for the following projects: Great Mills Wastewater Pump Station Upgrade, Piney Point Water System Replacement, St. Clements Shores Water System Replacement, Patuxent Park Phase 4 Water and Sewer Replacement and Town Creek Water Phase 1.

In 2017 MetCom had Davenport & Company perform a Debt Policy Study. The 2017 Debt Policy Study found that "The financial and debt profile of MetCom remains relatively strong compared to existing rating agency criteria for utility systems, as well as national water and sewer medians on a number of key ratios."

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

MetCom anticipates about a 6.1% increase in the total operating revenues for next year compared to FY17 actuals. Water rates are increasing 3% and sewer rates are increasing 3.75%. MetCom also expects to receive an ENR Grant from MDE in the amount of $180 thousand to help offset some of the additional costs of operating the Marlay-Taylor Water Reclamation Facility at ENR levels.

The total operating expenses in MetCom's Operating Budget for FY 2018 are $14.9 million, about $1 million more than the FY 2017 Amended Budget. Salaries are the largest component of MetCom's operating expenses, the Operating Budget for FY 2018 includes salaries of $6.2 million, a $465 thousand increase over FY 2017 Amended Operating Budget. Health insurance is $1.6 million and OPEB is $497 thousand to fully fund the Annual Required Contribution, ARC, to the OPEB trust. Electricity to operate the water and sewer systems is $1.1 million in the FY 2018 Operating Budget.

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

	June 30, 2017	June 30, 2016
Current assets:		
Cash and cash equivalents	$ 24,204,367	$ 21,493,669
Accounts receivable	1,396,633	1,958,242
Loans/grants receivable	29,599,287	40,479,691
Inventory	323,150	257,922
Prepaid expenses	407,822	354,850
Total current assets	55,931,259	64,544,374
Noncurrent assets:		
Net capital assets	157,886,636	150,977,740
Unamortized bond discount	26,720	28,390
Total noncurrent assets	157,913,356	151,006,130
Deferred outflow of resources:		
Pension	1,167,311	783,173
Bond refunding	327,867	360,654
Total deferred outflow of resources	1,495,178	1,143,827
Total assets and deferred outflow of resources	$ 215,339,793	$ 216,694,331

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION (CONTINUED)

LIABILITIES AND NET POSITION

	June 30, 2017	June 30, 2016
Current liabilities:		
Accounts payable	$ 1,700,946	$ 3,130,156
Accrued interest payable	684,906	713,658
Accrued expenses	994,320	922,814
Unearned revenue	22,213	25,611
Bond premiums	301,144	320,071
Bonds payable	3,880,834	3,772,809
Notes, leases and loans payable	2,117,498	2,272,418
Total current liabilities	9,701,861	11,157,537
Noncurrent liabilities:		
Bonds payable	54,124,258	58,005,093
Notes, leases and loans payable	34,578,811	34,995,015
Net pension liability	5,077,596	4,394,022
Total noncurrent liabilities	93,780,665	97,394,130
Deferred inflow of resources:		
Pension	134,418	89,986
Total liabilities and deferred inflow of resources	103,616,944	108,641,653
Net position:		
Net investment in capital assets	91,131,949	87,486,749
Restricted	11,922,819	11,302,534
Unrestricted	8,668,081	9,263,395
Total net position	111,722,849	108,052,678
Total liabilities, deferred inflow of resources and net position	$ 215,339,793	$ 216,694,331

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30, 2017	2016
Operating revenue:		
Service charges	$ 13,395,427	$ 12,930,141
Miscellaneous	362,484	234,805
Total operating revenue	13,757,911	13,164,946
Operating expenses:		
Direct operating expenses	7,663,348	7,390,143
Administrative expenses	5,542,092	5,255,554
Total operating expenses	13,205,440	12,645,697
Operating income before depreciation	552,471	519,249
Depreciation	(6,151,049)	(9,493,930)
Operating loss	(5,598,578)	(8,974,681)
Nonoperating revenue (expenses):		
Interest income	115,716	26,783
Debt service charges	10,129,405	8,640,884
House connection charges- net	(2,474)	30,913
Interest expense	(2,366,572)	(2,471,428)
Other fees	140,498	141,496
Total nonoperating revenue, net	8,016,573	6,368,648
Income before contributions	2,417,995	(2,606,033)
Capital contributions	1,252,176	3,632,156
Change in net position	3,670,171	1,026,123
Total net position- beginning	108,052,678	107,026,555
Total net position- ending	$ 111,722,849	$ 108,052,678

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS

	Years ended June 30, 2017	2016
Cash flows from operating activities:		
Receipts from customers	$ 13,953,638	$ 13,631,840
Payments to suppliers	(8,695,912)	(5,851,151)
Payments to employees	(5,552,853)	(5,611,129)
Other receipts	362,484	234,805
Net cash provided by operating activities	67,357	2,404,365
Cash flows from capital and related financing activities:		
Proceeds from capital debt	11,836,853	26,353,807
Purchases of capital assets	(11,044,558)	(16,601,309)
Principal paid on capital debt	(6,152,305)	(13,527,629)
Interest paid on capital debt	(2,379,794)	(2,540,149)
Other receipts and payments	10,267,429	8,813,293
Net cash provided by capital and relating financing activities	2,527,625	2,498,013
Cash flows from investing activities:		
Interest received	115,716	26,783
Net increase in cash and cash equivalents	2,710,698	4,929,161
Cash and cash equivalents at beginning of year	21,493,669	16,564,508
Cash and cash equivalents at end of year	$ 24,204,367	$ 21,493,669

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended June 30, 2017	2016
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (5,598,578)	$ (8,974,681)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	6,239,760	9,603,323
Changes in assets and liabilities:		
Accounts receivable	561,609	705,429
Prepaid expense	(52,972)	(3,238)
Inventory	(65,228)	9,215
Deferred outflows	(384,138)	(288,170)
Accounts payable	(1,429,210)	593,698
Accrued expenses	71,506	63,428
Unearned revenue	(3,398)	(3,730)
Net pension liability	683,574	982,517
Deferred inflows	44,432	(283,426)
Net cash provided by operating activities:	$ 67,357	$ 2,404,365

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

	Years ended June 30, 2017	2016
Increase in capital assets	$ 13,148,656	$ 21,160,136
Capital contribution	(1,252,176)	(3,632,156)
Change in grants receivable	(851,922)	(926,671)
Purchase of capital assets	$ 11,044,558	$ 16,601,309
Additions to capital debt	$ 1,808,371	$ 18,204,666
Change in loans receivable	10,028,482	8,509,795
Deferred outflows - bond refunding	-	(360,654)
Proceeds from capital debt	$ 11,836,853	$ 26,353,807

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF FIDUCIARY NET POSITION

ASSETS

	Years ended June 30, 2017	2016
Restricted investments	$ 4,838,081	$ 4,138,815
Total assets	$ 4,838,081	$ 4,138,815

	Years ended June 30, 2017	2016
Accrued liabilities	$ 4,205	$ 8,441

LIABILITIES AND NET POSITION

	Years ended June 30, 2017	2016
Net assets held in trust for OPEB	$ 4,833,876	$ 4,130,374

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	Years ended June 30, 2017	2016
ADDITIONS:		
Contributions	$ 526,000	$ 507,000
Interest income	90,486	70,564
Unrealized gain	265,024	-
Net additions	$ 881,510	$ 577,564
DEDUCTIONS:		
Benefits paid	$ (151,090)	$ (127,395)
Administrative expenses	(26,918)	(29,048)
Unrealized loss	-	(6,779)
Net deductions	(178,008)	(163,222)
Change in net position	$ 703,502	$ 414,342
NET POSITION:		
Beginning of year	$ 4,130,374	$ 3,716,032
End of year	$ 4,833,876	$ 4,130,374

See accompanying notes.

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.

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 $587,711 and $594,487 at June 30, 2017 and 2016, respectively.

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 are 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:

Asset Class	Estimated Life
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

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

Of the bank balances, all of the CDARS deposits are covered by FDIC insurance. The other bank deposits were covered by $250,000 FDIC insurance at June 30, 2017 and 2016, with the remaining $6,635,825 and $15,188,132 respectively, adequately covered by collateral.

At June 30, 2017 and 2016, there were no deposits exposed to custodial credit risk, interest rate risk or foreign currency risk.

2. Deposits and investments (continued)

Deposits (continued)

MetCom has certificates of deposits that have been issued through the Certificate of Deposit Account Registry Service (CDARS). The CDARS program allows a banking customer to maintain federal depository insurance on balances in excess of the FDIC limit. Regulatory guidelines require that deposits placed through the CDARS program be considered brokered deposits. The cost and fair value of the CDARS broker deposits at June 30, 2017 and 2016 was $10,000,000 and $ -, respectively.

A summary of the terms for the certificate of deposits and the annual yield are as follows as of June 30, 2017:

Description	Effective Date	Maturity Date	Interest Rate	Balance
CDARS	04/13/17	07/13/17	1.00%	$ 1,000,000
CDARS	05/11/17	08/10/17	1.08%	750,000
CDARS	03/16/17	09/14/17	0.97%	750,000
CDARS	03/16/17	09/14/17	0.97%	1,000,000
CDARS	04/13/17	10/12/17	1.00%	750,000
CDARS	05/11/17	11/09/17	1.08%	750,000
CDARS	06/08/17	12/07/17	1.13%	750,000
CDARS	06/08/17	12/07/17	1.13%	1,000,000
CDARS	03/16/17	03/15/18	0.97%	750,000
CDARS	04/13/17	04/12/18	1.00%	750,000
CDARS	05/11/17	05/10/18	1.08%	1,000,000
CDARS	06/08/17	06/07/18	1.13%	750,000
Total				$ 10,000,000

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, One East Pratt Street, 5th Floor West, Baltimore, Maryland 21202. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the

2. Deposits and investments (continued)

Investments (continued)

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, 2017 and 2016, 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, 2017 and 2016 was $7,317,042 and $7,279,196, respectively.

In FY 15, MetCom joined the Maryland Association of Counties (MACo) Pooled OPEB Trust (the "Trust"). There are nine members to this wholly-owned instrumentality of its members. The Trust is a common trust fund which is comprised of shares or units in a commingled fund that is not publicly traded. The assets of the Trust are managed by a Board of Trustees and consist of U.S. treasury obligations, U.S. government agencies, corporate & foreign bonds, municipal obligations, taxable fixed income securities, mutual funds, global funds and international equity securities.

At June 30, 2017 the net position of the Trust was valued at $28.4 million; MetCom's interest was $4.1 million. Contributions to the Trust Fund qualify as "contributions in relation to the actuarial required contribution" within the meaning of GASB Statement No. 45 and the Trust Fund qualifies as a "trust or equivalent arrangement" under the meaning of GASB Statement No. 43. The Trust is audited annually by an independent CPA firm. Separately issued financial statements may be obtained by sending a request to the following address: Board of the MACo Pooled Investment Trust, 169 Conduit Street, Annapolis, MD 21401.

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

2. Deposits and investments (continued)

Investments (continued)

measurements). The three levels of the fair value hierarchy are described below.

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

All equity investments and debt securities are classified in level 1 and are valued using prices quoted in active markets for those securities.

Transactions are recorded on the trade date. Realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis.

MetCom may terminate its membership in the Trust and withdrawal its allocated investment balance by providing written notification to the Trust six months prior to the intended withdrawal date.

MetCom had the following deposits and investments, which were not subject to fair value disclosure leveling as they were reported at amortized cost, as of June 30,

	2017	2016
Investments - MLGIP	$ 7,317,042	$ 7,279,196
Broker deposits – CDARS	10,000,000	-
Cash	6,885,825	14,213,573
Petty cash	1,500	900
	$ 24,204,367	$ 21,493,669

3. Capital assets and depreciation

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets:				
Utility plants	$ 133,917,751	$ 12,980,624	$ 1,797,873	$ 145,100,502
Water plant systems	46,581,703	3,958,133	-	50,539,836
Equipment	8,761,275	572,629	43,726	9,290,178
Capitalized interest	818,201	-	-	818,201
Buildings	3,866,631	52,977	-	3,919,608
Subtotal	193,945,561	17,564,363	1,841,599	209,668,325
Not being depreciated:				
Utility plant CIP	7,908,508	7,191,948	12,980,624	2,119,832
Water plant CIP	7,239,322	5,212,944	3,958,133	8,494,133
Land and land rights	1,066,817	118,158	-	1,184,975
	210,160,208	30,087,413	18,780,356	221,467,265
Accumulated depreciation:				
Utility plants	39,933,186	3,818,021	1,797,873	41,953,334
Water plant systems	11,113,169	1,579,391	-	12,692,560
Equipment	6,132,004	667,818	43,726	6,756,096
Capitalized interest	351,826	16,364	-	368,190
Buildings	1,652,283	158,166	-	1,810,449
	59,182,468	6,239,760	1,841,599	63,580,629
Net capital assets	$ 150,977,740	$ 23,847,653	$ 16,938,757	$ 157,886,636

Depreciation expense of $6,239,760 was charged to activities as follows:

Sewer activities	$ 4,207,752
Water activities	1,915,596
Engineering activities	27,701
Administrative	88,711
Total	$ 6,239,760

3. Capital assets and depreciation (continued)

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets:				
Utility plants	$ 106,564,122	$ 34,658,356	$ 7,304,727	$ 133,917,751
Water plant systems	39,963,541	7,950,851	1,332,689	46,581,703
Equipment	8,468,753	603,249	310,727	8,761,275
Capitalized interest	818,201	-	-	818,201
Buildings	3,899,703	-	33,072	3,866,631
Subtotal	159,714,320	43,212,456	8,981,215	193,945,561
Not being depreciated:				
Utility plant CIP	28,372,251	14,194,613	34,658,356	7,908,508
Water plant CIP	9,015,154	6,175,018	7,950,850	7,239,322
Land and land rights	879,562	187,255	-	1,066,817
	197,981,287	63,769,342	51,590,421	210,160,208
Accumulated depreciation:				
Utility plants	40,413,276	6,824,637	7,304,727	39,933,186
Water plant systems	10,541,752	1,904,106	1,332,689	11,113,169
Equipment	5,744,218	698,513	310,727	6,132,004
Capitalized interest	335,462	16,364	-	351,826
Buildings	1,525,652	159,703	33,072	1,652,283
	58,560,360	9,603,323	8,981,215	59,182,468
Net capital assets	$ 139,420,927	$ 54,166,019	$ 42,609,206	$ 150,977,740

Depreciation expense of $9,603,323 was charged to activities as follows:

Sewer activities	$ 7,237,249
Water activities	2,224,072
Engineering activities	32,609
Administrative	109,393
Total	$ 9,603,323

4. Long-term debt

Long-term bonds payable as of June 30, 2017, are as follows:

Description	Due	Rate	Principal	Interest
Twenty-third Issue	2008-2027	3.5%-4.25%	$ 1,096,500	$ 66,751
Twenty-seventh Issue	2011-2030	0.75%-4.31%	9,026,300	2,750,969
Thirtieth Issue	2012-2029	2.96%-3.4%	1,044,592	215,520
Thirty-first Issue	2013-2032	0.61%-3.42%	6,852,900	1,808,097
Thirty-sixth Issue	2014-2033	4.31%	13,486,300	5,771,203
Thirty-eighth Issue	2015-2034	3.51%	19,507,500	6,985,727
Thirty-ninth Issue	2015-2021	1.31%	1,472,000	32,698
Fortieth Issue	2015-2027	2.08%	5,519,000	737,443
			58,005,092	18,368,408
Less current portion			3,880,834	1,945,893
Total			$ 54,124,258	$ 16,422,515

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2017 are as follows:

Year ending June 30,	Principal	Interest
2018 (current)	$ 3,880,834	$ 1,945,893
2019	3,968,206	1,861,366
2020	3,410,908	1,765,971
2021	3,446,339	1,681,952
2022	3,483,393	1,591,476
2023 – 2027	19,064,257	6,326,661
2028 – 2032	16,675,655	2,954,065
2033 – 2034	4,075,500	241,024
	$ 58,005,092	$ 18,368,408

4. Long-term debt (continued)

Long-term bonds payable as of June 30, 2016 are as follows:

Description	Due	Rate	Principal	Interest
Twenty-third Issue	2008-2027	3.5%-4.25%	$ 1,613,300	$ 130,404
Twenty-seventh Issue	2011-2030	0.75%-4.31%	9,570,300	3,117,424
Thirtieth Issue	2012-2029	2.96%-3.4%	1,115,402	248,994
Thirty-first Issue	2013-2032	0.61%-3.42%	7,231,900	2,004,537
Thirty-sixth Issue	2014-2033	4.31%	14,115,000	6,344,543
Thirty-eighth Issue	2015-2034	3.51%	20,428,000	7,627,183
Thirty-ninth Issue	2015-2021	1.31%	2,110,000	60,339
Fortieth Issue	2015-2027	2.08%	5,594,000	853,798
			61,777,902	20,387,222
Less current portion			3,772,809	2,018,814
Total			$ 58,005,093	$ 18,368,408

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). Total amount drawn on this loan was $10,101,170 as of June 30, 2017 and 2016.

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.

On August 6, 2015 MetCom refinanced $5,914,800 of this debt with TD bank.

4. Long-term debt (continued)

Twenty-seventh issue

On August 25, 2010, MetCom issued $12,613,963 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017 and 2016, the unspent proceeds were $1,462,518 and $2,467,518, 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:

Period	Price
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.

4. Long-term debt (continued)

Thirty-first issue

On December 19, 2012, MetCom issued $8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017 and 2016, the unspent proceeds were $1,520,815 and $4,739,483, 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, MetCom issued $15,948,168 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017 and 2016, the unspent proceeds were $10,133,836 and $10,701,202, 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 November 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, 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, MetCom issued $22,075,230 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017 and 2016, the unspent proceeds were $14,829,546 and $17,646,141, respectively.

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.

Thirty-ninth issue

On August 6, 2015, MetCom issued Refinancing Bonds Series 2015A in the principal amount of $2,157,000. These bonds were issued with a true interest cost of 1.31% to refund certain maturities of MetCom's Refunding Bonds of 2003, the Seventeenth Issue, with a coupon rate ranging from 2.75% to 4.4% and certain maturities of MetCom's 2006 Series A Bonds, the Twenty-first Issue, issued in conjunction with the Maryland Community Development Administration (CDA), with a coupon rate ranging from 3.65% to 4.275% and for the cost to refinance the loans.

These bonds were issued to take advantage of a favorable interest rate environment. Funds in the amount of $449,973 were deposited with an escrow agent to provide for all future debt service payments of the refinanced bonds. Funds in the amount of $1,680,395 were used to complete the defeasance of MetCom's Refunding Bonds of 2003. The remaining proceeds were used for prepayment fees and bond issuance costs.

MetCom refunded these bonds at a premium to reduce its total debt service payments by $87,229 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $102,135.

Fortieth issue

On August 6, 2015, MetCom issued Refinancing Bonds Series 2015B in the principal amount of $5,619,000. These bonds were issued with a true interest cost of 2.08% to refund certain maturities of MetCom's 2007 Series B Bonds, the Twenty-third Issue, issued in conjunction with the Maryland Community Development Administration (CDA), with a coupon rate ranging from 3.5% to 4.25% and for the cost to refinance the loans.

4. Long-term debt (continued)

Fortieth issue (continued)

These bonds were issued to take advantage of a favorable interest rate environment. Funds in the amount of $6,310,569 were deposited with an escrow agent to provide for all future debt service payments of the refinanced bonds. The remaining proceeds were used for prepayment fees and bond issuance costs.

MetCom refunded these bonds at a premium to reduce its total debt service payments by $537,674 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $431,337.

Notes, leases and loans payable as of June 30, 2017 are as follows:

Description	Due	Rate	Principal	Interest	Undrawn
MD Water Quality Loan #15	2020	2.70%	$ 155,280	$ 16,599	$ -
MD Water Quality Loan #16	2023	1.20%	145,347	12,656	-
MD Water Quality Loan #18	2025	1.10%	2,009,386	200,980	-
MD Water Quality Loan #19	2024	1.10%	383,259	36,530	-
MD Water Quality Loan #20	2024	1.10%	350,447	27,902	-
MD Water Quality Loan #22	2027	1.10%	566,899	61,908	-
MD Water Quality Loan #25	2029	1.00%	124,439	14,885	-
MD Water Quality Loan #26	2030	1.00%	391,702	48,833	-
MD Water Quality Loan #28	2030	2.20%	323,007	71,548	-
MD Water Quality Loan #32	2034	1.80%	3,981,648	899,865	452,841
MD Water Quality Loan #33	2033	1.70%	339,001	69,325	-
MD Water Quality Loan #34	2035	2.10%	19,224,057	5,186,237	122,151
MD Water Quality Loan #35	2035	2.10%	4,806,014	1,296,578	30,539
MD Water Quality Loan #37	2034	2.00%	2,190,323	504,435	-
Leonardtown #41	2037	1.80%	1,705,500	435,932	-
			36,696,309	8,884,213	$ 605,531
Less current portion			2,117,498	849,288	
Total			$ 34,578,811	$ 8,034,925	

4. Long-term debt (continued)

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2017, are as follows:

Year ending June 30,	Principal	Interest
2018 (current)	$ 2,117,498	$ 849,288
2019	2,156,049	808,910
2020	2,195,341	769,566
2021	2,154,658	726,753
2022	2,098,732	682,976
2023 – 2027	10,233,659	2,779,549
2028 – 2032	9,901,803	1,734,438
2033 – 2037	5,838,569	532,733
	$ 36,696,309	$ 8,884,213

Notes, leases and loans payable as of June 30, 2016 are as follows:

Description	Due	Rate	Principal	Interest
Sixth Issue	2017	6.682%	$ 16,847	$ 1,126
MD Water Quality Loan #11	2017	4.26%	300,088	12,784
MD Water Quality Loan #15	2020	2.70%	204,343	24,830
MD Water Quality Loan #16	2023	1.20%	178,152	16,387
MD Water Quality Loan #18	2025	1.10%	2,248,418	238,243
MD Water Quality Loan #19	2024	1.10%	435,653	44,105
MD Water Quality Loan #20	2024	1.10%	442,050	37,425
MD Water Quality Loan #22	2027	1.10%	629,643	72,317
MD Water Quality Loan #25	2029	1.00%	134,174	16,782
MD Water Quality Loan #26	2030	1.00%	419,786	54,636
MD Water Quality Loan #28	2030	2.20%	344,273	80,633
SunTrust Bank Loan #29	2016	2.03%	23,700	120
MD Water Quality Loan #32	2034	1.80%	4,083,306	961,910
MD Water Quality Loan #33	2033	1.70%	357,305	76,542
MD Water Quality Loan #34	2035	2.10%	18,750,200	5,305,375
MD Water Quality Loan #35	2035	2.10%	4,687,550	1,326,363
MD Water Quality Loan #37	2034	2.00%	2,306,445	557,823
Leonardtown #41	2037	1.80%	1,705,500	459,069
			37,267,433	9,286,470
Less current portion			2,272,418	844,453
Total			$ 34,995,015	$ 8,442,017

4. Long-term debt (continued)

As of June 30, 2017, MetCom has fourteen 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 thirty-two in the amount of $4,874,202 is for the Radio Read Meter Project. As of June 30, 2017 and 2016, MetCom had drawn $4,421,361 and $4,301,706 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, 2017 and 2016, MetCom has drawn $26,200,310 and $24,511,594 of the proceeds, respectively, on loans thirty-four and thirty-five. Loan number thirty-seven in the amount of $2,420,291 is for the Route 235 and Route 712 Interceptor Rehabilitation.

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 forty-one in the amount of $1,705,500 is for MetCom's share of Leonardtown's MDE loan for the ENR project.

4. Long-term debt (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2017 were as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Amounts Due Within One Year
Bonds payable	$ 61,777,902	$ -	$ 3,772,810	$ 58,005,092	$ 3,880,834
Notes, leases and loans payable	37,267,433	1,808,371	2,379,495	36,696,309	2,117,498
Total long-term debt	$ 99,045,335	$ 1,808,371	$ 6,152,305	$ 94,701,401	$ 5,998,332

The changes in long-term debt payable for the year ended June 30, 2016 were as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Amounts Due Within One Year
Bonds payable	$ 65,166,391	$ 7,776,000	$ 11,164,489	$ 61,777,902	$ 3,772,809
Notes, leases and loans payable	29,201,907	10,428,666	2,363,140	37,267,433	2,272,418
Total long-term debt	$ 94,368,298	$ 18,204,666	$ 13,527,629	$ 99,045,335	$ 6,045,227

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, 2017 and 2016 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, 2017 and 2016 is $130,894.

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, 2017 and 2016 was $8,910,685 and $8,597,171, 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, 2017 and 2016 was $2,174,136 and $1,867,365, 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-2016.pdf

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' service. 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, 2017 and 2016.

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.

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 $456,447 and $419,241 for the years ended June 30, 2017 and 2016, respectively.

Actuarial assumptions

Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Inflation	2.7% general, 3.2% wage
Salary Increases	3.3%-9.2%, including wage inflation
Discount Rate	7.55%
Investment Rate of Return	7.55%
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

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, 2016.

6. Retirement and pension plan (continued)

Asset allocation (continued)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	37%	6.60%
Rate Sensitive	20%	1.30%
Credit Opportunity	9%	4.20%
Real Assets	15%	4.70%
Absolute Return	9%	3.70%
Private Equity	10%	7.40%
Total	100%	

Discount rate

A single discount rate of 7.55% 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 7.55%. 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 7.55%, 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 6.55%	Current Discount	1% Increase to 8.55%
Total System Net Pension Liability	$11,962,762	$9,013,117	$6,524,209

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, 2017 and 2016, MetCom reported a liability of $5,077,598 and $4,394,022, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2017 and 2016, MetCom's proportion was .02152% and .02114%, respectively.

For the year ended June 30, 2017, MetCom recognized pension expense of $813,654, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 227,712	$ -
Net difference between projected and actual investment earnings	483,152	-
Difference between actual and expected experience	-	134,418
Contributions subsequent to measurement date	456,447	-
Total	$ 1,167,311	$ 134,418

The $456,447 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, 2018. The $227,712 from the change in assumptions, and the $134,418 from the difference

6. Retirement and pension plan (continued)

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

between actual and expected experience, will be amortized over the service life of all employees and the net difference between projected and actual earnings, $483,152, will be amortized over a five-year period as follows:

Year ending June 30,	Deferred Outflows of Resource	Deferred Inflows of Resources
2018	$ 156,731	$ 11,201
2019	$ 156,731	$ 11,201
2020	$ 144,392	$ 11,201
2021	$ 117,653	$ 11,201
2022 and thereafter	$ 135,357	$ 89,614

7. Other post-employment benefits (OPEB)

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 53.1% 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.

MetCom's OPEB Plan is administered through the single-employer 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 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

7. Other post-employment benefits (continued)

Plan description (continued)

Investment Pool, and the Maryland Association of Counties (MACo) 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.

At June 30 membership consisted of:

	2017	2016	2015
Retirees and Beneficiaries Currently Receiving Benefits	10	10	10
Active Employees	71	71	67
Total	81	81	77

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 2017 Operating Budget included fully funding the OPEB cost. 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 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 of thirty years. MetCom contributed $526,000 and $507,000 to the trust in FY 2017 and FY 2016, respectively. The Net OPEB Obligation is overpaid by $300,388 as of June 30, 2017.

Investments

MetCom's investment authority is established in the Retiree Benefit Trust of St. Mary's County Metropolitan Commission. Assets are allocated 85% and 82%, respectively, in the MACo OPEB Trust as of June 30, 2017 and 2016.

For the year ended June 30, 2017, the annual money-weighted rate of return of the MACo OPEB trust investments, net of the MACo OPEB trust expense was 6.08%. The money-weighted rate of return reflects investment performance, net of investment expense, adjusted for the changing amounts actually invested.

7. Other post-employment benefits (continued)

Net OPEB liability

The components of the net OPEB liability of MetCom at June 30, 2017 were;

Total OPEB liability	$ 8,367,000
Plan fiduciary net position	(4,833,876)
Net OPEB liability	$ 3,533,124
Plan fiduciary net position as a percentage Of the total OPEB liability	57.77%

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016 with data rolled forward to June 30, 2017. In the November 13, 2014 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method for GASB 45, and the Entry Age Normal (EAN) cost method as required by GASB 74. The EAN actuarial cost method requires a salary scale assumption; we used the State of Maryland salary scale assumption for general employees. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 6.5% 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 following table presents the Commission's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher.

	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	$6,954,000	$8,367,000	$10,199,000
Net OPEB Liability/(Asset)	$2,106,043	$3,533,124	$5,351,043

The long-term nominal expected rate of return on OPEB plan investments was determined using a building-block method where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. Spread and the risk free rate are used for fixed income; and dividends, earnings growth and valuation are used for equity. These return expectations are weighted based on asset/target amounts. The arithmetic real rates of return for the MACo OPEB Trust as of June 30, 2017 was 6.68%.

7. Other post-employment benefits (continued)

Net OPEB liability (continued)

The discount rate used to measure the total OPEB liability was 6.68%. The projection of cash flows used to determine this discount rate assumed that MetCom contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB 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 OPEB investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the Commission's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher, than the 6.68% discount rate.

	1% Decrease 5.68%	Discount Rate 6.68%	1% Increase 7.68%
Total OPEB Liability	$9,883,000	$8,367,000	$7,158,000
Net OPEB Liability/(Asset)	$5,035,043	$3,533,124	$2,310,043

Annual OPEB costs and net OPEB obligation

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:

	2017	2016
Annual Required Contribution	$ 526,000	$ 508,000
Interest on NOPEBO	(21,000)	(21,000)
Adjustment to ARC	21,000	20,000
Annual OPEB Cost	526,000	507,000
Contributions Made	526,000	507,000
NOPEBO, (Prepaid) Beginning of Year	$ (300,388)	$ (300,388)
NOPEBO, (Prepaid) End of Year	$ (300,388)	$ (300,388)

7. Other post-employment benefits (continued)

Funded status and funding progress

As of July 1, 2016, the plan was 61.25% funded. The actuarially accrued liability for benefits was $7,386,000, and the actuarial value of assets was $4,524,000, resulting in an unfunded actuarial accrued liability (UAAL) of $2,862,000. The covered payroll (annual payroll of active employees covered by the plan) was $5,194,244, and the ratio of UAAL to the covered payroll was 55.10%. 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 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 supplemental 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.

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:

	Years ended June 30, 2017	Years ended June 30, 2016
Change in net position – per financial statements	$ 3,670,171	$ 1,026,123
Add:		
Depreciation – facilities	5,691,584	8,991,911
Pension accrual	343,869	410,921
Less:		
Principal payment on capital debt	(6,231,799)	(5,533,229)
Repayment of internal pension loan	(113,092)	(113,092)
Capital contributions	(1,252,176)	(3,632,156)
Excess or (deficiency) of revenue over expenses – rate-setting method	$ 2,108,557	$ 1,150,478

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 2017 and FY 2016, MetCom paid premiums of $130,645 and $115,861, 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.

10. Subsequent events

In preparing these financial statements, MetCom has evaluated events and transactions for potential recognition or disclosure through October 30, 2017, the date the financial statements were available to be issued.

GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal year 2018. MetCom has begun analyzing the effects of this pronouncement which is expected to have a material effect on MetCom’s financial statements. MetCom expects implementation of GASB Statement No. 75, to reduce the beginning net position by approximately $3.5 million in fiscal year 2018.

REQUIRED SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT PENSION PLAN

JUNE 30, 2017 AND 2016

Maryland State Retirement and Pension Plan

Schedule of net pension liability and related ratios

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)
06/30/15	0.01922%	$ 3,411,505	$ 4,580,188	74.48%	71.87%
06/30/16	0.02114%	$ 4,394,022	$ 4,914,900	89.40%	68.78%
06/30/17	0.02152%	$ 5,077,598	$ 5,251,620	96.69%	65.79%

Schedule of contributions and related ratios

Date	Actuarially Determined Contribution (a)	Actual Contribution (b)	Contribution Deficiency (Excess) (c)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
06/30/15	$ 445,653	$ 445,653	$ -	$ 4,580,188	9.73%
06/30/16	$ 419,241	$ 419,241	$ -	$ 4,914,900	8.53%
06/30/17	$ 456,447	$ 456,447	$ -	$ 5,251,620	8.69%

MetCom implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. Information for prior years is not available.

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 assumption changes in the 2016 valuation:

- Inflation assumption changed from 2.90% to 2.70%

Method and assumptions used in calculations of actuarially determined contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years for State system, 24 years for LEOPS Muni, and 31 years for CORS Muni as of June 30, 2015. For ECS Muni, 5 years remaining as of June 30, 2015 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	2.70% general, 3.20% wage
Salary Increases	3.30% to 9.20% including inflation
Rate of Return	7.55%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN

JUNE 30, 2017 AND 2016

Schedule of Funding Progress for the MetCom Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a 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%
07/01/15	$ 3,908,000	$ 6,763,000	$ 2,855,000	57.79%	$ 5,195,578	54.95%
07/01/16	$ 4,524,000	$ 7,386,000	$ 2,862,000	61.25%	$ 5,194,244	55.10%

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%
06/30/16	$ 507,000	$ 507,000	100.00%
06/30/17	$ 526,000	$ 526,000	100.00%

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

JUNE 30, 2017 AND 2016

Schedule of Changes in MetCom's Net OPEB Liability and Related Ratios

	2017
Total OPEB liability	
Service Cost	$ 229,000
Interest Cost	515,000
Changes in Benefit Terms	-
Differences Between Expected and Actual Experience	91
Changes of Assumptions	-
Benefit Payments	(151,091)
Net Change in Total OPEB Liability	593,000
Total OPEB liability - Beginning of Year	7,774,000
Total OPEB Liability - End of Year	$ 8,367,000

Plan Fiduciary Net Position

	2017
Contributions - Employer	$ 526,000
Net Investment Income	355,510
Benefit Payments	(151,090)
Administrative Expense	(26,918)
Net Change in Fiduciary Net Position	703,502
Fiduciary Net Position - Beginning of Year	4,130,374
Fiduciary Net Position - End of Year	4,833,876
Net OPEB Liability	3,533,124
Fiduciary Net Position as a % of Total OPEB Liability	57.77%
Covered-Employee Payroll	$ 5,194,244
Net OPEB Liability as a % of Payroll	68.02%
Expected Average Remaining Service Years of All Participants	9

Notes to Schedule:

Benefit changes: None.

Changes of assumptions: Retirement, termination, and disability assumptions were updated to the most recent tables by the State of Maryland Pension Plan.

Discount rate:

06/30/17 6.68%

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

JUNE 30, 2017 AND 2016

Schedule of Contributions and Related Ratios

Date	Actuarially Determined Contribution (a)	Contributions in Relation to the Actuarially Determined Contribution (b)	Contribution Deficiency (Excess) (c)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
06/30/08	$ 518,000	$ 801,984	$ (283,984)	$ 3,400,838	23.58%
06/30/09	$ 514,000	$ 514,000	$ -	$ 3,724,636	13.80%
06/30/10	$ 405,000	$ 405,000	$ -	$ 3,670,430	11.03%
06/30/11	$ 431,000	$ 431,000	$ -	$ 3,851,158	11.19%
06/30/12	$ 538,000	$ 538,000	$ -	$ 4,162,094	12.93%
06/30/13	$ 580,000	$ 596,404	$ (16,404)	$ 4,319,527	13.81%
06/30/14	$ 550,000	$ 550,000	$ -	$ 4,320,628	12.73%
06/30/15	$ 573,000	$ 573,000	$ -	$ 4,911,310	11.67%
06/30/16	$ 507,000	$ 507,000	$ -	$ 5,195,578	9.76%
06/30/17	$ 526,000	$ 526,000	$ -	$ 5,194,244	10.13%

Schedule of Investment Returns

	2017
Annual money-weighted rate of return, net of investment expense	6.08%

OTHER SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2017

	Sewer	Water	Engineering	Total
Operating revenue:				
Service charges	$ 8,520,438	$ 4,716,054	$ 158,935	$ 13,395,427
Miscellaneous	158,398	144,111	59,975	362,484
Total operating revenue	8,678,836	4,860,165	218,910	13,757,911
Operating expenses:				
Direct operating expenses	4,906,614	2,241,116	515,618	7,663,348
Administrative expenses	3,319,713	1,779,012	443,367	5,542,092
Total operating expenses	8,226,327	4,020,128	958,985	13,205,440
Operating income (loss) before depreciation	452,509	840,037	(740,075)	552,471
Depreciation	(4,207,752)	(1,915,596)	(27,701)	(6,151,049)
Operating loss	(3,755,243)	(1,075,559)	(767,776)	(5,598,578)
Allocable nonoperating revenue (expense):				
Interest income	7,569	1,892	-	9,461
Debt service charges	5,988,005	4,141,400	-	10,129,405
House connection charges - net	-	(2,474)	-	(2,474)
Debt service - interest and finance charges	(1,570,665)	(795,907)	-	(2,366,572)
Total allocable nonoperating revenue	4,424,909	3,344,911	-	7,769,820
Total allocable net income (loss)	$ 669,666	$ 2,269,352	$ (767,776)	2,171,242
Nonallocable revenue:				
Interest income				106,255
Other fees				140,498
Total nonallocable revenue				246,753
Capital contribution				1,252,176
Change in fund net position				$ 3,670,171

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2016

	Sewer	Water	Engineering	Total
Operating revenue:				
Service charges	$ 8,264,031	$ 4,464,277	$ 201,833	$ 12,930,141
Miscellaneous	41,367	165,756	27,682	234,805
Total operating revenue	8,305,398	4,630,033	229,515	13,164,946
Operating expenses:				
Direct operating expenses	4,514,508	2,327,358	548,277	7,390,143
Administrative expenses	3,221,655	1,676,522	357,377	5,255,554
Total operating expenses	7,736,163	4,003,880	905,654	12,645,697
Operating income (loss) before depreciation	569,235	626,153	(676,139)	519,249
Depreciation	(7,237,249)	(2,224,072)	(32,609)	(9,493,930)
Operating loss	(6,668,014)	(1,597,919)	(708,748)	(8,974,681)
Allocable nonoperating revenue (expense):				
Interest income	1,537	384	-	1,921
Debt service charges	5,317,685	3,323,199	-	8,640,884
House connection charges - net	-	30,913	-	30,913
Debt service - interest and finance charges	(1,402,092)	(1,069,336)	-	(2,471,428)
Total allocable nonoperating revenue	3,917,130	2,285,160	-	6,202,290
Total allocable net income (loss)	$ (2,750,884)	$ 687,241	$ (708,748)	(2,772,391)
Nonallocable revenue:				
Interest income				24,862
Other fees				141,496
Total nonallocable revenue				166,358
Capital contribution				3,632,156
Change in fund net position				$ 1,026,123

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2017

	Sewer	Water	Engineering	Total
Service charges:				
Service charge - metered	$ 7,120,310	$ 4,501,418	$ -	$ 11,621,728
Service charge - nonmetered	1,243,739	164,576	-	1,408,315
Septage haul revenue	156,389	-	-	156,389
Water meter installation	-	9,660	-	9,660
Review fees	-	-	51,222	51,222
Inspection fees	-	-	102,963	102,963
Residential tap fee sewer	-	-	4,750	4,750
Cut-on cut-off fees	-	40,400	-	40,400
Total service charges	$ 8,520,438	$ 4,716,054	$ 158,935	$ 13,395,427
Direct operating expenses:				
Salaries	$ 2,432,440	$ 1,062,264	$ 666,774	$ 4,161,478
Chemicals	368,641	112,546	-	481,187
Contractual employees	14,168	-	1,296	15,464
Employee physicals/uniforms	16,477	4,986	1,500	22,963
Employee training	21,052	3,184	3,233	27,469
Lab/soil testing	12,431	-	-	12,431
Leonardtown - treatment plant	259,880	-	-	259,880
Maintenance	474,722	381,627	1,287	857,636
Materials and supplies	83,934	59,842	7,096	150,872
Miscellaneous	15,796	11,505	1,878	29,179
Oil and gas	80,167	5,515	742	86,424
Power	701,848	515,076	5,009	1,221,933
Professional fees	1,810	-	11,772	13,582
Safety supplies	21,710	4,949	-	26,659
Sludge removal	199,862	-	-	199,862
Telephone	53,347	9,048	12,531	74,926
Tools purchased	13,474	7,248	-	20,722
Vehicle operating and mileage	134,855	48,543	18,355	201,753
Water testing	-	19,846	-	19,846
Recovery of costs	-	(5,063)	(215,855)	(220,918)
Total direct operating expenses	$ 4,906,614	$ 2,241,116	$ 515,618	$ 7,663,348

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2016

	Sewer	Water	Engineering	Total
Service charges:				
Service charge - metered	$ 6,891,075	$ 4,246,746	$ -	$ 11,137,821
Service charge - nonmetered	1,222,203	168,581	-	1,390,784
Service charge - ready-to-serve	-	-	-	-
Septage haul revenue	150,753	-	-	150,753
Water meter installation	-	15,420	-	15,420
Review fees	-	-	57,950	57,950
Inspection fees	-	-	142,383	142,383
Residential tap fee sewer	-	-	1,500	1,500
Cut-on cut-off fees	-	33,530	-	33,530
Total service charges	$ 8,264,031	$ 4,464,277	$ 201,833	$ 12,930,141
Direct operating expenses:				
Salaries	$ 2,326,080	$ 1,055,320	$ 749,175	$ 4,130,575
Chemicals	216,501	104,413	-	320,914
Contractual employees	21,722	-	13,051	34,773
Employee physicals/uniforms	24,788	6,955	2,722	34,465
Employee training	16,925	4,855	8,173	29,953
Lab/soil testing	11,400	-	-	11,400
Leonardtown - treatment plant	202,722	-	-	202,722
Maintenance	588,524	492,224	505	1,081,253
Materials and supplies	90,063	53,692	11,094	154,849
Meter reading expense	-	7,965	-	7,965
Miscellaneous	14,694	10,549	1,557	26,800
Oil and gas	49,803	3,627	66	53,496
Power	584,176	501,288	4,948	1,090,412
Professional fees	2,309	-	22,491	24,800
Safety supplies	22,596	11,254	-	33,850
Sludge removal	146,056	-	-	146,056
SSO fines and penalties	32,500	-	-	32,500
Telephone	48,504	10,644	12,072	71,220
Tools purchased	12,999	5,917	-	18,916
Vehicle operating and mileage	105,350	45,431	12,499	163,280
Water testing	-	21,979	-	21,979
Recovery of costs	(3,204)	(8,755)	(290,076)	(302,035)
Total direct operating expenses	$ 4,514,508	$ 2,327,358	$ 548,277	$ 7,390,143

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULES OF ADMINISTRATIVE EXPENSES

	Years ended June 30, 2017	Years ended June 30, 2016
Administrative expenses:		
Accounting	$ 17,360	$ 16,920
Advertising	14,172	17,772
Bond fees	1,370	775
Commissioners' salaries	14,500	12,500
Computer services	100,795	96,662
Consulting	62,182	23,478
Contractual employees	49,442	99,676
Depreciation	88,711	109,393
Dues and subscriptions	8,648	10,148
Electric	12,063	11,644
Employee training	16,274	21,077
Hospitalization and disability	1,769,725	1,581,631
Insurance	286,174	241,621
Legal	124,788	-
Mileage and travel	4,071	3,730
Miscellaneous	5,867	5,899
Office and administrative salaries	1,383,475	1,397,033
Office supplies and expenses	108,061	105,560
On-line fees	95,816	82,107
Payroll taxes	424,548	430,360
Postage expense	98,734	95,747
Retirement	813,654	841,778
Telephone and fax	53,484	52,307
Temporary labor	-	4,809
Tuition reimbursement	(1,500)	1,924
Recovery of costs	(10,322)	(8,997)
Total administrative expenses	$ 5,542,092	$ 5,255,554
Allocated to services as follows:		
Sewer 59.9% and 61.3%	$ 3,319,713	$ 3,221,655
Water 32.1% and 31.9%	1,779,012	1,676,522
Engineering 8.0% and 6.8%	443,367	357,377
	$ 5,542,092	$ 5,255,554

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 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, 2017 and 2016, 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 October 30, 2017.

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.

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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
October 30, 2017