

ST. MARY'S COUNTY METROPOLITAN COMMISSION

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2018 AND 2017**



Murphy & Murphy, CPA, LLC

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of St. Mary's County Metropolitan Commission (MetCom), a component unit of St. Mary's County, Maryland, as of and for the years ended June 30, 2018 and 2017, 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.

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, 2018 and 2017, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 10 to the financial statements, during the year ended June 30, 2018, MetCom adopted new accounting guidance from Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, and the OPEB schedules on pages 4 through 10, 48 through 49, and 50 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 December 7, 2018, 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 the effectiveness of St. Mary's Co. Metropolitan Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Mary's County Metropolitan Commission's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
December 7, 2018

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, 2018 and 2017. Please read it in conjunction with MetCom's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- MetCom's total net position increased by \$4.7 million and \$3.7 million, or 4.4% and 3.4%, as a result of operations in FY 2018 and 2017, respectively.
- During the current year, MetCom's revenue from operations was \$14.1 million, representing an increase of 1.9% over the prior year. The current year increase is mostly due to a 3.75% increase in sewer rates and a 3.0% increase in water rates, offset by a reduction in water usage due to higher rainfall. Operating revenues in FY 2017 were \$13.8 million, a 4.5% increase. The prior year increase was mostly due to a 3.75% increase in sewer rates and a 1.75% increase in water rates.
- MetCom's operating expenses excluding depreciation were \$13.1 million during FY 2018 and \$13.2 million in FY 2017.
- Depreciation expense totaled \$6.7 million, an increase of \$0.5 million over FY 2017.
- MetCom's nonoperating revenue was \$8.5 million during the current year and \$8.0 million in FY 2017, representing an increase of 5.9% in the current year and an increase of 25.9% in the prior year. Most of the current year increase is due to an increase in Debt service charges and interest income. The increase in the prior year was mainly attributable to the increase in debt service charges.
- 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 \$5.5 million as of 6/30/18 and \$4.8 million as of 6/30/17. In FY 2018 MetCom contributed \$527 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, 2018 and 2017. 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, 2018 and 2017. 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 \$4.7 million in FY 2018 and \$3.7 million in FY 2017. Most of the change to the current year is due to the reduction in Notes and Bonds payable, due to bond payments. Most of the prior year's increase was attributable to the change in capital assets. 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 was put in service in FY 2016 and FY 2017. The following condensed statements show the changes in assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2018, 2017 and 2016.

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

	<u>June 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 56.70	\$ 55.60	\$ 64.60
Capital assets	158.20	157.90	151.00
Deferred outflows	<u>1.40</u>	<u>1.50</u>	<u>1.10</u>
Total assets and deferred outflows	<u>\$ 216.30</u>	<u>\$ 215.00</u>	<u>\$ 216.70</u>
Long-term debt outstanding	\$ 85.80	\$ 88.70	\$ 93.00
Pension liabilities	4.60	5.10	4.40
OPEB liabilities	3.50	3.50	3.50
Other liabilities	9.30	9.70	11.10
Deferred inflow	<u>0.50</u>	<u>0.10</u>	<u>0.50</u>
Total liabilities and deferred inflow	<u>\$ 103.70</u>	<u>\$ 107.10</u>	<u>\$ 112.50</u>
Net position			
Net invested in capital assets	\$ 90.40	\$ 91.10	\$ 87.50
Restricted	13.10	11.90	11.30
Unrestricted	<u>9.10</u>	<u>4.90</u>	<u>5.40</u>
Total net position	<u>\$ 112.60</u>	<u>\$ 107.90</u>	<u>\$ 104.20</u>

Statements of Revenues, Expenses and Changes in Net Position

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

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

	<u>Years ended June 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 14.00	\$ 13.80	\$ 13.20
Operating expenses	(13.10)	(13.20)	(12.60)
Depreciation expense	<u>(6.70)</u>	<u>(6.20)</u>	<u>(9.50)</u>
Operating loss	(5.80)	(5.60)	(8.90)
Nonoperating revenues	8.50	8.00	6.40
Capital contributions	<u>2.00</u>	<u>1.30</u>	<u>3.60</u>
Change in net position	4.70	3.70	1.10
Net position at beginning of year, restated	<u>107.90</u>	<u>104.20</u>	<u>103.10</u>
Net position at end of year, restated	<u>\$ 112.60</u>	<u>\$ 107.90</u>	<u>\$ 104.20</u>

MetCom's operating revenues totaled \$14.0 million during the current year. Total operating revenues increased by \$.2 million or 1.9% over the prior year, compared to operating revenue in the prior year of \$13.8 million which was an increase of 4.5% over FY 2016. The current year increase is mostly due to a 3.75% increase in sewer rates and a 3.0% increase in water rates, offset by a reduction in water usage due to higher rainfall. Operating revenues in FY 2017 were \$13.8 million, a 4.5% increase over FY 2016. The prior year increase was mostly due to a 3.75% increase in sewer rates and a 1.75% increase in water rates.

Expenses from MetCom's operating activities excluding depreciation totaled \$13.1 million during the current year and \$13.2 million in the prior year, a decrease of just \$.1 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 \$8.6 million, or 65.5% of operating expenses. Power for plant operations was \$1.2 million, or 8.9%. Maintenance of the system was \$1.0 million or 7.5% of operating expenses. The remaining \$2.3 million, or 18.1%, related to direct and administrative costs. Depreciation Expense totaled \$6.7 million, an increase of \$0.5 million over FY 2017

Total Nonoperating Revenue increased \$0.5 million to \$8.5 million in the current year. Debt service Charges increased by \$0.3 million and interest income increased by \$.2 million. The Debt Service Charges are made up of \$8.4 million of System Improvement Charges and \$2 million of Capital Contribution Charges. System Improvement Charges

increased \$.3 million or 3.8%. The increase is due to customer growth and a 9% average increase in Water and Sewer System Improvement rates. Capital Contribution Charges had no significant change. Nonoperating Revenue increased by \$1.6 million in FY 2017. Debt service charges contributed \$1.5 million to the increase. Most of the increase, \$1.0 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 \$2.0 million in FY 2018, an increase of \$0.8 million from FY 2017. In FY 2018 Donated assets increased by \$0.5 million and Grants increased by \$0.2 million. Capital Contributions were \$1.3 million in FY 2017, a decrease of \$2.4 million from FY 2016. Grants decreased \$3.2 million in FY 2016, while donated assets increased by \$.8 million. The grants received 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 from FY 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At June 30, 2018, MetCom had \$227.8 million prior to depreciation invested in capital assets. This represents a 2.9% increase over the previous year. The majority of the increase was for the additional portions of the Marlay-Taylor Wastewater Treatment Plant ENR project, Leyland Park Phase 1 Pump Station, and Tower Maintenance. At June 30, 2017, MetCom had \$221.5 million prior to depreciation invested in capital assets. This represents an increase of 5.4% 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, major retrofit of water towers, and the Lynn Drive Wastewater Pump Station. The following table summarizes MetCom's capital assets (in millions):

	June 30,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Utility plants	\$ 147.20	\$ 145.10	\$ 133.90
Water plants	52.30	50.60	46.60
Equipment	8.90	9.30	8.80
Capitalized interest	.80	.80	.80
Buildings	3.90	3.90	3.90
Land	1.30	1.20	1.10
Construction in process	<u>13.30</u>	<u>10.60</u>	<u>15.10</u>
Total before depreciation	227.70	221.50	210.20
Accumulated depreciation	<u>(69.60)</u>	<u>(63.60)</u>	<u>(59.20)</u>
Net capital assets	<u>\$ 158.10</u>	<u>\$ 157.90</u>	<u>\$ 151.00</u>

This year's major capital asset additions included:

- The Marlay-Taylor Wastewater Treatment Plant Enhanced Nutrient Removal, ENR, was put in service in FY 2017. Final asset additions occurred in FY 2018 in the amount of \$631,000. This project was funded with a grant and loan from MDE and a loan from DHCD. Part of the existing Marlay-Taylor Wastewater Treatment Plant was retired during construction of the ENR upgrade.
- Leyland Park Phase 1, Pumping Station and Manholes upgrade, \$336,000 was put into service in FY 2018.
- System wide capitalized upgrades in excess of \$1 million to include improvements to water towers, water lines, wells, sewer pump stations, and expansions. MetCom also implemented a new Financial Enterprise Software Program. These projects were funded with a loans from DHCD, MDE, and MetCom funds.

MetCom's FY 2019 Capital Improvement Budget for water is \$3.8 million, which includes \$.5 million for water lines, \$.4 million for wells, \$.3 million for water storage tanks, and \$1.4 million for miscellaneous projects. The largest FY 2019 project is the King Kennedy Well & Ground Storage Tank Improvements at \$1 million.

The FY 2019 Capital Improvement Budget for sewer is \$1.8 million, \$1.4 million for replacement projects and \$.4 million for pump stations. The largest project is \$.7 million for the Marlay Taylor Clarifier Rehabilitation.

Debt administration

At the end of FY 2018 and FY 2017, MetCom had a total of \$92.0 million and \$94.7 million in debt outstanding, respectively. As of June 30, 2018 MetCom has \$8.4 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 November 20, 2017 MetCom closed on two loans with MDE, for \$2.4 and 3.4 million. On March 29, 2018 MetCom closed on a loan with MDE for \$5.3 million.

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

	<u>Years ended June 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Bonds payable	\$ 54.1	\$ 58.0	\$ 61.8
Notes, leases and loans payable	<u>37.9</u>	<u>36.7</u>	<u>37.2</u>
Total debt	<u>\$ 92.0</u>	<u>\$ 94.7</u>	<u>\$ 99.0</u>

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.

MetCom did not apply for any new loans during the FY 2019 Request period. MetCom will close on prior approved MDE authorized loans for the following projects: Great Mills Wastewater Pump Station Upgrade, Patuxent Park Phase 4 Water and Sewer 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 an 8.8% increase in the total operating revenues for next year compared to FY 2018 actuals. Water rates are increasing 3% and sewer rates are increasing 3.75%. MetCom was not eligible for the annual ENR Grant from MDE in FY 2019.

The total operating expenses in MetCom's Operating Budget for FY 2019 are \$15.0 million, about \$2 million more than the FY 2018 Amended Budget. Salaries are the largest component of MetCom's operating expenses, the Operating Budget for FY 2019 includes salaries of \$6.5 million, a \$668 thousand increase over FY 2018 Amended Operating Budget. Health insurance is \$1.6 million and OPEB is \$395 thousand to fully fund the Annual Required Contribution, ARC, to the OPEB trust. Electricity to operate the water and sewer systems is \$1.2 million in the FY 2019 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

	<u>2018</u>	<u>June 30,</u> <u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 27,231,776	\$ 24,204,367
Accounts receivable	1,433,879	1,396,633
Loans/grants receivable	27,705,003	29,599,287
Inventory	256,997	323,150
Prepaid expenses	<u>50,929</u>	<u>107,435</u>
Total current assets	<u>56,678,584</u>	<u>55,630,872</u>
Noncurrent assets:		
Net capital assets	158,164,834	157,886,636
Unamortized bond discount	<u>25,050</u>	<u>26,720</u>
Total noncurrent assets	<u>158,189,884</u>	<u>157,913,356</u>
Deferred outflow of resources:		
Pension	1,005,949	1,167,311
OPEB	77,994	91
Bond refunding	<u>326,796</u>	<u>327,867</u>
Total deferred outflow of resources	<u>1,410,739</u>	<u>1,495,269</u>
Total assets and deferred outflow of resources	<u>\$ 216,279,207</u>	<u>\$ 215,039,497</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION (CONTINUED)

LIABILITIES AND NET POSITION

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable	\$ 853,601	\$ 1,700,946
Accrued interest payable	727,664	684,906
Accrued expenses	1,198,153	994,320
Unearned revenue	22,213	22,213
Bond premiums	282,217	301,144
Bonds payable	3,968,206	3,880,834
Notes, leases and loans payable	<u>2,295,331</u>	<u>2,117,498</u>
Total current liabilities	<u>9,347,385</u>	<u>9,701,861</u>
Noncurrent liabilities:		
Bonds payable	50,156,052	54,124,258
Notes, leases and loans payable	35,601,871	34,578,811
Net pension liability	4,558,356	5,077,596
Net OPEB liability	<u>3,526,638</u>	<u>3,519,043</u>
Total noncurrent liabilities	<u>93,842,917</u>	<u>97,299,708</u>
Deferred inflow of resources:		
Pension	472,787	134,418
OPEB	<u>23,797</u>	<u>31,663</u>
Total deferred inflow of resources	<u>496,584</u>	<u>166,081</u>
Total liabilities and deferred inflow of resources	<u>103,686,886</u>	<u>107,167,650</u>
Net position:		
Net investment in capital assets	90,450,140	91,131,949
Restricted	13,059,219	11,922,819
Unrestricted	<u>9,082,962</u>	<u>4,817,079</u>
Total net position	<u>112,592,321</u>	<u>107,871,847</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 216,279,207</u>	<u>\$ 215,039,497</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>Years ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Operating revenue:		
Service charges	\$ 13,762,799	\$ 13,395,427
Miscellaneous	<u>255,092</u>	<u>362,484</u>
Total operating revenue	<u>14,017,891</u>	<u>13,757,911</u>
Operating expenses:		
Direct operating expenses	8,042,250	7,663,348
Administrative expenses	<u>5,027,202</u>	<u>5,542,092</u>
Total operating expenses	<u>13,069,452</u>	<u>13,205,440</u>
Operating income before depreciation	948,439	552,471
Depreciation	<u>(6,724,922)</u>	<u>(6,151,049)</u>
Operating loss	<u>(5,776,483)</u>	<u>(5,598,578)</u>
Nonoperating revenue (expenses):		
Interest income	337,728	115,716
Debt service charges	10,396,956	10,129,405
House connection charges- net	14,029	(2,474)
Interest expense	(2,314,786)	(2,366,572)
Other fees	<u>58,161</u>	<u>140,498</u>
Total nonoperating revenue, net	<u>8,492,088</u>	<u>8,016,573</u>
Income before contributions	2,715,605	2,417,995
Capital contributions	<u>2,004,869</u>	<u>1,252,176</u>
Change in net position	4,720,474	3,670,171
Total net position- beginning, as restated	<u>107,871,847</u>	<u>104,201,676</u>
Total net position- ending, as restated	<u>\$ 112,592,321</u>	<u>\$ 107,871,847</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS

	<u>Years ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers	\$ 13,725,553	\$ 13,953,638
Payments to suppliers	(7,917,140)	(8,331,075)
Payments to employees	(5,699,606)	(5,552,853)
Other receipts	<u>255,092</u>	<u>362,484</u>
Net cash provided by operating activities	<u>363,899</u>	<u>432,194</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	5,242,749	11,836,853
Purchases of capital assets	(5,068,422)	(11,044,558)
Principal paid on capital debt	(6,028,406)	(6,152,305)
Interest paid on capital debt	(2,288,214)	(2,379,794)
Other receipts and payments	<u>10,468,075</u>	<u>9,902,592</u>
Net cash provided by capital and relating financing activities	<u>2,325,782</u>	<u>2,162,788</u>
Cash flows from investing activities:		
Interest received	<u>337,728</u>	<u>115,716</u>
Net increase in cash and cash equivalents	3,027,409	2,710,698
Cash and cash equivalents at beginning of year	<u>24,204,367</u>	<u>21,493,669</u>
Cash and cash equivalents at end of year	<u>\$ 27,231,776</u>	<u>\$ 24,204,367</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>Years ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (5,776,483)	\$ (5,598,578)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	6,795,093	6,239,760
Changes in assets and liabilities:		
Accounts receivable	(37,246)	561,609
Prepaid expense	56,506	247,415
Inventory	66,153	(65,228)
Deferred outflows	84,530	(351,351)
Accounts payable	(847,345)	(1,429,210)
Accrued expenses	203,833	71,506
Unearned revenue	-	(3,398)
Net pension liability	(519,240)	683,574
Net OPEB liability	7,595	-
Deferred inflows	<u>330,503</u>	<u>76,095</u>
Net cash provided by operating activities:	<u>\$ 363,899</u>	<u>\$ 432,194</u>

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

	<u>Years ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Increase in capital assets	\$ 7,073,291	\$ 13,148,656
Capital contribution	(2,004,869)	(1,252,176)
Change in grants receivable	<u>-</u>	<u>(851,922)</u>
Purchase of capital assets	<u>\$ 5,068,422</u>	<u>\$ 11,044,558</u>
Additions to capital debt	\$ 3,348,465	\$ 1,808,371
Change in loans receivable	<u>1,894,284</u>	<u>10,028,482</u>
Proceeds from capital debt	<u>\$ 5,242,749</u>	<u>\$ 11,836,853</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF FIDUCIARY NET POSITION

ASSETS

	<u>Years ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Restricted investments	\$ <u>5,481,334</u>	\$ <u>4,838,081</u>
Total assets	\$ <u>5,481,334</u>	\$ <u>4,838,081</u>

LIABILITIES AND NET POSITION

Accrued liabilities	\$ <u>5,372</u>	\$ <u>4,205</u>
Net assets held in trust for OPEB	\$ <u>5,475,962</u>	\$ <u>4,833,876</u>

See accompanying notes.

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

	<u>Years ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
ADDITIONS:		
Contributions	\$ 527,000	\$ 526,000
Interest income	152,138	90,486
Unrealized gain	<u>151,406</u>	<u>265,024</u>
Net additions	<u>\$ 830,544</u>	<u>\$ 881,510</u>
DEDUCTIONS:		
Benefits paid	\$ (162,593)	\$ (151,090)
Administrative expenses	<u>(25,865)</u>	<u>(26,918)</u>
Net deductions	<u>(188,458)</u>	<u>(178,008)</u>
Change in net position	<u>\$ 642,086</u>	<u>\$ 703,502</u>
NET POSITION:		
Beginning of year	<u>\$ 4,833,876</u>	<u>\$ 4,130,374</u>
End of year	<u>\$ 5,475,962</u>	<u>\$ 4,833,876</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

1. Summary of significant accounting policies

Financial reporting entity

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

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

Fund accounting and basis of accounting

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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 \$605,762 and \$587,711 at June 30, 2018 and 2017, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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:

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Capital contributions

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

MetCom has certificates of deposit 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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

2. Deposits and investments (continued)

Deposits (continued)

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, 2018 and 2017, with the remaining \$8,024,302 and \$7,098,574 respectively, adequately covered by collateral.

At June 30, 2018 and 2017, there were no deposits exposed to custodial credit risk, interest rate risk or foreign currency risk.

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, 2018 and 2017 was \$10,020,538 and \$ 10,000,000, respectively.

A summary of the terms for the certificate of deposit and the annual yield are as follows as of June 30, 2018:

<u>Description</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance</u>
CDARS	07/13/17	07/12/18	1.23%	\$ 1,000,000
CDARS	08/10/17	08/09/18	1.44%	750,000
CDARS	09/14/17	09/13/18	1.54%	750,000
CDARS	10/12/17	10/11/18	1.54%	750,000
CDARS	11/09/17	11/08/18	1.54%	750,000
CDARS	12/07/17	12/06/18	1.54%	1,000,000
CDARS	01/11/18	01/10/19	1.64%	1,000,000
CDARS	02/01/18	01/31/19	1.73%	750,000
CDARS	03/15/18	03/14/19	1.78%	750,000
CDARS	04/12/18	04/11/19	1.92%	750,000
CDARS	05/10/18	05/09/19	2.06%	1,000,000
CDARS	06/07/18	06/06/19	2.13%	750,000
Total				<u>\$ 10,000,000</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

2. Deposits and investments (continued)

Deposits (continued)

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

<u>Description</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance</u>
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				<u>\$ 10,000,000</u>

Investments

Investments in the MLGIP are not evidenced by securities. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. Separately issued financial statements may be obtained from the contractor: David Rommel, PNC Bank, 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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

2. Deposits and investments (continued)

Investments (continued)

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, 2018 and 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, 2018 and 2017 was \$9,441,375 and \$7,317,042, 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, 2018 the net position of the Trust was valued at \$36.8 million; MetCom's interest was \$4.7 million. Contributions to the Trust Fund qualify as "contributions in relation to the actuarially determined contribution" within the meaning of GASB Statement No. 75 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 OPEB 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 measurements). The three levels of the fair value hierarchy are described below.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

2. Deposits and investments (continued)

Investments (continued)

- 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,

	<u>2018</u>	<u>2017</u>
Investments - MLGIP	\$ 9,441,375	\$ 7,317,042
Broker deposits – CDARS	10,000,000	10,000,000
Cash	7,788,901	6,885,825
Petty cash	<u>1,500</u>	<u>1,500</u>
	<u>\$ 27,231,776</u>	<u>\$ 24,204,367</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

3. Capital assets and depreciation

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets:				
Utility plants	\$ 145,100,502	\$ 2,109,526	\$ 2,953	\$ 147,207,075
Water plant systems	50,539,836	1,770,622	-	52,310,458
Equipment	9,290,178	373,969	738,152	8,925,995
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,919,608</u>	<u>18,464</u>	<u>-</u>	<u>3,938,072</u>
Subtotal	209,668,325	4,272,581	741,105	213,199,801
Not being depreciated:				
Utility plant CIP	2,119,832	2,552,280	2,109,526	2,562,586
Water plant CIP	8,494,133	4,002,450	1,770,622	10,725,961
Land and land rights	<u>1,184,975</u>	<u>126,128</u>	<u>-</u>	<u>1,311,103</u>
	<u>221,467,265</u>	<u>10,953,439</u>	<u>4,621,253</u>	<u>227,799,451</u>
Accumulated depreciation:				
Utility plants	41,953,334	4,235,125	2,953	46,185,506
Water plant systems	12,692,560	1,671,883	-	14,364,443
Equipment	6,756,096	711,835	738,152	6,729,779
Capitalized interest	368,190	16,364	-	384,554
Buildings	<u>1,810,449</u>	<u>159,886</u>	<u>-</u>	<u>1,970,335</u>
	<u>63,580,629</u>	<u>6,795,093</u>	<u>741,105</u>	<u>69,634,617</u>
Net capital assets	<u>\$ 157,886,636</u>	<u>\$ 4,158,346</u>	<u>\$ 3,880,148</u>	<u>\$ 158,164,834</u>

Depreciation expense of \$6,795,093 was charged to activities as follows:

Sewer activities	\$ 4,663,956
Water activities	2,025,186
Engineering activities	35,780
Administrative	<u>70,171</u>
Total	<u>\$ 6,795,093</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

3. Capital assets and depreciation (continued)

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

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
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	<u>3,866,631</u>	<u>52,977</u>	<u>-</u>	<u>3,919,608</u>
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	<u>1,066,817</u>	<u>118,158</u>	<u>-</u>	<u>1,184,975</u>
	<u>210,160,208</u>	<u>30,087,413</u>	<u>18,780,356</u>	<u>221,467,265</u>
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	<u>1,652,283</u>	<u>158,166</u>	<u>-</u>	<u>1,810,449</u>
	<u>59,182,468</u>	<u>6,239,760</u>	<u>1,841,599</u>	<u>63,580,629</u>
Net capital assets	<u>\$ 150,977,740</u>	<u>\$ 23,847,653</u>	<u>\$ 16,938,757</u>	<u>\$ 157,886,636</u>

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	<u>88,711</u>
Total	<u>\$ 6,239,760</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

4. Long-term debt

Long-term bonds payable as of June 30, 2018, are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Twenty-third Issue	2008-2027	3.5%-4.25%	\$ 560,500	\$ 22,589
Twenty-seventh Issue	2011-2030	0.75%-4.31%	8,466,800	2,446,199
Thirtieth Issue	2012-2029	2.96%-3.4%	971,358	212,326
Thirty-first Issue	2013-2032	0.61%-3.42%	6,467,800	1,667,832
Thirty-sixth Issue	2014-2033	4.31%	12,846,300	5,304,110
Thirty-eighth Issue	2015-2034	3.51%	18,575,500	6,429,267
Thirty-ninth Issue	2015-2021	1.31%	817,000	13,415
Fortieth Issue	2015-2027	2.08%	<u>5,419,000</u>	<u>622,648</u>
Total			54,124,258	16,718,386
Less current portion			<u>(3,968,206)</u>	<u>(1,879,647)</u>
Non-current portion			<u>\$ 50,156,052</u>	<u>\$ 14,838,739</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2018 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019 (current)	\$ 3,968,206	\$ 1,879,647
2020	3,410,908	1,787,236
2021	3,446,339	1,703,123
2022	3,483,393	1,612,305
2023	3,585,471	1,512,513
2024 – 2028	18,954,937	5,815,524
2029 – 2033	15,786,004	2,340,246
2034 – 2034	<u>1,489,000</u>	<u>67,791</u>
	<u>\$ 54,124,258</u>	<u>\$ 16,718,385</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

4. Long-term debt (continued)

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

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
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%	<u>5,519,000</u>	<u>737,443</u>
Total			58,005,092	18,368,408
Less current portion			<u>(3,880,834)</u>	<u>(1,945,893)</u>
Non-current portion			<u>\$ 54,124,258</u>	<u>\$ 16,422,515</u>

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, 2018 and 2017.

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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 and 2017, the unspent proceeds were \$1,199,427 and \$1,462,518, 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:

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 and 2017, the unspent proceeds were \$1,211,016 and \$1,520,815, 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, 2018 and 2017, the unspent proceeds were \$8,965,839 and \$10,133,836, 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, 2018 and 2017, the unspent proceeds were \$12,930,484 and \$14,829,546, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Undrawn</u>
MD Water Quality Loan #15	2020	2.70%	\$ 104,893	\$ 9,693	\$ -
MD Water Quality Loan #16	2023	1.20%	112,149	9,318	-
MD Water Quality Loan #18	2025	1.10%	1,767,724	166,346	-
MD Water Quality Loan #19	2024	1.10%	330,288	29,531	-
MD Water Quality Loan #20	2024	1.10%	257,835	19,387	-
MD Water Quality Loan #22	2027	1.10%	503,465	80,097	-
MD Water Quality Loan #25	2029	1.00%	114,607	13,085	-
MD Water Quality Loan #26	2030	1.00%	363,337	43,311	-
MD Water Quality Loan #28	2030	2.20%	301,274	62,931	-
MD Water Quality Loan #32	2034	1.80%	4,115,281	870,433	70,852
MD Water Quality Loan #33	2033	1.70%	320,386	62,420	-
MD Water Quality Loan #34	2035	2.10%	18,328,520	4,719,898	122,151
MD Water Quality Loan #35	2035	2.10%	4,582,130	1,179,992	30,539
MD Water Quality Loan #37	2034	2.00%	2,071,878	453,370	-
Leonardtown #41	2037	1.80%	1,633,898	403,221	-
MD Water Quality Loan #42	2038	1.50%	1,366,629	270,292	2,001,845
MD Water Quality Loan #43	2038	1.50%	1,320,589	261,232	1,171,179
MD Water Quality Loan #44	2039	1.60%	302,319	65,174	4,990,185
Total			37,897,202	8,719,731	\$ 8,386,751
Less current portion			(2,295,331)	(858,566)	
Non-current portion			\$ 35,601,871	\$ 7,861,165	

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019 (current)	\$ 2,295,331	\$ 858,566
2020	2,349,725	826,888
2021	2,311,441	782,989
2022	2,257,949	736,808
2023	2,288,897	693,981
2024 – 2028	10,885,702	2,776,800
2029 – 2033	10,927,464	1,664,581
2034 – 2038	4,563,190	378,246
2039	<u>17,503</u>	<u>872</u>
	<u>\$ 37,897,202</u>	<u>\$ 8,719,731</u>

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

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
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
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
MD Water Quality Loan #35	2035	2.10%	4,806,014	1,296,578
MD Water Quality Loan #37	2034	2.00%	2,190,323	504,435
Leonardtwn #41	2037	1.80%	<u>1,705,500</u>	<u>435,932</u>
Total			36,696,309	8,884,213
Less current portion			<u>(2,117,498)</u>	<u>(849,288)</u>
Non-current portion			<u>\$ 34,578,811</u>	<u>\$ 8,034,925</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

4. Long-term debt (continued)

As of June 30, 2018, MetCom has seventeen loans from the Maryland Water Quality Financing Administration. 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, 2018 and 2017, MetCom had drawn \$4,803,350 and \$4,421,361 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, 2018 and 2017, MetCom has drawn \$26,200,310 and \$26,200,310 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 forty-two in the amount of \$3,368,474 is for the St. Clements Shores water system replacement project. As of June 30, 2018 and 2017, MetCom had drawn \$1,366,629 and \$- of the proceeds, respectively. Loan number forty-three in the amount of \$2,491,768 is for the Piney Point water system replacement project. As of June 30, 2018 and 2017, MetCom had drawn \$1,320,589 and \$- of the proceeds, respectively. Loan number forty-four in the amount of \$5,292,504 is being used to upgrade the Great Mills Wastewater pumping station. As of June 30, 2018 and 2017, MetCom had drawn \$302,319 and \$- of the proceeds, respectively.

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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

4. Long-term debt (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2018 were as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Amounts Due Within One Year
Bonds payable	\$ 58,005,092	\$ -	\$ 3,880,834	\$ 54,124,258	\$ (3,968,206)
Notes, leases and loans payable	<u>36,696,309</u>	<u>3,348,465</u>	<u>2,147,572</u>	<u>37,897,202</u>	<u>(2,295,331)</u>
Total long-term debt	<u>\$ 94,701,401</u>	<u>\$ 3,348,465</u>	<u>\$ 6,028,406</u>	<u>\$ 92,021,460</u>	<u>\$ (6,263,537)</u>

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	<u>37,267,433</u>	<u>1,808,371</u>	<u>2,379,495</u>	<u>36,696,309</u>	<u>2,117,498</u>
Total long-term debt	<u>\$ 99,045,335</u>	<u>\$ 1,808,371</u>	<u>\$ 6,152,305</u>	<u>\$ 94,701,401</u>	<u>\$ 5,998,332</u>

5. Restricted net assets

Net assets are restricted for the repayment of the following:

- a. Collection of fees for a sinking fund to upgrade the capacity of the main sewage treatment plant at Marley-Taylor WRF are restricted for that purpose. The amount restricted at June 30, 2018 and 2017 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, 2018 and 2017 is \$130,894.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 and 2017 was \$9,742,836 and \$8,910,685, 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, 2018 and 2017 was \$2,478,385 and \$2,174,136, 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/Default.aspx.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 and 2017.

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

6. Retirement and pension plan (continued)

Contributions (continued)

The unfunded actuarial accrued liability (UAAL) was being amortized in distinct layers. The UAAL 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 \$430,870 and \$429,057 for the years ended June 30, 2018 and 2017, respectively.

Actuarial assumptions

Actuarial Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Inflation	2.65% general, 3.15% wage
Salary Increases	3.15%-9.15%, including wage inflation
Discount Rate	7.50%
Investment Rate of Return	7.50%
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, 2017.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

6. Retirement and pension plan (continued)

Asset allocation (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Public Equity	36%	5.30%
Private Equity	11%	7.00%
Rate Sensitive	21%	1.20%
Credit Opportunity	9%	3.60%
Real Assets	15%	5.70%
Absolute Return	8%	3.10%
Total	<u>100%</u>	

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 10.02%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Discount rate

A single discount rate of 7.50% 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 7.50%. 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 7.50%, 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:

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

6. Retirement and pension plan (continued)

(Expressed in thousands)			
	1% Decrease to 6.50%	Current Discount	1% Increase to 8.50%
Total System Net Pension Liability	\$11,245,765	\$8,252,164	\$5,749,470

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

At June 30, 2018 and 2017, MetCom reported a liability of \$4,558,356 and \$5,077,596, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 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, 2018 and 2017, MetCom's proportion was .02108% and .02152%, respectively.

For the year ended June 30, 2018, MetCom recognized pension expense of \$427,683, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 219,401	\$ -
Net difference between projected and actual investment earnings	355,679	145,694
Difference between actual and expected experience	-	327,093
Contributions subsequent to measurement date	<u>430,869</u>	<u>-</u>
Total	<u>\$ 1,005,949</u>	<u>\$ 472,787</u>

The \$430,869 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, 2019. The \$219,401 from the change in assumptions, and the \$327,093 from the difference

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, \$355,679 and \$145,694, will be amortized over a five-year period as follows:

<u>Year ending June 30,</u>	<u>Deferred Outflows of Resource</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 158,477	\$ 64,615
2020	\$ 146,138	\$ 64,615
2021	\$ 119,399	\$ 64,615
2022	\$ 18,665	\$ 64,615
2023 and thereafter	\$ 132,401	\$ 214,327

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

7. Other post-employment benefits (continued)

Plan description (continued)

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.

Membership of the OPEB Plan enrolled in coverage at June 30 consisted of:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Retirees and Beneficiaries Currently			
Receiving Benefits	11	10	10
Active Employees	<u>73</u>	<u>71</u>	<u>71</u>
Total	<u>84</u>	<u>81</u>	<u>81</u>

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 2018 Operating Budget included fully funding the OPEB cost. MetCom's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual determined contribution of the employer (ADC), an amount actuarially determined in accordance with the parameters of the GASB Codification. The ADC 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 thirty years. The current ADC is \$527,000. The ADC consists of the normal cost of \$332,000, and the amortization of unfunded accrued liability of \$195,000. MetCom contributed \$527,000 and \$526,000 to the trust in FY 2018 and FY 2017, respectively.

Investments

MetCom's investment authority is established in the Retiree Benefit Trust of St. Mary's County Metropolitan Commission. Assets are allocated 87% and 85%, respectively, in the MACo OPEB Trust as of June 30, 2018 and 2017.

For the year ended June 30, 2018, the annual money-weighted rate of return of the MACo OPEB trust investments, net of the MACo OPEB trust expense was 6.68%. The money-weighted rate of return reflects investment performance, net of investment expense, adjusted for the changing amounts actually invested.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

7. Other post-employment benefits (continued)

Net OPEB liability

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

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 9,007,972	\$ 8,367,000
Plan fiduciary net position	<u>(5,481,334)</u>	<u>(4,847,957)</u>
Net OPEB liability	<u>\$ 3,526,638</u>	<u>\$ 3,519,043</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 60.85%	 57.94%

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016 with data rolled forward to June 30, 2018. In the actuarial valuation dated January 30, 2017, the liabilities were computed using 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 6.5% annual rate of return. The medical cost trend varied between 8.6% and 4.0% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 2.3% rate of inflation and 3.0% annual payroll increase assumption.

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, 2018 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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

7. Other post-employment benefits (continued)

Net OPEB liability (continued)

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.

Ultimate Trend	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	\$7,446,364	\$9,007,972	\$11,041,053
Net OPEB Liability/(Asset)	\$1,965,030	\$3,526,638	\$5,559,719

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.

Discount Rate	1% Decrease 5.68%	Discount Rate 6.68%	1% Increase 7.68%
Total OPEB Liability	\$10,609,532	\$9,007,972	\$7,730,866
Net OPEB Liability/(Asset)	\$5,128,198	\$3,526,638	\$2,249,532

For the year ended June 30, 2018, MetCom recognized OPEB expense of \$449,465, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ -
Net difference between projected and actual investment earnings	66,514	23,797
Difference between actual and expected experience	11,480	-
Contributions subsequent to measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ 77,994</u>	<u>\$ 23,797</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

7. Other post-employment benefits (continued)

Net OPEB liability (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in expense as follows:

<u>Year ending June 30,</u>	<u>Amortized amount</u>
2019	\$ 9,976
2020	\$ 9,976
2021	\$ 9,978
2022	\$ 17,911
2023	\$ 1,281
Thereafter	\$ 5,075

8. Rate setting

MetCom is required by law to set rates which are sufficient to cover both operating expenses and debt service. Depreciation of the plant and collection systems is not an allowable cost for purposes of setting rates. A reconciliation of the results of operations for financial reporting and rate-setting purposes is as follows:

	<u>Years ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Change in net position – per financial statements	\$ 4,720,474	\$ 3,670,171
Add:		
Depreciation – facilities	6,223,683	5,691,584
Pension accrual	-	343,869
Less:		
Principal payment on capital debt	(6,028,406)	(6,231,799)
Repayment of internal pension loan	(113,092)	(113,092)
OPEB	(78,174)	-
Pension accrual	(19,509)	-
Capital contributions	<u>(2,004,869)</u>	<u>(1,252,176)</u>
Excess or (deficiency) of revenue over expenses – rate-setting method	<u>\$ 2,700,107</u>	<u>\$ 2,108,557</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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 2018 and FY 2017, MetCom paid premiums of \$132,942 and \$130,645, 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. Restated net position

MetCom adopted Governmental Accounting Standard Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ending June 30, 2018. The implementation of the statement required MetCom to restate the beginning net OPEB liability. As a result, MetCom restated beginning net position at July 1, 2016 by \$(3,851,002).

11. Subsequent events

In preparing these financial statements, MetCom has evaluated events and transactions for potential recognition or disclosure through December 7, 2018, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT PENSION PLAN

JUNE 30, 2018 AND 2017

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)
06/30/16	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%
06/30/18	0.02108%	\$ 4,558,356	\$ 5,033,524	90.56%	69.38%

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)
06/30/16	\$ 419,241	\$ 419,241	\$ -	\$ 4,914,900	8.53%
06/30/17	\$ 429,057	\$ 429,057	\$ -	\$ 5,251,620	8.17%
06/30/18	\$ 430,869	\$ 430,869	\$ -	\$ 5,033,524	8.56%

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION
INFORMATION ABOUT PENSION PLAN (CONTINUED)

JUNE 30, 2018 AND 2017

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 2017 valuation:

- Inflation assumption changed from 2.90% to 2.65%

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	2.65% general, 3.15% wage
Salary Increases	3.15% to 9.15% including inflation
Rate of Return	7.50%
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 July 1, 2010 - June 30, 2014
Mortality	RP-2014 Mortality Tables with generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale.

ST. MARY'S COUNTY METROPOLITAN COMMISSION
 INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN
 JUNE 30, 2018 AND 2017

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

	2018	2017
Total OPEB liability		
Service Cost	\$ 237,782	\$ 229,362
Interest Cost	553,870	514,257
Changes in Benefit Terms	-	-
Differences Between Expected and Actual Experience	12,289	472
Changes of Assumptions	-	-
Benefit Payments	(162,593)	(151,091)
Net Change in Total OPEB Liability	641,348	593,000
Total OPEB liability - Beginning of Year	8,366,624	7,773,624
Total OPEB Liability - End of Year	\$ 9,007,972	\$ 8,366,624

Plan Fiduciary Net Position

	2018	2017
Contributions - Employer	\$ 527,000	\$ 526,000
Net Investment Income	268,969	329,007
Benefit Payments	(162,593)	(151,091)
Administrative Expense	-	-
Net Change in Fiduciary Net Position	633,376	703,916
Fiduciary Net Position - Beginning of Year	4,847,957	4,143,674
Fiduciary Net Position - End of Year	5,481,333	4,847,590
Net OPEB Liability	3,526,638	3,519,034
Fiduciary Net Position as a % of Total OPEB Liability	<u>60.85%</u>	<u>57.94%</u>
Covered-Employee Payroll	\$ 5,381,613	\$ 5,194,244
Net OPEB Liability as a % of Payroll	<u>65.53%</u>	<u>67.75%</u>
Expected Average Remaining Service Years of All Participants	10	9

Notes to Schedule:

Benefit changes: None.

Changes of assumptions: The discount rate was changed as follows:

Discount rate:

06/30/17 6.68%
 06/30/18 6.68%

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

JUNE 30, 2018 AND 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	\$ 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%
06/30/18	\$ 527,000	\$ 527,000	\$ -	\$ 5,381,613	9.79%

Schedule of Investment Returns

	2018	2017
Annual money-weighted rate of return, net of investment expense	6.68%	6.68%

OTHER SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2018

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Operating revenue:				
Service charges	\$ 8,912,204	\$ 4,678,773	\$ 171,822	\$ 13,762,799
Miscellaneous	<u>87,269</u>	<u>145,959</u>	<u>21,864</u>	<u>255,092</u>
Total operating revenue	<u>8,999,473</u>	<u>4,824,732</u>	<u>193,686</u>	<u>14,017,891</u>
Operating expenses:				
Direct operating expenses	4,968,191	2,371,791	702,268	8,042,250
Administrative expenses	<u>3,056,539</u>	<u>1,553,405</u>	<u>417,258</u>	<u>5,027,202</u>
Total operating expenses	<u>8,024,730</u>	<u>3,925,196</u>	<u>1,119,526</u>	<u>13,069,452</u>
Operating income (loss) before depreciation	974,743	899,536	(925,840)	948,439
Depreciation	<u>(4,663,956)</u>	<u>(2,025,186)</u>	<u>(35,780)</u>	<u>(6,724,922)</u>
Operating loss	<u>(3,689,213)</u>	<u>(1,125,650)</u>	<u>(961,620)</u>	<u>(5,776,483)</u>
Allocable nonoperating revenue (expense):				
Interest income	22,467	5,617	-	28,084
Debt service charges	6,038,583	4,358,373	-	10,396,956
House connection charges - net	-	14,029	-	14,029
Debt service - interest and finance charges	<u>(1,454,669)</u>	<u>(860,117)</u>	<u>-</u>	<u>(2,314,786)</u>
Total allocable nonoperating revenue	<u>4,606,381</u>	<u>3,517,902</u>	<u>-</u>	<u>8,124,283</u>
Total allocable net income (loss)	<u>\$ 917,168</u>	<u>\$ 2,392,252</u>	<u>\$ (961,620)</u>	<u>2,347,800</u>
Nonallocable revenue:				
Interest income				309,644
Other fees				<u>58,161</u>
Total nonallocable revenue				<u>367,805</u>
Capital contribution				<u>2,004,869</u>
Change in fund net position				<u>\$ 4,720,474</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2017

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2018

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Service charges:				
Service charge - metered	\$ 7,486,141	\$ 4,456,574	\$ -	\$ 11,942,715
Service charge - nonmetered	1,292,479	174,243	-	1,466,722
Septage haul revenue	133,584	-	-	133,584
Review fees	-	-	71,065	71,065
Inspection fees	-	-	98,007	98,007
Residential tap fee sewer	-	-	2,750	2,750
Cut-on cut-off fees	-	47,956	-	47,956
Total service charges	<u>\$ 8,912,204</u>	<u>\$ 4,678,773</u>	<u>\$ 171,822</u>	<u>\$ 13,762,799</u>
Direct operating expenses:				
Salaries	\$ 2,587,277	\$ 1,083,228	\$ 759,613	\$ 4,430,118
Chemicals	382,057	97,298	-	479,355
Contractual employees	10,689	-	4,124	14,813
Employee physicals/uniforms	17,858	5,478	4,303	27,639
Employee training	23,072	6,139	5,982	35,193
Lab/soil testing	15,258	-	-	15,258
Leonardtowntown - treatment plant	144,439	-	-	144,439
Maintenance	485,227	492,810	1,477	979,514
Materials and supplies	84,173	56,892	10,146	151,211
Miscellaneous	13,839	9,951	1,614	25,404
Oil and gas	88,358	6,454	1,062	95,874
Power	648,404	511,340	4,180	1,163,924
Professional fees	-	-	8,047	8,047
Safety supplies	21,732	7,524	-	29,256
Sludge removal	240,749	-	-	240,749
SSO fines and penalties	2,041	-	-	2,041
Telephone	54,102	8,944	11,701	74,747
Temporary labor	-	-	17,828	17,828
Tools purchased	15,364	4,853	-	20,217
Vehicle operating and mileage	140,525	56,918	20,160	217,603
Water testing	-	26,592	-	26,592
Recovery of costs	(6,973)	(2,630)	(147,969)	(157,572)
Total direct operating expenses	<u>\$ 4,968,191</u>	<u>\$ 2,371,791</u>	<u>\$ 702,268</u>	<u>\$ 8,042,250</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2017

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
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	<u>\$ 8,520,438</u>	<u>\$ 4,716,054</u>	<u>\$ 158,935</u>	<u>\$ 13,395,427</u>
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
Leonardtwn - 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	<u>\$ 4,906,614</u>	<u>\$ 2,241,116</u>	<u>\$ 515,618</u>	<u>\$ 7,663,348</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>Years ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Administrative expenses:		
Accounting	\$ 17,810	\$ 17,360
Advertising	12,664	14,172
Bond fees	-	1,370
Casual labor	4,560	-
Commissioners' salaries	14,500	14,500
Computer services	106,234	100,795
Consulting	16,563	62,182
Contractual employees	42,302	49,442
Depreciation	70,171	88,711
Dues and subscriptions	8,995	8,648
Electric	10,771	12,063
Employee training	4,216	16,274
Hospitalization and disability	1,704,380	1,769,725
Insurance	268,283	286,174
Legal	131,725	124,788
Mileage and travel	2,797	4,071
Miscellaneous	3,771	5,867
Office and administrative salaries	1,401,706	1,383,475
Office supplies and expenses	103,114	108,061
On-line fees	89,365	95,816
Payroll taxes	454,982	424,548
Postage expense	89,269	98,734
Retirement	427,683	813,654
Telephone and fax	46,512	53,484
Tuition reimbursement	1,549	(1,500)
Recovery of costs	<u>(6,720)</u>	<u>(10,322)</u>
Total administrative expenses	<u>\$ 5,027,202</u>	<u>\$ 5,542,092</u>
Allocated to services as follows:		
Sewer 60.8% and 59.9%	\$ 3,056,539	\$ 3,319,713
Water 30.9% and 32.1%	1,553,405	1,779,012
Engineering 8.3% and 8.0%	<u>417,258</u>	<u>443,367</u>
	<u>\$ 5,027,202</u>	<u>\$ 5,542,092</u>



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, 2018 and 2017, 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 December 7, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland
December 7, 2018