

ST. MARY'S COUNTY METROPOLITAN COMMISSION

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2017 AND 2016**



Murphy & Murphy, CPA, LLC

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of St. Mary's County Metropolitan Commission (MetCom), component unit of St. Mary's County, Maryland, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise St. Mary's County Metropolitan Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of St. Mary's County Metropolitan Commission, as of June 30, 2017 and 2016, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, and the OPEB schedules on pages 4 through 10, 47 through 48, and 49 through 51, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Mary's County Metropolitan Commission's basic financial statements. The other supplemental information on pages 52 through 56 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of St. Mary's County Metropolitan Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Mary's County Metropolitan Commission's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
October 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the St. Mary's County Metropolitan Commission's (MetCom's) annual financial report presents our discussion and analysis of MetCom's financial performance during the fiscal years that ended June 30, 2017 and 2016. Please read it in conjunction with MetCom's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- MetCom's total net position increased by \$3.6 million and \$1.1 million, or 3.4% and 1%, as a result of operations in FY 2017 and 2016, respectively.
- During the current year, MetCom's revenue from operations was \$13.8 million, representing an increase of 4.5% over the prior year. The current year increase is mostly due to a 3.75% increase in sewer rates and a 1.75% increase in water rates. Operating revenues in FY 2016 were \$13.2 million, a 7.3% decrease. The decrease in FY 2016 was due to the implementation of a new rate structure composed of Water and Sewer Ready-To-Serve Charges based on meter size and tiered water usage rates based on the volume and size of the meter and a sewer usage rate based on water usage.
- MetCom's operating expenses excluding depreciation were \$13.2 million during FY 2017 and \$12.6 million in FY 2016.
- Depreciation expense totaled \$6.2 million, a decrease of \$3.3 million over FY 2016. FY 2016 included extra depreciation on Marlay-Taylor Wastewater Treatment Plant and water meters that were retired before they were fully depreciated, which was a one-time expense.
- MetCom's nonoperating revenue was \$8.0 million during the current year and \$6.4 million in FY 2016, representing an increase of 25.9% in the current year and a decrease of 7.4% in the prior year. The increase in the current year was mainly attributable to the increase in debt service charges. Most of the increase was due to an increase in the number of Capital Contribution Charges paid in FY 2017 compared to FY 2016. Capital Contribution Charges paid in FY 2016 were artificially low because many customers prepaid the charges in FY 2015 to take advantage of the lower FY 2015 rates.
- In FY 2008 MetCom established a trust fund for the management of assets and accounting for financial transactions associated with the provision of retiree health insurance coverage. In FY 2015 MetCom joined in the Maryland Association of Counties (MACo) Pooled Other Post Employment Benefit Plan (OPEB) Trust. The balance in trust was \$4.8 million as of 6/30/17 and \$4.1 million as of 6/30/16. In FY 2017 MetCom contributed \$526 thousand, to fully fund the annual required contribution.

USING THIS ANNUAL REPORT

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

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

The Statements of Net Position provide a snapshot of MetCom’s financial position at both June 30, 2017 and 2016. Amounts of Net Position are cumulative from inception. Both current and long-term assets and liabilities, as well as net position, are presented.

The Statements of Revenues, Expenses and Changes in Net Position provide information about the activities of MetCom as a whole and reflect activity for the fiscal years ended June 30, 2017 and 2016. These statements measure operating revenues and expenses as well as non-operating revenues and expenses. The statements also present capital contributions as well as changes in net position.

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

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

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

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

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

METCOM AS A WHOLE

Statements of Net Position

MetCom's total net position increased by approximately \$3.6 million in FY 2017 and \$1.1 million in FY 2016. FY 2015 has been restated to include unspent/undrawn loan proceeds in Bonds Payable. Most of the current year and prior year's increases are attributable to the change in capital assets. MetCom has had an aggressive plan to upgrade or replace many of MetCom's existing water and sewer facilities consistent with the guidance provided by the 5th & 8th Sanitary Districts Facilities Plan prepared by CH2M Hill. In addition, a project to upgrade the Marlay-Taylor Wastewater Reclamation Facility to comply with the new Maryland Department of the Environment (MDE) Enhanced Nutrient Removal (ENR) requirements is almost complete. The following condensed statements show the changes in assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2017, 2016 and 2015.

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

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

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

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

Expenses from MetCom's operating activities excluding depreciation totaled \$13.2 million during the current year and \$12.6 million in the prior year, an increase of \$.6 million. All of these expenses are considered related to providing water, sewer and engineering services to the residents/businesses of St. Mary's County. Salaries and benefits comprised \$8.7 million, or 65.7% of operating expenses. Power for plant operations was \$1.2 million, or 9.3%. Maintenance of the system was \$.9 million or 6.5% of operating expenses. The remaining \$2.4 million, or 18.5%, related to direct and administrative costs. Depreciation Expense totaled \$6.2 million, a decrease of \$3.3 million over FY 2016. Depreciation decreased in FY 2017 because FY 2016 included depreciation on assets, Marlay-Taylor Wastewater Treatment Plant and water meters,

that were retired before they were fully depreciated, which was a one-time expense.

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At June 30, 2017, MetCom had \$221.5 million prior to depreciation invested in capital assets. This represents a 5.4% increase over the previous year. The majority of the increase was for the completed portions of the Marlay-Taylor Water Reclamation Facility ENR project, Patuxent Park 3 Water and Sewer and the Lynn Drive Wastewater Pump Station. At June 30, 2016, MetCom had \$210.2 million prior to depreciation invested in capital assets. This represents an increase of 6% over the FY 2015. MetCom owns utility and water plants in addition to numerous vehicles, furniture, equipment and computer equipment and buildings. The following table summarizes MetCom's capital assets (in millions):

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

This year's major capital asset additions included:

- The Marlay-Taylor Water Reclamation Facility Enhanced Nutrient Removal, ENR project, \$7.5 million of which was put in service in FY 2017. This project was funded with a grant and loan from MDE and a loan from DHCD. Part of the existing Marlay-Taylor Water Reclamation Facility was retired during construction of the ENR upgrade.
- Patuxent Park 3 Water and Sewer upgrade, \$3.5 million, was put into service in FY 2017. This project was funded with a loan from DHCD.
- Lynn Drive Wastewater Pump Station upgrade, \$1.8 million was put into service in FY2017. This project was funded with a loan from DHCD.

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

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

Debt administration

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

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

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

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

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

CONTACTING METCOM'S FINANCIAL MANAGEMENT

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION

ASSETS

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

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION (CONTINUED)

LIABILITIES AND NET POSITION

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable	\$ 1,700,946	\$ 3,130,156
Accrued interest payable	684,906	713,658
Accrued expenses	994,320	922,814
Unearned revenue	22,213	25,611
Bond premiums	301,144	320,071
Bonds payable	3,880,834	3,772,809
Notes, leases and loans payable	<u>2,117,498</u>	<u>2,272,418</u>
Total current liabilities	<u>9,701,861</u>	<u>11,157,537</u>
Noncurrent liabilities:		
Bonds payable	54,124,258	58,005,093
Notes, leases and loans payable	34,578,811	34,995,015
Net pension liability	<u>5,077,596</u>	<u>4,394,022</u>
Total noncurrent liabilities	<u>93,780,665</u>	<u>97,394,130</u>
Deferred inflow of resources:		
Pension	<u>134,418</u>	<u>89,986</u>
Total liabilities and deferred inflow of resources	<u>103,616,944</u>	<u>108,641,653</u>
Net position:		
Net investment in capital assets	91,131,949	87,486,749
Restricted	11,922,819	11,302,534
Unrestricted	<u>8,668,081</u>	<u>9,263,395</u>
Total net position	<u>111,722,849</u>	<u>108,052,678</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 215,339,793</u>	<u>\$ 216,694,331</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>2017</u>	<u>2016</u>
Operating revenue:		
Service charges	\$ 13,395,427	\$ 12,930,141
Miscellaneous	<u>362,484</u>	<u>234,805</u>
Total operating revenue	<u>13,757,911</u>	<u>13,164,946</u>
Operating expenses:		
Direct operating expenses	7,663,348	7,390,143
Administrative expenses	<u>5,542,092</u>	<u>5,255,554</u>
Total operating expenses	<u>13,205,440</u>	<u>12,645,697</u>
Operating income before depreciation	552,471	519,249
Depreciation	<u>(6,151,049)</u>	<u>(9,493,930)</u>
Operating loss	<u>(5,598,578)</u>	<u>(8,974,681)</u>
Nonoperating revenue (expenses):		
Interest income	115,716	26,783
Debt service charges	10,129,405	8,640,884
House connection charges- net	(2,474)	30,913
Interest expense	(2,366,572)	(2,471,428)
Other fees	<u>140,498</u>	<u>141,496</u>
Total nonoperating revenue, net	<u>8,016,573</u>	<u>6,368,648</u>
Income before contributions	2,417,995	(2,606,033)
Capital contributions	<u>1,252,176</u>	<u>3,632,156</u>
Change in net position	3,670,171	1,026,123
Total net position- beginning	<u>108,052,678</u>	<u>107,026,555</u>
Total net position- ending	<u>\$ 111,722,849</u>	<u>\$ 108,052,678</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS

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

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

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

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

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

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF FIDUCIARY NET POSITION

ASSETS

	<u>Years ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Restricted investments	\$ <u>4,838,081</u>	\$ <u>4,138,815</u>
Total assets	\$ <u>4,838,081</u>	\$ <u>4,138,815</u>

	<u>Years ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Accrued liabilities	\$ <u>4,205</u>	\$ <u>8,441</u>

LIABILITIES AND NET POSITION

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

See accompanying notes.

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

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

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017 AND 2016

1. Summary of significant accounting policies (continued)

Fund accounting and basis of accounting (continued)

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

Use of estimates

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

Cash and cash equivalents

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

Inventory

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

Receivables

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

Compensated absences

Compensated absences are accrued as incurred and recognized as a current liability in the financial statements. These absences represent vacation leave earned but not taken, and sick leave earned prior to October 2004 that will be paid out at the rate of 50% upon the employees' retirement. The total leave earned but not taken was \$587,711 and \$594,487 at June 30, 2017 and 2016, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017 AND 2016

1. Summary of significant accounting policies (continued)

Capital contributions (continued)

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

Bond issue costs

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

2. Deposits and investments

Policy

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

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

Deposits

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

2. Deposits and investments (continued)

Deposits (continued)

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

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

<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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

2. Deposits and investments (continued)

Investments (continued)

activities of the contractor quarterly and provide suggestions to enhance the return on investments.

The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated AAAM by Standard and Poors. As of June 30, 2017 and 2016, MetCom's investments, for both custodial and credit risk purposes, consisted solely of shares in the MLGIP. This investment is not deemed to have either risk. The Pool is managed as a Rule 2a-7 pool. Therefore, MetCom faces no interest rate risk. The cost and fair value of the MLGIP investments at June 30, 2017 and 2016 was \$7,317,042 and \$7,279,196, respectively.

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

2. Deposits and investments (continued)

Investments (continued)

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

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

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

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

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

3. Capital assets and depreciation

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, 2017 AND 2016

3. Capital assets and depreciation (continued)

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

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

4. Long-term debt

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>
			58,005,092	18,368,408
Less current portion			<u>3,880,834</u>	<u>1,945,893</u>
Total			<u>\$ 54,124,258</u>	<u>\$ 16,422,515</u>

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

4. Long-term debt (continued)

Long-term bonds payable as of June 30, 2016 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%	\$ 1,613,300	\$ 130,404
Twenty-seventh Issue	2011-2030	0.75%-4.31%	9,570,300	3,117,424
Thirtieth Issue	2012-2029	2.96%-3.4%	1,115,402	248,994
Thirty-first Issue	2013-2032	0.61%-3.42%	7,231,900	2,004,537
Thirty-sixth Issue	2014-2033	4.31%	14,115,000	6,344,543
Thirty-eighth Issue	2015-2034	3.51%	20,428,000	7,627,183
Thirty-ninth Issue	2015-2021	1.31%	2,110,000	60,339
Fortieth Issue	2015-2027	2.08%	<u>5,594,000</u>	<u>853,798</u>
			61,777,902	20,387,222
Less current portion			<u>3,772,809</u>	<u>2,018,814</u>
Total			<u>\$ 58,005,093</u>	<u>\$ 18,368,408</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, 2017 and 2016.

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

4. Long-term debt (continued)

Twenty-seventh issue

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

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

Thirtieth issue

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

The bonds may be prepaid at the following premiums:

<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, 2017 AND 2016

4. Long-term debt (continued)

Thirty-first issue

On December 19, 2012, MetCom issued \$8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017 and 2016, the unspent proceeds were \$1,520,815 and \$4,739,483, respectively.

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

Thirty-sixth issue

On October 2, 2013, MetCom issued \$15,948,168 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017 and 2016, the unspent proceeds were \$10,133,836 and \$10,701,202, respectively.

The bonds mature on May 1, in 20 annual installments, beginning in 2014 and ending in 2033. The average interest yield on these bonds is 4.31%. Interest was payable on November 1, 2013 and semiannually thereafter on each May 1 and November 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2023. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Thirty-eighth issue

On August 28, 2014, MetCom issued \$22,075,230 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2017 and 2016, the unspent proceeds were \$14,829,546 and \$17,646,141, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017 AND 2016

4. Long-term debt (continued)

Fortieth issue (continued)

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

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

4. Long-term debt (continued)

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

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

4. Long-term debt (continued)

As of June 30, 2017, MetCom has fourteen loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purpose of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown Wastewater Treatment Plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for \$976,700 was used to replace the Lexington Park Wastewater Pumping Station. Loan number twenty for \$1,466,576 was for water meter installations. Loan number twenty-two for \$1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 was used for Patuxent Park Sewer Line Repair and the Marlay-Taylor Methane Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was used for the St. Clements Shore Well. Loan number thirty-two in the amount of \$4,874,202 is for the Radio Read Meter Project. As of June 30, 2017 and 2016, MetCom had drawn \$4,421,361 and \$4,301,706 of the proceeds, respectively. Loan number thirty-three in the amount of \$394,000 is for the Shangri La Drive/South Essex Drive Sewer Rehabilitation. Loan number thirty-four in the amount of \$21,082,400 is for the Marlay-Taylor Wastewater Reclamation Facility Enhanced Nutrient Removal, ENR, project. Loan number thirty-five in the amount of \$5,270,600 is also for Marlay-Taylor Wastewater Reclamation Facility ENR project. This loan will be paid for by Navy charges and is therefore taxable. As of June 30, 2017 and 2016, MetCom has drawn \$26,200,310 and \$24,511,594 of the proceeds, respectively, on loans thirty-four and thirty-five. Loan number thirty-seven in the amount of \$2,420,291 is for the Route 235 and Route 712 Interceptor Rehabilitation.

Loan number twenty-nine is with SunTrust Bank in the amount of \$270,682 at an interest rate of 2.03%. Payments are made monthly on this loan from December 2011 through November 2016. The proceeds of this loan were used to purchase a Vactor truck. Loan number forty-one in the amount of \$1,705,500 is for MetCom's share of Leonardtown's MDE loan for the ENR project.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

4. Long-term debt (continued)

Changes in long-term debt

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Amounts Due Within One Year
Bonds payable	\$ 61,777,902	\$ -	\$ 3,772,810	\$ 58,005,092	\$ 3,880,834
Notes, leases and loans payable	<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>

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Amounts Due Within One Year
Bonds payable	\$ 65,166,391	\$ 7,776,000	\$ 11,164,489	\$ 61,777,902	\$ 3,772,809
Notes, leases and loans payable	<u>29,201,907</u>	<u>10,428,666</u>	<u>2,363,140</u>	<u>37,267,433</u>	<u>2,272,418</u>
Total long-term debt	<u>\$ 94,368,298</u>	<u>\$ 18,204,666</u>	<u>\$ 13,527,629</u>	<u>\$ 99,045,335</u>	<u>\$ 6,045,227</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, 2017 and 2016 is \$707,104.
- b. The Board has restricted net assets per agreement with customers for upgrades and replacements to their water and sewer systems. The amount restricted at June 30, 2017 and 2016 is \$130,894.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

5. Restricted net assets (continued)

- c. The Capital Project Upgrade funds are reserved for the replacement and upgrade of water and sewer facilities. These funds are restricted by law for that purpose. The balance as of June 30, 2017 and 2016 was \$8,910,685 and \$8,597,171, respectively.
- d. The Capital Project New Services funds are reserved for the construction of facilities to serve new customers. These funds are restricted by law for that purpose. The balance as of June 30, 2017 and 2016 was \$2,174,136 and \$1,867,365, respectively.

6. Retirement and pension plan

Nationwide Retirement Solutions

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

Maryland State Pension Systems

Effective July 1, 2004, MetCom joined the Maryland State Retirement and Pension System. Under the terms of entry into the system, MetCom will grant 100% credit for prior service of eligible employees. The actuarial cost of entry into the Maryland State Retirement and Pension System for service prior to June 30, 2004 was \$3,392,774. All qualified career employees of MetCom are required to join the Maryland State Employees' Pension Plan.

Description

The State Retirement Agency (the "Agency") is the administrator of the Maryland State Retirement and Pension System (the "System"). The System was established to provide provisions for retirement, death and disability benefits. The Plan is a cost-sharing multiple-employer public employee retirement system. The plan issues a stand-alone financial report that may be obtained at the following website: www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2016.pdf

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

6. Retirement and pension plan (continued)

Benefit terms

All plan benefits are established by, and may be amended by changes to, the State Personnel and Pensions Article of the Annotated Code of Maryland. Participants hired prior to July 1, 2011 become eligible for a vested retirement allowance after 5 years' service. Participants hired on or after July 1, 2011 become vested for a retirement allowance after 10 years' service. For members in the plan prior to July 1, 2011, pensions normally start at age 62 or after 30 years' service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest consecutive three years' pay; the benefit multiplier will be 1.2% for years of credit earned up to June 30, 1998 and 1.8% for years of earned credit after June 30, 1998. Cost of living increases are limited to 3% per annum. For members enrolled on and after July 1, 2011, vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; average final compensation will be a five year average; the benefit multiplier per year will be 1.5%; and, cost of living adjustments on all benefits will be the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate.

Contributions

The State Personnel and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the Pension Systems were required to contribute 7% of earnable compensation for the years ended June 30, 2017 and 2016.

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

6. Retirement and pension plan (continued)

Contributions (continued)

The unfunded actuarial liability (UAAL) was being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000, actuarial valuation was being amortized over a 40-year period (as provided by law) from July 1, 1980 and as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, was being amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the System. The unfunded liability for each System is being amortized over a single closed 25-year period.

The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and more than 150 participating governmental units make all of the employer and other contributions to the System.

MetCom's contribution to the System was \$456,447 and \$419,241 for the years ended June 30, 2017 and 2016, respectively.

Actuarial assumptions

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

Asset allocation

The following was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2016.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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	37%	6.60%
Rate Sensitive	20%	1.30%
Credit Opportunity	9%	4.20%
Real Assets	15%	4.70%
Absolute Return	9%	3.70%
Private Equity	10%	7.40%
Total	<u>100%</u>	

Discount rate

A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability

The following presents the plan's net pension liability, calculated using a single discount rate of 7.55%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

(Expressed in thousands)			
	1% Decrease to 6.55%	Current Discount	1% Increase to 8.55%
Total System Net Pension Liability	\$11,962,762	\$9,013,117	\$6,524,209

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

6. Retirement and pension plan (continued)

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

At June 30, 2017 and 2016, MetCom reported a liability of \$5,077,598 and \$4,394,022, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MetCom's proportion of the net pension liability was based on MetCom's share of contributions to the pension plan relative to the contribution of all participating employers. At June 30, 2017 and 2016, MetCom's proportion was .02152% and .02114%, respectively.

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

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

The \$456,447 reported as deferred outflows of resources related to pensions resulting from MetCom contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. The \$227,712 from the change in assumptions, and the \$134,418 from the difference

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

6. Retirement and pension plan (continued)

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

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

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

7. Other post-employment benefits (OPEB)

Plan description

MetCom provides health, prescription, dental and vision care insurance benefits to eligible retirees, eligible retirees' family members and the family members of deceased employees as a single-employer plan. Eligible persons include employees with a minimum of ten years of eligible MetCom service entering an immediate retirement, family members of eligible retirees and family members of deceased employees. MetCom pays a percentage of premiums based on the date of hire and number of years of service. For employees hired prior to May 10, 2007, the percentage ranges from 53.1% with ten years of service to 85% with 16 or more years of service. The percentages for employees hired on or after May 10, 2007 range from 21.25% with 15 years service to 85% with 30 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by MetCom's Board of Commissioners.

MetCom's OPEB Plan is administered through the single-employer Retiree Benefit Trust of St. Mary's County Metropolitan Commission as an irrevocable trust. Assets of the trust are dedicated to providing post-retirement health, prescription, dental and vision coverage to current and eligible future retirees. The Trust's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable. The Trust assets are invested with the Maryland Local Government

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

7. Other post-employment benefits (continued)

Plan description (continued)

Investment Pool, and the Maryland Association of Counties (MACo) OPEB Trust. The Trust does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or of another entity.

At June 30 membership consisted of:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Retirees and Beneficiaries Currently			
Receiving Benefits	10	10	10
Active Employees	<u>71</u>	<u>71</u>	<u>67</u>
Total	<u><u>81</u></u>	<u><u>81</u></u>	<u><u>77</u></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 2017 Operating Budget included fully funding the OPEB cost. MetCom's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of the GASB Codification. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. MetCom contributed \$526,000 and \$507,000 to the trust in FY 2017 and FY 2016, respectively. The Net OPEB Obligation is overpaid by \$300,388 as of June 30, 2017.

Investments

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

7. Other post-employment benefits (continued)

Net OPEB liability

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

Total OPEB liability	\$ 8,367,000
Plan fiduciary net position	<u>(4,833,876)</u>
Net OPEB liability	<u>\$ 3,533,124</u>

Plan fiduciary net position as a percentage Of the total OPEB liability	57.77%
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The total OPEB liability was determined by an actuarial valuation as of July 1, 2016 with data rolled forward to June 30, 2017. In the November 13, 2014 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method for GASB 45, and the Entry Age Normal (EAN) cost method as required by GASB 74. The EAN actuarial cost method requires a salary scale assumption; we used the State of Maryland salary scale assumption for general employees. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 6.5% and 4.2% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 2.5% rate of inflation assumption.

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

7. Other post-employment benefits (continued)

Net OPEB liability (continued)

The discount rate used to measure the total OPEB liability was 6.68%. The projection of cash flows used to determine this discount rate assumed that MetCom contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

Annual OPEB costs and net OPEB obligation

The following table shows the components of MetCom's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in MetCom's net OPEB obligation:

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

7. Other post-employment benefits (continued)

Funded status and funding progress

As of July 1, 2016, the plan was 61.25% funded. The actuarially accrued liability for benefits was \$7,386,000, and the actuarial value of assets was \$4,524,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,862,000. The covered payroll (annual payroll of active employees covered by the plan) was \$5,194,244, and the ratio of UAAL to the covered payroll was 55.10%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

8. Rate setting

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

9. Risk management

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

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During FY 2017 and FY 2016, MetCom paid premiums of \$130,645 and \$115,861, respectively, to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any, resulting from these risks have not exceeded commercial coverage in the past fiscal year.

10. Subsequent events

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

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

REQUIRED SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT PENSION PLAN

JUNE 30, 2017 AND 2016

Maryland State Retirement and Pension Plan

Schedule of net pension liability and related ratios

Date	Proportion of Collective NPL (a)	Proportionate Share of Collective NPL (b)	Covered Payroll (c)	NPL as a Percentage of Covered Payroll (b/c)	Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Collective)
06/30/15	0.01922%	\$ 3,411,505	\$ 4,580,188	74.48%	71.87%
06/30/16	0.02114%	\$ 4,394,022	\$ 4,914,900	89.40%	68.78%
06/30/17	0.02152%	\$ 5,077,598	\$ 5,251,620	96.69%	65.79%

Schedule of contributions and related ratios

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

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

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

JUNE 30, 2017 AND 2016

Changes in benefit terms

There were no benefit changes during the year.

Changes in assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2016 valuation:

- Inflation assumption changed from 2.90% to 2.70%

Method and assumptions used in calculations of actuarially determined contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years for State system, 24 years for LEOPS Muni, and 31 years for CORS Muni as of June 30, 2015. For ECS Muni, 5 years remaining as of June 30, 2015 for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.70% general, 3.20% wage
Salary Increases	3.30% to 9.20% including inflation
Rate of Return	7.55%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

ST. MARY'S COUNTY METROPOLITAN COMMISSION
 INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN
 JUNE 30, 2017 AND 2016

Schedule of Funding Progress for the MetCom Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/07	\$ -	\$ 4,331,000	\$ 4,331,000	0.00%	\$ 3,400,838	127.35%
07/01/08	\$ 752,000	\$ 4,873,000	\$ 4,121,000	15.43%	\$ 3,724,636	110.64%
07/01/09	\$ 1,219,000	\$ 3,989,000	\$ 2,770,000	30.56%	\$ 3,670,430	75.47%
07/01/10	\$ 1,563,818	\$ 4,476,000	\$ 2,912,182	34.94%	\$ 3,851,158	75.62%
07/01/11	\$ 2,054,000	\$ 5,920,000	\$ 3,866,000	34.70%	\$ 4,162,094	92.89%
07/01/12	\$ 2,344,114	\$ 6,518,000	\$ 4,173,886	35.96%	\$ 4,319,527	96.63%
07/01/13	\$ 2,957,000	\$ 6,595,000	\$ 3,638,000	44.84%	\$ 4,320,628	84.20%
07/01/14	\$ 3,575,000	\$ 7,238,000	\$ 3,663,000	49.39%	\$ 4,911,310	74.58%
07/01/15	\$ 3,908,000	\$ 6,763,000	\$ 2,855,000	57.79%	\$ 5,195,578	54.95%
07/01/16	\$ 4,524,000	\$ 7,386,000	\$ 2,862,000	61.25%	\$ 5,194,244	55.10%

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Annual OPEB Cost	Percentage Contributed
06/30/08	\$ 801,984	\$ 518,000	154.82%
06/30/09	\$ 514,000	\$ 514,000	100.00%
06/30/10	\$ 405,000	\$ 405,000	100.00%
06/30/11	\$ 431,000	\$ 431,000	100.00%
06/30/12	\$ 538,000	\$ 538,000	100.00%
06/30/13	\$ 596,404	\$ 580,000	102.83%
06/30/14	\$ 550,000	\$ 550,000	100.00%
06/30/15	\$ 573,000	\$ 573,000	100.00%
06/30/16	\$ 507,000	\$ 507,000	100.00%
06/30/17	\$ 526,000	\$ 526,000	100.00%

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

JUNE 30, 2017 AND 2016

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

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

Plan Fiduciary Net Position

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

Notes to Schedule:

Benefit changes: None.

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

Discount rate:

06/30/17 6.68%

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

JUNE 30, 2017 AND 2016

Schedule of Contributions and Related Ratios

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

Schedule of Investment Returns

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

OTHER SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2017

	<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 DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2016

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

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2016

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULES OF ADMINISTRATIVE EXPENSES

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland
October 30, 2017