

**ST. MARY'S COUNTY METROPOLITAN COMMISSION**

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**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
WITH  
INDEPENDENT AUDITOR'S REPORT  
YEARS ENDED JUNE 30, 2014 AND 2013**

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**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, component unit of St. Mary's County, Maryland, as of and for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 10 to the financial statements, MetCom adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding and employer contributions information on pages 4 through 10 and 41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do

not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Mary's County Metropolitan Commission's basic financial statements. The other supplemental information on pages 44 through 48 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014, on our consideration of the 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's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
September 25, 2014

## 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, 2014 and 2013. Please read it in conjunction with MetCom's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- MetCom's total net position increased by \$9.7 million and \$4.1 million, or 11% and 4.8%, as a result of operations in FY 2014 and 2013, respectively.
- During the current year, MetCom's revenue from operations was \$13.8 million, representing an increase of 1.5% over the prior year. The current year increase is mainly due to an average increase in sewer rates of approximately 3% and an increase in most water service rates of almost 1.3% except non-metered water service rates which decreased significantly. In FY 2013 operating revenues were \$13.6 million which was an increase of 10% over FY 2012. The increase in operating revenue was mainly due to an increase in rates of approximately 10% for sewer services and 7% for water services.
- MetCom's operating expenses excluding depreciation were \$11.5 million during the current year and \$11.2 million in the prior year.
- MetCom's nonoperating revenue was \$11.6 million during the current year and \$5.7 million in FY 2013, representing an increase of 104% in the current year and a decrease of 14% in the prior year. The fluctuation in both years is mainly attributable to capital contributions and debt service charges received.
- Engineering Revenues have not returned to the high levels experienced prior to the slow-down in the construction industry that started in FY 2008, the current year's engineering revenues are more than \$100 thousand less than in the previous two years.
- 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. The balance in the trust was \$3.3 million as of 6/30/14 and \$2.8 million as of 6/30/13. In FY 2014, MetCom contributed \$550 thousand, to fully fund the annual required contribution. In FY 2013, the contribution was \$16 thousand more than the required contribution as the result of a health insurance refund.
- MetCom recorded two new loans in FY 2014.

## 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, 2014 and 2013. 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, 2014 and 2013. These statements measure operating revenues and expenses as well as non-operating revenues and expenses. The statements also present capital contributions as well as changes in net position.

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

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

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

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

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

## **METCOM AS A WHOLE**

### Statements of Net Position

MetCom's net position increased by approximately \$9.7 million in FY 2014 and \$4.1 million in FY 2013. Most of the current year's increase is attributable to the change in net investment of capital assets. During the current year MetCom received \$3.9 million in grants, \$1.1 million of assets built by developers which were donated to MetCom, and \$4.7 million of other earnings. During FY 2013, the majority of the increase was attributable to the change in current and other assets. The following condensed statements show the changes in assets, liabilities and net position for the years ended June 30, 2014, 2013 and 2012.

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

	<u>June 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 22.00	\$ 16.50	\$ 12.00
Capital assets	<u>119.50</u>	<u>107.40</u>	<u>103.50</u>
Total assets	<u>\$ 141.50</u>	<u>\$ 123.90</u>	<u>\$ 115.50</u>
Long-term debt outstanding	\$ 35.10	\$ 28.20	\$ 25.10
Other liabilities	<u>6.40</u>	<u>5.40</u>	<u>4.20</u>
Total liabilities	<u>\$ 41.50</u>	<u>\$ 33.60</u>	<u>\$ 29.30</u>
Net position			
Net invested in capital assets	\$ 82.00	\$ 77.00	\$ 76.10
Restricted	8.60	6.30	5.30
Unrestricted	<u>9.40</u>	<u>7.00</u>	<u>4.80</u>
Total net position	<u>\$ 100.00</u>	<u>\$ 90.30</u>	<u>\$ 86.20</u>



## Statements of Revenues, Expenses and Changes in Net Position

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

	<u>Years ended June 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 13.80	\$ 13.60	\$ 12.40
Operating expenses	(11.50)	(11.20)	(10.70)
Depreciation expense	<u>(4.20)</u>	<u>(4.00)</u>	<u>(3.60)</u>
Operating loss	(1.90)	(1.60)	(1.90)
Nonoperating revenues	6.60	4.60	3.60
Capital contributions	<u>5.00</u>	<u>1.10</u>	<u>3.00</u>
Change in net position	9.70	4.10	4.70
Net position at beginning of year, restated	<u>90.30</u>	<u>86.20</u>	<u>81.50</u>
Net position at end of year, restated	<u>\$ 100.00</u>	<u>\$ 90.30</u>	<u>\$ 86.20</u>

MetCom's operating revenues totaled \$13.8 million during the current year. Total operating revenues increased by 1.5% over the prior year, compared to operating revenue in the prior year of \$13.6 million which was an increase of 10% over FY 2012. The current year increase is mainly due to an average increase in sewer rates of approximately 3% and in most water service rates of almost 1.3%, while non-metered water service rates were decreased significantly. Expenses from MetCom's operating activities excluding depreciation totaled \$11.5 million during the current year and \$11.2 million in the prior year. All of these expenses are considered related to providing water, sewer and engineering services to the residents/businesses of St. Mary's County. Salaries and benefits comprised \$7.8 million, or 68% of operating expenses. Power for plant operations was \$1.1 million, or 9%. Maintenance of the system was \$.9 million or 8% of operating expenses. The remaining \$1.7 million, or 15%, related to administrative and direct costs.

Total Nonoperating Revenue increased \$2 million to \$6.6 million in the current year. Debt Service Charges increased \$2.9 million to \$8.8 million and interest expense increased \$.9 million. The Debt Service Charges are made up of \$6.4 million of System Improvement Charges and \$2.4 million of Capital Contribution Charges. System Improvement Charges increased \$1.6 million or 33% due mostly to a 40% increase in Water System Improvement Charges and a 26% increase in Sewer System Improvement Charges. Capital Contribution Charges increased \$1.4 million. Although there was a substantial increase in Water Capital Contribution Charges of 67%, most of the increase was due to a large increase in the number of Capital Contribution Charges

paid in FY 2014 to avoid the FY 2015 rate increase. The increase in FY 2013 was \$1 million, due mostly to a \$1.2 million increase in debt service collections, System Improvement Charges increased 11% due mostly to rate increases. Capital Contributions Charges increased due to both large rate increases and to the large number of Capital Contribution Charges paid to avoid the FY 2014 rate hike.

Capital contributions, which include both grants and assets built by developers and donated to MetCom increased \$3.9 million from the prior year. The increase is due to Grants in the amount of \$3.9 million. Capital contributions were down \$1.9 million in FY 2013. The reduction was primarily due to a reduction in donated assets of \$1.3 million.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital assets

At June 30, 2014, MetCom had \$173.7 million prior to depreciation invested in capital assets. This represents a 10% increase over the previous year. At June 30, 2013, MetCom had \$157.4 million prior to depreciation invested in capital assets. This represents an increase of 5% over the previous year. MetCom owns utility and water plants in addition to numerous vehicles, furniture, equipment and computer equipment and buildings. The following table summarizes MetCom's capital assets (in millions):

	<u>Years ended June 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Utility plants	\$ 102.00	\$ 98.20	\$ 91.80
Water plants	38.10	36.90	30.40
Equipment	8.00	7.60	7.60
Capitalized interest	.80	.80	.80
Buildings	3.90	3.90	3.80
Land	.80	.60	.60
Construction in process	<u>20.10</u>	<u>9.40</u>	<u>14.80</u>
Total before depreciation	173.70	157.40	149.80
Accumulated depreciation	<u>(54.20)</u>	<u>(50.00)</u>	<u>(46.30)</u>
Net capital assets	<u>\$ 119.50</u>	<u>\$ 107.40</u>	<u>\$ 103.50</u>

This year's major capital asset additions included:

- The South FDR to Shangri La Drive Sewer Line Rehabilitation project was completed at a cost of \$1.2 million. The project was funded with a loan from DHCD.
- Grinder Pumps were replaced in St. George's Island at a cost of \$707 thousand. This project was funded with a loan from DHCD.
- The Reverse Siphon Interceptor Replacement project was completed at a cost of

\$649 thousand and was funded with a loan from DHCD.

- Three water towers were painted and rehabilitated at a cost of \$585 thousand. This project was funded with a loan from DHCD.

MetCom's FY 2015 Capital Improvement Budget for water is \$8.4 million, which includes \$3.3 million for water lines, \$2 million for water storage tanks, \$.3 million for wells, and \$2.8 million for miscellaneous projects. The Radio Read Water Meter Project Phase 1 in the amount of \$8.3 million was approved in FY 2012; construction started in FY 2013 and should be completed in FY 2015. MDE has awarded a grant to MetCom for \$3 million and the balance will be funded with loans from MDE and DHCD. Phase 2 of this project is included in the FY 2015 Capital Improvement Budget in the amount of \$1.9 million. Other large FY 2015 projects include the FDR Boulevard Water Main Project Phase 1B from First Colony to Old Rolling Road in the amount of \$1.5 million and Tank Inspection and Painting in the amount of \$1.2 million.

The FY 2015 Capital Improvement Budget for sewer is \$18.4 million, \$5 million for replacement projects, \$9.3 million for pump stations and \$4.1 million for upgrades/expansions. The Enhanced Nutrient Removal Project, ENR, at the Marlay-Taylor Wastewater Reclamation Facility in the amount of \$39.1 million was approved in prior years. This project is in the construction phase and should be completed in FY 2016. This project is required to meet the requirements of the Chesapeake Bay 2000 agreement and achieves 3mg/l total nitrogen and 0.3mg/l total phosphorous in the effluent. The state is expected to pay for the ENR portion of this project estimated to be \$10 million and the Navy is expected to pay \$7.8 million for this project. Other large FY 2015 projects include the Piney Point Wastewater Pump Station Upgrade in the amount of \$5.8 million, the Leonardtown ENR and Upgrade project in the amount of \$2.1 million and the Great Mills Wastewater Pump Station project in the amount of \$1.6 million. The Great Mills Pump Station project total budget is \$6.7 million. \$5.1 million was approved for this project in prior years.

MDE will provide a loan for the Great Mills Wastewater Pump Station project. Most of the remaining FY 2015 capital projects will be financed with DHCD loans.

### **Debt administration**

At the end of FY 2014 and FY 2013, MetCom had a total of \$37.6 million and \$30.4 million in debt outstanding, respectively. As of June 30, 2014 MetCom has \$50 million available on existing debt, loans in place that have not been fully drawn down.

On October 3, 2014 MetCom closed on a \$15.9 million loan from the Maryland Department of Housing and Community Development, Community Development Administration. As of June 30, 2014 MetCom has drawn \$1.8 million on this loan. The undrawn amount is not included in Bonds Payable.

On April 17, 2014 MetCom closed on a \$2.6 million loan from the Maryland Water Quality Financing Administration. MetCom has drawn \$231 thousand on this loan. The undrawn amount is not included in Bonds Payable.

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

	<u>Years ended June 30,</u>			<u>% change</u>	
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>FY 2014</u>	<u>FY 2013</u>
Bonds payable	\$ 21.1	\$ 19.8	\$ 18.3	6.6%	8.2%
Notes, leases and loans payable	<u>16.5</u>	<u>10.6</u>	<u>9.0</u>	55.7%	17.8%
Total debt	<u>\$ 37.6</u>	<u>\$ 30.4</u>	<u>\$ 27.3</u>	23.7%	11.4%

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

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

MetCom anticipates about a 7.5% increase in the total operating revenues for next year. This increase is mostly attributable to growth and a rate increase of approximately 3.7% in sewer service charges.

The total operating expenses in MetCom's Operating Budget for FY 2015 are \$13.8 million, about \$600 thousand more than the FY 2014 Amended Budget. Salaries are the largest component of MetCom's expenses; in FY 2015 salaries are \$5.9 million, a \$573 thousand increase over FY 2014 Amended Operating Budget. Health insurance is \$1.2 million and OPEB is \$458 thousand to fully fund the Annual Required Contribution, ARC, to the Other Post-Employment Benefit Trust, OPEB. Electricity to operate the water and sewer systems is \$1 million in the FY 2015 Operating Budget.

MetCom is in the middle of an aggressive plan to upgrade or replace many of MetCom's existing water and sewer facilities consistent with the guidance provided by the 5<sup>th</sup> & 8<sup>th</sup> Sanitary Districts Facilities Plan prepared by CH2M Hill. As part of this plan, in August 2014, MetCom issued \$22 million in Infrastructure Financing Bonds in conjunction with the Maryland Department of Housing & Community Development, DHCD.

### **CONTACTING METCOM'S FINANCIAL MANAGEMENT**

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION

ASSETS

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 14,159,362	\$ 11,081,716
Accounts receivable	2,434,594	1,279,887
Loans/grants receivable	4,600,921	3,376,354
Inventory	323,820	276,048
Prepaid expenses	<u>347,563</u>	<u>345,973</u>
Total current assets	<u>21,866,260</u>	<u>16,359,978</u>
Noncurrent assets:		
Net capital assets	119,532,065	107,465,652
Unamortized bond discount	<u>100,245</u>	<u>92,767</u>
Total noncurrent assets	<u>119,632,310</u>	<u>107,558,419</u>
Total assets	<u>\$ 141,498,570</u>	<u>\$ 123,918,397</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION (CONTINUED)

LIABILITIES AND NET POSITION

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Current liabilities:		
Accounts payable	\$ 2,002,155	\$ 1,953,912
Accrued interest payable	876,997	286,460
Accrued expenses	876,653	733,062
Unearned revenue	47,366	52,979
Bond premiums	136,798	148,014
Bonds payable	1,500,156	1,327,174
Notes, leases and loans payable	<u>920,184</u>	<u>897,546</u>
Total current liabilities	<u>6,360,309</u>	<u>5,399,147</u>
Noncurrent liabilities:		
Bonds payable	19,567,253	18,470,843
Notes, leases and loans payable	<u>15,563,271</u>	<u>9,732,586</u>
Total noncurrent liabilities	<u>35,130,524</u>	<u>28,203,429</u>
Total liabilities	<u>41,490,833</u>	<u>33,602,576</u>
Net position:		
Net investment in capital assets	81,981,201	77,037,503
Restricted	8,629,351	6,300,901
Unrestricted	<u>9,397,185</u>	<u>6,977,417</u>
Total net position	<u>100,007,737</u>	<u>90,315,821</u>
Total liabilities and net position	<u>\$ 141,498,570</u>	<u>\$ 123,918,397</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>2014</u>	<u>2013</u>
Operating revenue:		
Service charges	\$ 13,581,393	\$ 13,307,225
Miscellaneous	<u>227,615</u>	<u>289,695</u>
Total operating revenue	<u>13,809,008</u>	<u>13,596,920</u>
Operating expenses:		
Direct operating expenses	6,839,562	6,808,709
Administrative expenses	<u>4,679,270</u>	<u>4,343,989</u>
Total operating expenses	<u>11,518,832</u>	<u>11,152,698</u>
Operating income before depreciation	2,290,176	2,444,222
Depreciation	<u>(4,248,072)</u>	<u>(4,003,772)</u>
Operating loss	<u>(1,957,896)</u>	<u>(1,559,550)</u>
Nonoperating revenue (expenses):		
Interest income	14,552	20,433
Debt service charges	8,798,307	5,875,128
House connection charges- net	14,552	(3,146)
Interest expense	(2,317,947)	(1,396,524)
Other fees	<u>167,869</u>	<u>110,404</u>
Total nonoperating revenue, net	<u>6,677,333</u>	<u>4,606,295</u>
Income before contributions	4,719,437	3,046,745
Capital contributions	<u>4,972,479</u>	<u>1,086,717</u>
Change in net position	9,691,916	4,133,462
Total net position- beginning, as restated	<u>90,315,821</u>	<u>86,182,359</u>
Total net position- ending, as restated	<u>\$ 100,007,737</u>	<u>\$ 90,315,821</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS

	<u>Years ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers	\$ 12,421,074	\$ 13,127,783
Payments to suppliers	(6,060,554)	(4,866,140)
Payments to employees	(5,206,023)	(5,013,509)
Other receipts	<u>227,615</u>	<u>289,695</u>
Net cash provided by operating activities	<u>1,382,112</u>	<u>3,537,829</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	10,798,488	3,258,617
Purchases of capital assets	(12,928,673)	(6,550,322)
Principal paid on capital debt	(3,423,457)	(3,013,793)
Interest paid on capital debt	(1,746,104)	(1,344,829)
Other receipts and payments	<u>8,980,728</u>	<u>5,982,386</u>
Net cash (used) provided by capital and related financing activities	<u>1,680,982</u>	<u>(1,667,941)</u>
Cash flows from investing activities:		
Interest received	<u>14,552</u>	<u>20,433</u>
Net increase in cash and cash equivalents	3,077,646	1,890,321
Cash and cash equivalents at beginning of year	<u>11,081,716</u>	<u>9,191,395</u>
Cash and cash equivalents at end of year	<u>\$ 14,159,362</u>	<u>\$ 11,081,716</u>

See accompanying notes.



ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>Years ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (1,957,896)	\$ (1,559,550)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	4,357,856	4,122,422
Changes in assets and liabilities:		
Increase in accounts receivable	(1,154,707)	(151,378)
Increase in prepaid expense	(1,591)	(24,381)
Increase in inventory	(47,772)	(15,693)
Increase in accounts payable	48,243	1,102,960
Increase in accrued expenses	143,591	91,513
Decrease in unearned revenue	<u>(5,612)</u>	<u>(28,064)</u>
Net cash provided by operating activities	<u>\$ 1,382,112</u>	<u>\$ 3,537,829</u>

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

	<u>Years ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Increase in capital assets	\$ 16,424,269	\$ 8,128,268
Capital contribution	(4,972,479)	(1,086,717)
Change in grants receivable	<u>1,476,883</u>	<u>(491,229)</u>
Purchase of capital assets	<u>\$ 12,928,673</u>	<u>\$ 6,550,322</u>
Additions to capital debt	\$ 10,546,172	\$ 6,113,785
Premiums on bonds	-	75,858
Change in loans receivable	<u>252,316</u>	<u>(2,931,026)</u>
Proceeds from capital debt	<u>\$ 10,798,488</u>	<u>\$ 3,258,617</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF FIDUCIARY NET POSITION

ASSETS

	<u>Years ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Restricted investments	\$ <u>3,277,779</u>	\$ <u>2,844,451</u>
Total assets	\$ <u>3,277,779</u>	\$ <u>2,844,451</u>

LIABILITIES AND NET POSITION

	<u>Years ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Net assets held in trust for OPEB	\$ <u>3,277,779</u>	\$ <u>2,844,451</u>

See accompanying notes.

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

	<u>Years ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
<b>ADDITIONS:</b>		
Contributions	\$ 550,000	\$ 596,404
Interest income	1,667	2,945
Net additions	\$ 551,667	\$ 599,349
 <b>DEDUCTIONS:</b>		
Benefits paid	\$ (118,339)	\$ (94,012)
Administrative expenses	-	(5,000)
Net deductions	(118,339)	(99,012)
Change in net position	\$ 433,328	\$ 500,337
 <b>NET POSITION:</b>		
Beginning of year	\$ 2,844,451	\$ 2,344,114
End of year	\$ 3,277,779	\$ 2,844,451

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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, 2014 AND 2013

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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies (continued)

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 \$523,445 and \$371,216 at June 30, 2014 and 2013, respectively.

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 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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies (continued)

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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

2. Deposits and investments

Policy

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

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

Deposits

The carrying amount of MetCom's deposits was \$11,432,436 and \$7,925,001 at June 30, 2014 and 2013, respectively, and the bank balances were \$13,704,639 and \$8,423,339, respectively. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2014 and 2013, with the remaining \$13,454,639 and \$8,173,339, respectively, adequately covered by collateral.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

2. Deposits and investments (continued)

Deposits (continued)

At June 30, 2014 and 2013, there were no deposits exposed to custodial credit risk, interest rate risk or foreign currency risk.

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

	<u>2014</u>	<u>2013</u>
Investments	\$ 2,726,026	\$ 3,155,815
Cash	11,432,436	7,925,001
Petty cash	<u>900</u>	<u>900</u>
	<u>\$ 14,159,362</u>	<u>\$ 11,081,716</u>

Investments

Investments in the MLGIP are not evidenced by securities. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. Separately issued financial statements may be obtained from the contractor: David Rommel, PNC Bank, Two Hopkins Plaza, Baltimore, Maryland 21201. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments. The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated AAAM by Standard and Poors. As of June 30, 2014 and 2013, 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, 2014 and 2013 was \$2,726,026 and \$3,155,815, respectively.



ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

3. Capital assets and depreciation

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

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

3. Capital assets and depreciation (continued)

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets:				
Utility plants	\$ 91,812,267	\$ 6,365,521	\$ -	\$ 98,177,788
Water plant systems	30,317,869	6,547,480	14,286	36,851,063
Equipment	7,605,694	487,385	459,972	7,633,107
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,793,273</u>	<u>106,430</u>	<u>-</u>	<u>3,899,703</u>
Subtotal	134,347,304	13,506,816	474,258	147,379,862
Not being depreciated:				
Utility plant CIP	8,780,243	3,133,466	5,738,057	6,175,652
Water plant CIP	5,994,475	3,364,122	6,160,979	3,197,618
Land and land rights	<u>634,687</u>	<u>22,900</u>	<u>-</u>	<u>657,587</u>
	<u>149,756,709</u>	<u>20,027,304</u>	<u>12,373,294</u>	<u>157,410,719</u>
Accumulated depreciation:				
Utility plants	33,106,514	2,284,453	-	35,390,967
Water plant systems	7,279,446	996,101	14,286	8,261,261
Equipment	4,612,604	648,992	459,972	4,801,624
Capitalized interest	286,370	16,364	-	302,734
Buildings	<u>1,011,969</u>	<u>176,512</u>	<u>-</u>	<u>1,188,481</u>
	<u>46,296,903</u>	<u>4,122,422</u>	<u>474,258</u>	<u>49,945,067</u>
Net capital assets	<u>\$ 103,459,806</u>	<u>\$ 15,904,882</u>	<u>\$ 11,899,036</u>	<u>\$ 107,465,652</u>

Depreciation expense of \$4,122,422 was charged to activities as follows:

Sewer activities	\$ 2,656,938
Water activities	1,292,140
Engineering activities	54,694
Administrative	<u>118,650</u>
Total	<u>\$ 4,122,422</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

4. Long-term debt

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

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Undrawn</u>
Seventeenth Issue	2005-2018	2.75%-4.40%	\$ 2,620,000	\$ 291,475	\$ -
Twenty-first Issue	2007-2021	3.65%-4.275%	600,300	98,344	-
Twenty-third Issue	2008-2027	3.5%-4.25%	7,153,689	2,298,566	853,511
Twenty-seventh Issue	2011-2030	0.75%-4.31%	7,395,028	2,880,746	3,223,972
Thirtieth Issue	2012-2029	2.96%	1,248,773	321,971	-
Thirty-first Issue	2013-2032	0.61%-3.42%	825,615	432,635	7,154,786
Thirty-sixth Issue	2014-2033	4.31%	<u>1,224,004</u>	<u>834,428</u>	<u>14,127,896</u>
			21,067,409	7,158,165	<u>\$ 25,360,165</u>
Less current portion			<u>1,500,156</u>	<u>851,971</u>	
Total			<u>\$ 19,567,253</u>	<u>\$ 6,306,194</u>	

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2014 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015 (current)	\$ 1,500,156	\$ 851,971
2016	1,555,675	801,086
2017	1,609,197	747,014
2018	1,675,102	685,845
2019	1,742,005	619,691
2020 – 2024	6,119,341	2,343,287
2025 – 2029	5,752,041	998,891
2030 – 2033	<u>1,113,892</u>	<u>110,380</u>
	<u>\$ 21,067,409</u>	<u>\$ 7,158,165</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

4. Long-term debt (continued)

Long-term bonds payable as of June 30, 2013 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Seventeenth Issue	2005-2018	2.75%-4.40%	\$ 3,080,000	\$ 411,540
Twenty-first Issue	2007-2021	3.65%-4.275%	679,300	126,604
Twenty-third Issue	2008-2027	3.5%-4.25%	7,318,236	2,533,203
Twenty-seventh Issue	2011-2030	0.75%-4.31%	6,608,677	2,739,018
Thirtieth Issue	2012-2029	2.96%	1,302,004	361,368
Thirty-first Issue	2013-2032	0.61%-3.42%	<u>809,800</u>	<u>354,125</u>
			19,798,017	6,525,858
Less current portion			<u>1,327,174</u>	<u>773,389</u>
Total			<u>\$ 18,470,843</u>	<u>\$ 5,752,469</u>

Seventeenth Issue

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

The bonds may be prepaid at the following premiums:

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

4. Long-term debt (continued)

Twenty-first Issue

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

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

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

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

Twenty-third Issue

On November 14, 2007, the Commission issued \$10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2014 and 2013, MetCom had drawn only \$10,035,589 and \$9,739,936 of the proceeds, respectively.

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

4. Long-term debt (continued)

Twenty-Seventh Issue

On August 25, 2010, the Commission issued \$12,613,963 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2014 and 2013, MetCom had drawn only \$9,389,991 and \$8,096,339 of the proceeds, respectively.

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

Thirtieth Issue

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

The bonds may be prepaid at the following premiums:

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

4. Long-term debt (continued)

Thirty-First Issue

On December 19, 2012, the Commission issued \$8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2014 and 2013 MetCom had drawn only \$1,564,728 and \$1,178,913 of the proceeds, respectively.

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

Thirty-Sixth Issue

On October 2, 2013, the Commission issued \$15,948,168 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2014, MetCom had drawn only \$1,820,272 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2014 and ending in 2033. The average interest yield on these bonds is 4.31%. Interest was payable on May 1, 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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

4. Long-term debt (continued)

Notes, leases and loans payable

Notes, leases and loans payable as of June 30, 2014 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Undrawn</u>
Sixth Issue	2017	6.682%	\$ 47,441	\$ 6,477	\$ -
MD Water Quality Loan #11	2017	4.26%	863,979	74,634	-
MD Water Quality Loan #15	2020	2.70%	298,633	28,847	-
MD Water Quality Loan #16	2023	1.20%	242,599	12,266	-
MD Water Quality Loan #18	2025	1.10%	2,718,709	182,704	-
MD Water Quality Loan #19	2024	1.10%	538,738	33,128	-
MD Water Quality Loan #20	2024	1.10%	622,279	26,829	-
MD Water Quality Loan #22	2027	1.10%	753,089	53,337	-
MD Water Quality Loan #25	2029	1.00%	153,356	12,536	-
MD Water Quality Loan #26	2030	1.00%	475,123	41,390	-
MD Water Quality Loan #28	2030	2.20%	385,440	75,991	-
SunTrust Bank Loan #29	2016	2.03%	134,712	3,450	-
MD Water Quality Loan #32	2034	1.80%	2,912,010	606,341	1,962,192
MD Water Quality Loan #33	2033	1.70%	35,044	6,293	358,956
MD Water Quality Loan #34	2035	2.10%	4,857,058	1,516,497	16,225,342
MD Water Quality Loan #35	2035	2.10%	1,214,265	379,113	4,056,335
MD Water Quality Loan #37	2034	2.00%	230,980	50,978	2,369,320
			16,483,455	3,110,811	<u>\$ 24,972,145</u>
Less current portion			920,184	268,939	
Total			<u>\$ 15,563,271</u>	<u>\$ 2,841,872</u>	

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2014, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015 (current)	\$ 920,184	\$ 268,939
2016	1,327,960	315,430
2017	1,324,121	271,522
2018	998,872	242,105
2019	1,014,527	226,451
2020 - 2024	4,674,632	901,682
2025 - 2029	3,128,108	566,966
2030 - 2034	2,727,867	291,926
2035	367,184	25,790
	<u>\$ 16,483,455</u>	<u>\$ 3,110,811</u>



ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

4. Long-term debt (continued)

Notes, leases and loans payable as of June 30, 2013 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Sixth Issue	2017	6.682%	\$ 61,316	\$ 10,574
MD Water Quality Loan #11	2017	4.26%	1,128,764	122,719
MD Water Quality Loan #15	2020	2.70%	343,927	38,133
MD Water Quality Loan #16	2023	1.20%	274,251	15,557
MD Water Quality Loan #18	2025	1.10%	2,950,024	215,154
MD Water Quality Loan #19	2024	1.10%	589,441	39,612
MD Water Quality Loan #20	2024	1.10%	710,926	34,649
MD Water Quality Loan #22	2027	1.10%	813,807	62,289
MD Water Quality Loan #25	2029	1.00%	162,804	14,164
MD Water Quality Loan #26	2030	1.00%	502,381	46,414
MD Water Quality Loan #28	2030	2.20%	405,361	84,909
SunTrust Bank Loan #29	2016	2.03%	188,552	6,779
MD Water Quality Loan #32	2034	1.80%	227,326	48,663
MD Water Quality Loan #33	2033	1.70%	35,044	6,591
MD Water Quality Loan #34	2035	2.10%	1,788,966	560,585
MD Water Quality Loan #35	2035	2.10%	<u>447,242</u>	<u>140,141</u>
			10,630,132	1,446,933
Less current portion			<u>897,546</u>	<u>143,520</u>
Total			<u>\$ 9,732,586</u>	<u>\$ 1,303,413</u>

As of June 30, 2014, MetCom has fifteen loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purpose of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for \$976,700 was used to replace the Lexington Park Wastewater Pumping Station. Loan number twenty for \$1,466,576 was for water meter installations. Loan number twenty-two for \$1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 was used for Patuxent Park Sewer Line Repair and the Marley-Taylor Methane Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

4. Long-term debt (continued)

used for the St. Clements Shore Well. Loan number twenty-nine is with SunTrust Bank in the amount of \$270,682 at an interest rate of 2.03%. Payments are made monthly on this loan from December 2011 through November 2016. The proceeds of this loan were used to purchase a Vactor truck. Loan number thirty-two in the amount of \$4,874,202 is for the Radio Read Meter Project. As of June 30, 2014 and 2013 MetCom had drawn \$2,912,010 and \$227,326 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. As of June 30, 2014 and 2013 MetCom had drawn \$35,044 of the proceeds. Loan number thirty-four in the amount of \$21,082,400 is for the Marlay-Taylor Wastewater Reclamation Facility Enhanced Nutrient Removal, ENR, project. Loan number thirty-five in the amount of \$5,270,600 is also for Marlay-Taylor Water Reclamation Facility ENR project. This loan will be paid for by Navy charges and is therefore taxable. As of June 30, 2014 and 2013, MetCom has drawn \$6,071,323 and \$2,236,208 of the proceeds, respectively, on loans thirty-four and thirty-five. Loan number thirty-seven in the amount of \$2,600,300 is for the Route 235 and Route 712 Interceptor Rehabilitation. As of June 30, 2014, MetCom had drawn \$230,980 of the proceeds.

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Amounts Due Within One Year
Bonds payable	\$ 19,798,017	\$ 3,795,393	\$ 2,526,001	\$ 21,067,409	\$ 1,500,156
Notes, leases and loans payable	<u>10,630,132</u>	<u>6,750,779</u>	<u>897,456</u>	<u>16,483,455</u>	<u>920,184</u>
Total long-term debt	<u>\$ 30,428,149</u>	<u>\$ 10,546,172</u>	<u>\$ 3,423,457</u>	<u>\$ 37,550,864</u>	<u>\$ 2,420,340</u>

The changes in long-term debt payable for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Amounts Due Within One Year
Bonds payable	\$ 18,318,968	\$ 3,615,207	\$ 2,136,158	\$ 19,798,017	\$ 1,327,174
Notes, leases and loans payable	<u>9,009,189</u>	<u>2,498,578</u>	<u>877,635</u>	<u>10,630,132</u>	<u>897,546</u>
Total long-term debt	<u>\$ 27,328,157</u>	<u>\$ 6,113,785</u>	<u>\$ 3,013,793</u>	<u>\$ 30,428,149</u>	<u>\$ 2,224,720</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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, 2014 and 2013 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, 2014 and 2013 is \$130,894.
- 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, 2014 and 2013 was \$6,515,470 and \$5,106,717, 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, 2014 and 2013 was \$1,275,883 and \$356,186, 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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

6. Retirement and pension plan (continued)

Description

The State Retirement Agency (the "Agency") is the administrator of the Maryland State Retirement and Pension System (the "System"). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide provisions for early retirement, death and disability benefits. The Plan is an agent multiple-employer public employee retirement system. The separately issued financial statements of the System may be obtained by contacting the administrator.

Plan Provisions

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

Funding policy

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, 2014 and 2013.

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

6. Retirement and pension plan (continued)

Funding policy (continued)

Trustees. These contribution rates have been established as the rates necessary to fully fund normal costs and amortize the unfunded actuarial accrued liability.

The unfunded actuarial liability 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 2013 legislative session, the Legislature changed the method used to fund the System. The unfunded liability as of June 30, 2013 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 provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2014, MetCom's total payroll and payroll for covered employees were \$5,589,642 and \$4,580,188, respectively. MetCom's contribution to the System was \$447,972 and \$383,616 for the years ended June 30, 2014 and 2013, respectively.

Actuarial assumptions

Investment Rate of Return	7.70% compounded annually
Projected payroll growth	3.4% to 11.95% including a wage inflation of 3.5%
COLAs /Inflation Rate	2.70%-3.45% for service prior to July 1, 2011 and 1.69%-3.45% for service after June 30, 2011 per year based on System and provisions

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

6. Retirement and pension plan (continued)

Trend information

	June 30,		
	2013	2012	2011
Annual required contributions (in thousands)	\$2,149,985	\$2,146,624	\$2,035,401
Percentage contributed	76%	71%	74%

7. Other post-employment benefits

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

Plan Description

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

7. Other post-employment benefits (continued)

Membership

At June 30 membership consisted of:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Retirees and Beneficiaries Currently Receiving Benefits	10	10	9
Active Employees	<u>66</u>	<u>65</u>	<u>62</u>
Total	<u><u>76</u></u>	<u><u>75</u></u>	<u><u>71</u></u>

Funding Policy

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY 2014 Operating Budget included fully funding the OPEB cost. MetCom contributed \$550,000 and \$596,404 to the trust in FY 2014 and FY 2013, respectively. The Net OPEB Obligation is overpaid by \$300,388 as of June 30, 2014.

Annual OPEB Costs and Net OPEB Obligation

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

7. Other post-employment benefits (continued)

Funded Status and Funding Progress

As of July 1, 2013, the plan was 44.84% funded. The actuarially accrued liability for benefits was \$6,595,000, and the actuarial value of assets was \$2,957,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,638,000. The covered payroll (annual payroll of active employees covered by the plan) was \$4,320,628, and the ratio of UAAL to the covered payroll was 84.2%. 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 supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the liabilities were computed using the project unit credit method with linear pro-ration to assumed benefit commencement. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 8% and 5.0% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 2.5% rate of inflation assumption. The UAAL is being amortized as a 30-year level percentage of projected payroll, closed basis, with 23 years remaining.



ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

7. Other post-employment benefits (continued)

Summary of significant accounting policies

The Trust's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable. The Trust assets are invested with the Maryland Local Government Investment Pool.

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.

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>2014</u>	<u>2013</u>
Change in net position – per financial statements	\$ 9,691,916	\$ 4,133,462
Add:		
Depreciation – facilities	3,777,070	3,543,001
Less:		
Principal payment on capital debt	(3,415,843)	(2,965,390)
Repayment of internal pension loan	(113,092)	(113,092)
Capital contributions	<u>(4,972,479)</u>	<u>(1,086,717)</u>
Excess or (deficiency) of revenue over expenses – rate-setting method	<u>\$ 4,967,572</u>	<u>\$ 3,511,264</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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 2014 and FY 2013, MetCom paid premiums of \$109,982 and \$100,337, respectively, to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any, resulting from these risks have not exceeded commercial coverage in the past fiscal year.

10. Restated net position

MetCom adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. The GASB statement changed the classifications of certain items on the statement of net position to the new classifications contained in GASB Statement No. 63 which was adopted during the year ended June 30, 2013. MetCom restated beginning net position at July 1, 2012 by \$(499,003) to expense bond issuance costs.

11. Commitment and contingencies

MetCom is required to upgrade the Marlay-Taylor Water Reclamation Facility to meet Enhanced Nutrient Removal (ENR) standards. ENR standards are levels of 3.0 mg/l total nitrogen and 0.3 mg/l total phosphorous in the effluent that flows into the Chesapeake Bay. MetCom has a consent agreement with the Maryland State Department of the Environment (MDE) that extends the deadline for compliance until

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

11. Commitment and contingencies (continued)

December 2016. In August 2013, MetCom awarded a construction contract for the ENR project and fully expects to meet this requirement.

MetCom participates in state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. The audits for the year ended June 30, 2014 have not yet been completed. Accordingly, MetCom's compliance with applicable grant requirements will be verified in connection with performing MetCom's Single Audit. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although MetCom expects such amounts, if any, to be immaterial.

12. Subsequent events

In preparing these financial statements, MetCom has evaluated events and transactions for potential recognition or disclosure through September 25, 2014, the date the financial statements were available to be issued. On August 28, 2014, MetCom closed on a bond issue by the Maryland Community Development Administration (CDA) in the amount of \$22,075,230 at an average interest rate of 3.51%.

**REQUIRED SUPPLEMENTAL INFORMATION**

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT PENSION PLAN

JUNE 30, 2014 AND 2013

Maryland State Retirement and Pension Plan - Schedule of Funding Progress

The schedule below (expressed in thousands) presents the actuarial value of the System's assets and the actuarial accrued liability as of June 30, 2013 and the preceding two years. The schedule is intended to help users assess the funding status of the System.

Schedule of Funding Progress for the Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/13	\$ 39,350,969	\$ 60,060,091	\$ 20,709,122	65.52%	\$ 10,477,544	197.65%
06/30/12	\$ 37,248,401	\$ 57,869,145	\$ 20,620,744	64.37%	\$ 10,336,537	199.49%
06/30/11	\$ 36,177,656	\$ 55,917,543	\$ 19,739,887	64.70%	\$ 10,478,800	188.38%

The latest actuarial valuation of the System was as of June 30, 2013, and the information is available only in total, with data relating to the MetCom and other participating employers combined. The System uses the Individual Entry Age Normal cost method actuarial funding method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll over a closed period of 25 years. The UAAL which existed as of June 30, 2013 will be amortized over the fiscal years from June 30, 2015 to June 30, 2039.

See independent auditor's report.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POSTEMPLOYMENT BENEFIT PLAN

JUNE 30, 2014 AND 2013

MetCom's Other Postemployment Benefit Plan (OPEB Plan) is administered through the Retiree Benefit Trust of St. Mary's County Metropolitan Commission as an irrevocable trust. Assets of the trust are dedicated to providing post-retirement health, prescription, dental and vision coverage to current and eligible future retirees.

The following schedules present MetCom's actuarially determined funding progress and required contributions for the Retiree Benefit Trust of St. Mary's County Metropolitan Commission.

Schedule of Funding Progress for the MetCom Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
07/01/07	\$ -	\$ 4,331,000	\$ 4,331,000	0.00%	\$ 3,400,838	127.35%
07/01/09	\$ 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%

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%

MetCom implemented GASB Statement No. 45 for the fiscal year ended June 30, 2008. Information for prior years is not available.

See Independent Auditor's Report.

**OTHER SUPPLEMENTAL INFORMATION**

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2014

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Operating revenue:				
Service charges	\$ 8,562,650	\$ 4,788,743	\$ 230,000	\$ 13,581,393
Miscellaneous	<u>40,938</u>	<u>160,569</u>	<u>26,108</u>	<u>227,615</u>
Total operating revenue	<u>8,603,588</u>	<u>4,949,312</u>	<u>256,108</u>	<u>13,809,008</u>
Operating expenses:				
Direct operating expenses	4,203,856	2,248,626	387,080	6,839,562
Administrative expenses	<u>2,681,222</u>	<u>1,478,649</u>	<u>519,399</u>	<u>4,679,270</u>
Total operating expenses	<u>6,885,078</u>	<u>3,727,275</u>	<u>906,479</u>	<u>11,518,832</u>
Operating income (loss) before depreciation	1,718,510	1,222,037	(650,371)	2,290,176
Depreciation	<u>(2,838,292)</u>	<u>(1,362,827)</u>	<u>(46,953)</u>	<u>(4,248,072)</u>
Operating income (loss)	<u>(1,119,782)</u>	<u>(140,790)</u>	<u>(697,324)</u>	<u>(1,957,896)</u>
Allocable nonoperating revenue (expense):				
Interest income	374	94	-	468
Debt service charges	5,112,626	3,685,681	-	8,798,307
House connection charges - net	-	14,552	-	14,552
Debt service - interest and finance charges	<u>(899,458)</u>	<u>(1,418,489)</u>	<u>-</u>	<u>(2,317,947)</u>
Total allocable nonoperating revenue	<u>4,213,542</u>	<u>2,281,838</u>	<u>-</u>	<u>6,495,380</u>
Total allocable net income (loss)	<u>\$ 3,093,760</u>	<u>\$ 2,141,048</u>	<u>\$ (697,324)</u>	<u>4,537,484</u>
Nonallocable revenue:				
Interest income				14,084
Other fees				<u>167,869</u>
Total nonallocable revenue				<u>181,953</u>
Capital contribution				<u>4,972,479</u>
Change in fund net position				<u>\$ 9,691,916</u>



ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2013

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Operating revenue:				
Service charges	\$ 8,143,671	\$ 4,796,068	\$ 367,486	\$ 13,307,225
Miscellaneous	<u>54,168</u>	<u>206,420</u>	<u>29,107</u>	<u>289,695</u>
Total operating revenue	<u>8,197,839</u>	<u>5,002,488</u>	<u>396,593</u>	<u>13,596,920</u>
Operating expenses:				
Direct operating expenses	4,126,874	2,197,843	483,992	6,808,709
Administrative expenses	<u>2,528,202</u>	<u>1,476,956</u>	<u>338,831</u>	<u>4,343,989</u>
Total operating expenses	<u>6,655,076</u>	<u>3,674,799</u>	<u>822,823</u>	<u>11,152,698</u>
Operating income (loss) before depreciation	1,542,763	1,327,689	(426,230)	2,444,222
Depreciation	<u>(2,656,938)</u>	<u>(1,292,140)</u>	<u>(54,694)</u>	<u>(4,003,772)</u>
Operating income (loss)	<u>(1,114,175)</u>	<u>35,549</u>	<u>(480,924)</u>	<u>(1,559,550)</u>
Allocable nonoperating revenue (expense):				
Interest income	801	200	-	1,001
Debt service charges	3,845,075	2,030,053	-	5,875,128
House connection charges - net	-	(3,146)	-	(3,146)
Debt service - interest and finance charges	<u>(730,387)</u>	<u>(666,137)</u>	<u>-</u>	<u>(1,396,524)</u>
Total allocable nonoperating revenue	<u>3,115,489</u>	<u>1,360,970</u>	<u>-</u>	<u>4,476,459</u>
Total allocable net income (loss)	<u>\$ 2,001,314</u>	<u>\$ 1,396,519</u>	<u>\$ (480,924)</u>	<u>2,916,909</u>
Nonallocable revenue:				
Interest income				19,432
Other fees				<u>110,404</u>
Total nonallocable revenue				<u>129,836</u>
Capital contribution				<u>1,086,717</u>
Change in fund net position				<u>\$ 4,133,462</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2014

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Service charges:				
Service charge - metered	\$ 1,370,158	\$ 4,414,644	\$ -	\$ 5,784,802
Service charge - nonmetered	7,069,524	245,200	-	7,314,724
Service charge - ready-to-serve	-	77,886	-	77,886
Septage haul revenue	122,843	-	-	122,843
Water meter installation	-	13,740	-	13,740
Review fees	-	-	76,410	76,410
Inspection fees	-	-	149,590	149,590
Residential tap fee sewer	-	-	4,000	4,000
Cut-on cut-off fees	125	37,273	-	37,398
Total service charges	<u>\$ 8,562,650</u>	<u>\$ 4,788,743</u>	<u>\$ 230,000</u>	<u>\$ 13,581,393</u>
Direct operating expenses:				
Salaries	\$ 2,225,184	\$ 998,299	\$ 659,533	\$ 3,883,016
Chemicals	186,296	102,395	-	288,691
Contractual employees	-	-	23,963	23,963
Employee physicals/uniforms	20,602	6,881	3,709	31,192
Employee training	22,166	4,369	7,854	34,389
Lab/soil testing	9,228	-	-	9,228
Leonardtown - treatment plant	100,097	-	-	100,097
Maintenance	551,597	339,311	480	891,388
Materials and supplies	80,690	58,270	9,225	148,185
Meter reading expense	-	65,099	-	65,099
Miscellaneous	15,813	10,771	2,215	28,799
Oil and gas	112,152	8,255	1,304	121,711
Power	510,042	555,511	5,859	1,071,412
Professional fees	2,763	-	5,865	8,628
Safety supplies	12,860	6,145	-	19,005
Sludge removal	138,245	-	-	138,245
SSO fines and penalties	900	-	-	900
Telephone	42,869	10,310	11,474	64,653
Temporary labor	-	-	1,771	1,771
Tools purchased	17,347	6,429	-	23,776
Vehicle operating and mileage	161,356	61,382	21,145	243,883
Water testing	-	15,865	-	15,865
Recovery of costs	(6,351)	(666)	(367,317)	(374,334)
Total direct operating expenses	<u>\$ 4,203,856</u>	<u>\$ 2,248,626</u>	<u>\$ 387,080</u>	<u>\$ 6,839,562</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2013

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Service charges:				
Service charge - metered	\$ 1,282,744	\$ 4,342,646	\$ -	\$ 5,625,390
Service charge - nonmetered	6,720,497	314,226	-	7,034,723
Service charge - ready-to-serve	-	79,881	-	79,881
Septage haul revenue	140,430	-	-	140,430
Remote area surcharge	-	-	-	-
Water meter installation	-	18,300	-	18,300
Review fees	-	-	126,320	126,320
Inspection fees	-	-	239,666	239,666
Residential tap fee sewer	-	-	1,500	1,500
Cut-on cut-off fees	-	41,015	-	41,015
Total service charges	<u>\$ 8,143,671</u>	<u>\$ 4,796,068</u>	<u>\$ 367,486</u>	<u>\$ 13,307,225</u>
Direct operating expenses:				
Salaries	\$ 2,116,155	\$ 972,736	\$ 572,375	\$ 3,661,266
Chemicals	205,055	104,683	-	309,738
Contractual employees	-	321	111,160	111,481
Employee physicals/uniforms	20,245	4,645	4,357	29,247
Employee training	18,112	4,242	1,447	23,801
Lab/soil testing	8,777	-	-	8,777
Leonardtown - treatment plant	128,295	-	-	128,295
Maintenance	585,454	341,360	641	927,455
Materials and supplies	97,647	67,991	15,108	180,746
Meter reading expense	-	85,650	-	85,650
Miscellaneous	15,990	9,522	1,496	27,008
Oil and gas	113,508	10,737	608	124,853
Power	468,845	489,472	5,624	963,941
Professional fees	1,153	-	5,856	7,009
Safety supplies	12,012	6,649	-	18,661
Sludge removal	143,162	-	-	143,162
Telephone	41,078	10,205	10,448	61,731
Tools purchased	14,273	7,683	-	21,956
Vehicle operating and mileage	164,703	68,455	23,116	256,274
Water testing	-	15,601	-	15,601
Recovery of costs	(27,590)	(2,109)	(268,244)	(297,943)
Total direct operating expenses	<u>\$ 4,126,874</u>	<u>\$ 2,197,843</u>	<u>\$ 483,992</u>	<u>\$ 6,808,709</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>Years ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Administrative expenses:		
Accounting	\$ 17,000	\$ 17,225
Advertising	27,569	19,551
Bond fees	750	1,500
Commissioners' salaries	13,500	14,542
Computer services	76,259	65,490
Consulting	16,808	17,198
Contractual employees	94,983	82,858
Depreciation	109,784	118,650
Dues and subscriptions	7,856	9,806
Electric	14,944	11,584
Employee training	29,269	26,373
Hospitalization and disability	1,574,981	1,437,276
Insurance	198,951	209,645
Legal	32,423	57,772
Mileage and travel	3,310	3,665
Miscellaneous	4,164	7,532
Office and administrative salaries	1,334,152	1,234,875
Office supplies and expenses	114,488	104,102
On-line fees	2,306	-
Payroll taxes	402,287	392,159
Postage expense	99,595	103,697
Retirement	462,378	383,616
Telephone and fax	49,105	43,099
Tuition reimbursement	3,602	2,787
Recovery of costs	<u>(11,194)</u>	<u>(21,013)</u>
Total administrative expenses	<u>\$ 4,679,270</u>	<u>\$ 4,343,989</u>
Allocated to services as follows:		
Sewer 57.3% and 58.2%	\$ 2,681,222	\$ 2,528,202
Water 31.6% and 34%	1,478,649	1,476,956
Engineering 11.1% and 7.8%	<u>519,399</u>	<u>338,831</u>
	<u>\$ 4,679,270</u>	<u>\$ 4,343,989</u>



**Murphy & Murphy, CPA, LLC**  
Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the St. Mary's County Metropolitan Commission, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the St. Mary's County Metropolitan Commission's basic financial statements, and have issued our report thereon dated September 25, 2014.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
September 25, 2014