

ST. MARY'S COUNTY METROPOLITAN COMMISSION

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2012 AND 2011**



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
California, Maryland

We have audited the accompanying financial statements of the business-type activities of the St. Mary's County Metropolitan Commission (MetCom), a component unit of the County Commissioners of St. Mary's County, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the St. Mary's County Metropolitan Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the St. Mary's County Metropolitan Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the St. Mary's County Metropolitan Commission as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions on pages 3 through 9 and 40 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Mary's County Metropolitan Commission's financial statements as a whole. The other supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. This 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
September 27, 2012

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, 2012 and 2011. Please read it in conjunction with MetCom's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- MetCom's net assets increased by \$4.7 million and \$7 million, or 5.8% and 9.4%, as a result of operations in fiscal years 2012 and 2011, respectively.
- During the current year, MetCom's revenue from operations was \$12.4 million, representing an increase of 5.2% over the prior year. The increase in operating revenue is mainly due to an increase in rates of approximately 3.7% for both water and sewer services. In fiscal year 2011, revenue from operations was \$11.7 million, or 3.4% over the prior year. The increase in operating revenue was due to an increase in rates of approximately 4% for both water and sewer services, as well as an increase in the number of customers served, offset by a lower sewer usage by our sewer-only customers.
- MetCom's operating expenses excluding depreciation were \$10.7 million during the current year and \$10 million in the prior year.
- MetCom's nonoperating revenue was \$6.6 million during the current year and \$8.6 million in fiscal year 2011, representing a decrease of 23% in the current year and a decrease of 21% in the prior year. The fluctuation in both years is attributable to capital contributions received.
- Although the slowdown in the construction industry that started in fiscal year 2008 has continued to have a negative impact on Engineering Revenues in both fiscal years 2012 and 2011, the current year's engineering revenues increased 20% over the prior year.
- 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 \$2.3 million as of 6/30/12 and \$1.9 million as of 6/30/11. MetCom has funded the full OPEB cost for both years.
- MetCom took out one new loan in FY12 in the amount of \$270,682. MetCom also refinanced the Fourteenth Bond Issue.

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

The Statements of Net Assets provide a snapshot of MetCom’s financial position at both June 30, 2012 and 2011. Amounts of Net Assets are cumulative from inception. Both current and long-term assets and liabilities, as well as net assets, are presented.

The Statements of Revenues, Expenses and Changes in Fund Net Assets provide information about the activities of MetCom as a whole and reflect activity for the fiscal years ended June 30, 2012 and 2011. 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 assets.

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 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 Assets

MetCom's net assets increased by approximately \$4.7 million in FY2012 and \$7.0 million in FY2011. The majority of the increase is attributable to the change in net assets invested in capital assets, net of related debt. During fiscal year 2012, developers completed construction of \$2.4 million of capital assets and donated them to MetCom. In Fiscal Year 2011 developers contributed \$2.7 million of capital assets. MetCom also received \$.6 and \$2.2 million in grants in fiscal year 2012 and 2011, respectively. The following condensed statements show the changes in assets, liabilities and net assets for the years ended June 30, 2012, 2011 and 2010.

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

	<u>June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 12.50	\$ 11.40	\$ 11.20
Capital assets	<u>103.40</u>	<u>98.50</u>	<u>89.90</u>
Total assets	<u>\$ 115.90</u>	<u>\$ 109.90</u>	<u>\$ 101.10</u>
Long-term debt outstanding	\$ 25.10	\$ 23.50	\$ 20.30
Other liabilities	<u>4.20</u>	<u>4.50</u>	<u>5.90</u>
Total liabilities	<u>\$ 29.30</u>	<u>\$ 28.00</u>	<u>\$ 26.20</u>
Net assets			
Invested in capital assets, net of related debt	\$ 76.10	\$ 72.90	\$ 67.80
Restricted	5.30	4.60	3.80
Unrestricted	<u>5.20</u>	<u>4.40</u>	<u>3.30</u>
Total net assets	<u>\$ 86.60</u>	<u>\$ 81.90</u>	<u>\$ 74.90</u>

Statements of Revenues, Expenses and Changes in Fund Net Assets

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

MetCom's Changes in Net Assets (in millions of dollars) Business-type activities			
	<u>Years ended June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 12.40	\$ 11.70	\$ 11.40
Operating expenses	(10.70)	(10.00)	(10.00)
Depreciation expense	<u>(3.60)</u>	<u>(3.30)</u>	<u>(3.00)</u>
Operating loss	(1.90)	(1.60)	(1.60)
Nonoperating revenues	3.60	3.70	3.50
Capital contributions	<u>3.00</u>	<u>4.90</u>	<u>6.90</u>
Change in net assets	4.70	7.00	8.80
Net assets at beginning of year	<u>81.90</u>	<u>74.90</u>	<u>66.10</u>
Net assets at end of year	<u>\$ 86.60</u>	<u>\$ 81.90</u>	<u>\$ 74.90</u>

MetCom's operating revenues totaled \$12.4 million during the current year. Total operating revenues increased by 5.2% over the prior year, compared to operating revenue in the prior year of \$11.7 million which was an increase of 3.4% over fiscal year 2010. The current year increase is mainly due to a 3.7% average increase in water and sewer service. The prior year increase was due to a 4% average increase in water and sewer service charges and customer growth, offset by lower sewer usage by sewer only customers. Expenses from MetCom's operating activities excluding depreciation totaled \$10.7 million during the current year and \$10 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 \$7.1 million, or 66% of operating expenses. Power for plant operations was \$1.0 million, or 9.7%. Maintenance of the system was \$.6 million or 5% of operating expenses. The remaining \$2.0 million, or 19%, related to administrative and direct costs.

Total Nonoperating Revenue decreased \$.1 million to \$3.6 million in the current year. Debt Service Charges decreased \$.2 million to \$4.6 million. The Debt Service Charges are made up of \$4.3 million of System Improvement Charges and \$.3 million of Capital Contribution Charges. System Improvement Charges increased \$.2 million or 5.6% due mostly to an 8% increase in Sewer System Improvement Charges. Capital Contribution Charges decreased \$.4 million due to fewer connections paying the fee. Interest Expense decreased by \$.1 million. In the prior year, total Nonoperating Revenue increased \$.2 million to \$3.7 million due to an increase in debt service charges that

resulted from a 3% increase in System Improvement Charges.

Capital contributions, which include both grants and assets built by developers and donated to MetCom are down \$1.9 million from the prior year. The reduction is primarily due to a reduction in grants of \$1.6 million. The \$2 million reduction in the prior year was due to a decline in the amount of developer donated assets.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At June 30, 2012, MetCom had \$149.7 million prior to depreciation invested in capital assets. This represents an increase of 6% over the previous year. As of June 30, 2011, MetCom had \$141.3 million prior to depreciation invested in capital assets. 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>2012</u>	<u>2011</u>	<u>2010</u>
Utility plants	\$ 91.80	\$ 89.20	\$ 87.10
Water plants	30.30	28.20	23.50
Equipment	7.60	7.00	6.60
Capitalized interest	0.80	0.80	0.80
Buildings	3.80	3.80	1.50
Land	0.60	0.60	0.60
Construction in process	<u>14.80</u>	<u>11.70</u>	<u>9.30</u>
	149.70	141.30	129.40
Accumulated depreciation	<u>(46.30)</u>	<u>(42.80)</u>	<u>(39.50)</u>
Net capital assets	<u>\$ 103.40</u>	<u>\$ 98.50</u>	<u>\$ 89.90</u>

This year's major capital asset additions included:

- The Patuxent Park Water & Sewer Project, Phase 2 was completed at a total cost of \$435 thousand, which was funded with a loan from the Department of Housing and Community Development (DHCD).
- The Piney Point Well was completed at a cost of \$413 thousand, which was funded with a loan from DHCD.
- The St. Georges Island Force Main Upgrade was completed at a cost of \$352 thousand, which was funded with a loan from DHCD.
- The FDR Boulevard Water Main Phase 1A Project was completed at a cost of

\$269 thousand, which was funded by a loan from DHCD.

- The Oliver Drive Sewer Force Main Project was completed at a cost of \$280 thousand, which was funded by a grant from the Maryland Department of the Environment.
- The Broad Creek Phase 4 Water & Sewer Project, valued at \$936 thousand, was built and donated to MetCom.
- The Estates at Joy Chapel Water & Sewer Project, valued at \$780 thousand, was built and donated to MetCom.
- The Grandview Haven Phase 1A Water Project, valued at \$627 thousand, was built and donated to MetCom.

MetCom's FY13 Capital Improvement Budget for water is \$13.2 million, which includes \$1.9 million for water lines, \$7.7 million for water storage tanks, \$2.7 million for wells, and \$.9 million for miscellaneous projects. The Radio Read Water Meter Project in the amount of \$9.9 million was approved in FY12; construction is expected to start in FY13. MDE has awarded a grant to MetCom for approximately one-half of the project amount and a loan for the balance of the project.

The FY 13 Capital Improvement Budget for sewer is \$15.5 million, \$7.5 million for replacement projects, \$6.5 million for pump stations and \$1.5 million for upgrades/expansions. The Enhanced Nutrient Removal Project, ENR, at the Marlay-Taylor Wastewater Reclamation Facility, in the amount of \$36.1 million was approved in FY12. This project is in the design phase and construction is expected to start in FY13. 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. MetCom has a consent agreement with the Maryland Department of the Environment which gives MetCom until September 2014 to meet these requirements. The state is expected to pay for the ENR portion of this project estimated to be \$10.6 million and the Navy is expected to pay \$7.2 million for this project.

Most of the FY 13 capital projects not funded by the previously mentioned grants will be financed with additional MetCom debt.

Debt administration

At the end of FY12 and FY 11, MetCom had a total of \$27.3 million and \$25.5 million in debt outstanding, respectively.

On November 14, 2007 MetCom issued \$10.9 million of Infrastructure Financing Bonds in conjunction with the Maryland Department of Housing and Community Development, DHCD. As of June 30, 2012 MetCom has drawn \$8.6 million on this loan. The undrawn amount is not included in Bonds Payable.

On August 25, 2010 MetCom issued \$12.6 million of Infrastructure Financing Bonds in conjunction with DHCD. MetCom has drawn \$6.8 million on this loan. The undrawn

amount is not included in Bonds Payable.

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

	June 30,			%change	%change
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>FY12</u>	<u>FY11</u>
Bonds payable	\$ 18.3	\$ 15.9	\$ 12.0	15.1	31.7
Notes, leases and loans payable	<u>9.0</u>	<u>9.7</u>	<u>10.1</u>	(6.8)	(4.0)
Total debt	<u>\$ 27.3</u>	<u>\$ 25.6</u>	<u>\$ 22.1</u>	6.8	15.4

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 new customers.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

MetCom anticipates about a 10% increase in the total operating revenues for next year. This increase is mostly attributable to rate increases of approximately 9.7% in sewer and 7% in water service charges, but is also impacted by projected growth in water and sewer customers.

The total operating expenses in MetCom's Operating Budget for FY13 are \$13.3 million, about \$1.3 million more than the FY 12 Amended Budget. Salaries are the largest component of MetCom's expenses, in FY 13 salaries are \$5.3 million, with a \$384 thousand increase over FY 12 Amended Operating Budget. Health insurance is \$1 million and OPEB is \$443 thousand to fully fund the Annual Required Contribution, ARC, to the Other Post-Employment Benefit Trust, (OPEB). Electricity to operate the water and sewer systems is \$1.1 million in the FY 13 Operating Budget.

CONTACTING METCOM'S FINANCIAL MANAGEMENT

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET ASSETS

ASSETS

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 9,191,395	\$ 6,577,197
Accounts receivable	1,128,509	1,205,415
Loans/grants receivable	936,557	2,528,031
Inventory	260,355	245,554
Prepaid expenses	<u>321,592</u>	<u>309,310</u>
Total current assets	<u>11,838,408</u>	<u>10,865,507</u>
Noncurrent assets:		
Capital assets, net	103,459,806	98,489,793
Deferred bond issue costs	563,556	582,942
Unamortized bond discount	<u>50,125</u>	<u>58,098</u>
Total noncurrent assets	<u>104,073,487</u>	<u>99,130,833</u>
Total assets	<u>\$ 115,911,895</u>	<u>\$ 109,996,340</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET ASSETS (CONTINUED)

LIABILITIES AND NET ASSETS

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 850,952	\$ 1,148,246
Accrued interest payable	245,461	269,064
Accrued expenses	641,549	795,862
Deferred income	81,043	146,268
Bond premiums	83,371	90,794
Bonds payable	1,391,898	1,166,188
Notes, leases and loans payable	<u>877,634</u>	<u>905,997</u>
Total current liabilities	<u>4,171,908</u>	<u>4,522,419</u>
Noncurrent liabilities:		
Bonds payable	16,927,070	14,748,958
Notes, leases and loans payable	<u>8,131,555</u>	<u>8,764,123</u>
Total noncurrent liabilities	<u>25,058,625</u>	<u>23,513,081</u>
Total liabilities	<u>29,230,533</u>	<u>28,035,500</u>
Net assets:		
Invested in capital assets, net of related debt	76,131,649	72,904,527
Restricted	5,317,660	4,572,858
Unrestricted	<u>5,232,053</u>	<u>4,483,455</u>
Total net assets	<u>86,681,362</u>	<u>81,960,840</u>
Total liabilities and net assets	<u>\$ 115,911,895</u>	<u>\$ 109,996,340</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

	<u>Years ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Operating revenue:		
Service charges	\$ 12,081,361	\$ 11,520,114
Miscellaneous	<u>273,607</u>	<u>222,178</u>
Total operating revenue	<u>12,354,968</u>	<u>11,742,292</u>
Operating expenses:		
Direct operating expenses	6,522,441	6,152,272
Administrative expenses	<u>4,155,945</u>	<u>3,846,265</u>
Total operating expenses	<u>10,678,386</u>	<u>9,998,537</u>
Operating income before depreciation	1,676,582	1,743,755
Depreciation	<u>(3,577,105)</u>	<u>(3,307,663)</u>
Operating loss	<u>(1,900,523)</u>	<u>(1,563,908)</u>
Nonoperating revenue (expenses):		
Interest income	34,955	21,986
Debt service charges	4,653,432	4,813,629
House connection charges- net	51,088	55,626
Interest expense	(1,236,269)	(1,309,193)
Other fees	<u>99,973</u>	<u>103,155</u>
Total nonoperating revenue, net	<u>3,603,179</u>	<u>3,685,203</u>
Income before contributions	1,702,656	2,121,295
Capital contributions	<u>3,017,866</u>	<u>4,926,292</u>
Change in fund net assets	4,720,522	7,047,587
Total net assets- beginning	<u>81,960,840</u>	<u>74,913,253</u>
Total net assets- ending	<u>\$ 86,681,362</u>	<u>\$ 81,960,840</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS

	<u>Years ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers	\$ 12,093,042	\$ 11,349,968
Payments to suppliers	(5,982,961)	(7,131,800)
Payments to employees	(5,021,777)	(4,547,433)
Other receipts	<u>273,607</u>	<u>222,178</u>
Net cash provided (used) by operating activities	<u>1,361,911</u>	<u>(107,087)</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	5,976,923	4,325,043
Purchases of capital assets	(5,733,110)	(5,621,475)
Principal paid on capital debt	(2,650,777)	(2,594,849)
Interest paid on capital debt	(1,180,197)	(1,172,844)
Other receipts and payments	<u>4,804,493</u>	<u>4,972,410</u>
Net cash used by capital and related financing activities	<u>1,217,332</u>	<u>(91,715)</u>
Cash flows from investing activities:		
Interest received	<u>34,955</u>	<u>21,986</u>
Net increase (decrease) in cash and cash equivalents	2,614,198	(176,816)
Cash and cash equivalents at beginning of year	<u>6,577,197</u>	<u>6,754,013</u>
Cash and cash equivalents at end of year	<u>\$ 9,191,395</u>	<u>\$ 6,577,197</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>Years ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (1,900,523)	\$ (1,563,908)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	3,729,443	3,414,691
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	76,906	(62,485)
Increase in prepaid expense	(12,282)	(6,275)
Increase in inventory	(14,801)	(101,051)
Decrease in accounts payable	(297,294)	(1,695,103)
Increase (decrease) in accrued expenses	(154,313)	14,705
Increase in deferred income	<u>(65,225)</u>	<u>(107,661)</u>
Net cash provided by operating activities	<u>\$ 1,361,911</u>	<u>\$ (107,087)</u>

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

	<u>Years ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Increase in capital assets	\$ 8,699,456	\$ 11,962,077
Capital contribution	(3,017,866)	(4,926,292)
Change in grants receivable	<u>51,520</u>	<u>(1,414,310)</u>
Purchase of capital assets	<u>\$ 5,733,110</u>	<u>\$ 5,621,475</u>
Additions to capital debt	\$ 5,773,268	\$ 6,014,503
Refinanced debt	(1,379,600)	-
Deferred bond issue costs	(59,739)	(179,106)
Premiums on bonds	-	65,143
Change in loans receivable	<u>1,642,994</u>	<u>(1,575,497)</u>
Proceeds from capital debt	<u>\$ 5,976,923</u>	<u>\$ 4,325,043</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF FIDUCIARY NET ASSETS

ASSETS

	<u>Years ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Restricted investments	\$ <u>2,344,114</u>	\$ <u>1,903,389</u>
Total assets	\$ <u>2,344,114</u>	\$ <u>1,903,389</u>

LIABILITIES

	<u>Years ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Due to general fund	\$ <u>-</u>	\$ <u>5,000</u>

LIABILITIES AND NET ASSETS

	<u>Years ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Net assets held in trust for OPEB	\$ <u>2,344,114</u>	\$ <u>1,898,389</u>

See accompanying notes.

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

	<u>Years ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
ADDITIONS:		
Contributions	\$ 538,000	\$ 431,000
Interest income	2,007	2,853
Net additions	\$ 540,007	\$ 433,853
 DEDUCTIONS:		
Benefits paid	\$ (94,282)	\$ (94,282)
Administrative expenses	-	(5,000)
Net deductions	(94,282)	(99,282)
Change in net assets	\$ 445,725	\$ 334,571
 NET ASSETS:		
Beginning of year	\$ 1,898,389	\$ 1,563,818
End of year	\$ 2,344,114	\$ 1,898,389

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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.

MetCom applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. 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 assets. Fund equity (i.e., net assets) is segregated into invested 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 assets.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies (continued)

Fund accounting and basis of accounting (continued)

Net assets are 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, 2012 AND 2011

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. The total leave earned but not taken was \$344,878 and \$315,011 at June 30, 2012 and 2011, 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 fund net assets.

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, 2012 AND 2011

1. Summary of significant accounting policies (continued)

Deferred bond issue costs

Deferred bond issue costs include legal fees, advertising, rating fees and other costs incurred when bonds were issued. The costs are being amortized over the maturity of the bond issues using the bonds-outstanding method, which approximates the effective interest method.

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 \$6,027,381 and \$2,978,317 at June 30, 2012 and 2011, respectively, and the bank balances were \$6,716,733 and \$3,126,093, respectively. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2012 and 2011, with the remaining \$6,466,733 and \$2,876,093, respectively, adequately covered by collateral.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

2. Deposits and investments (continued)

Deposits (continued)

At June 30, 2012 and 2011, 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>2012</u>	<u>2011</u>
Investments	\$ 3,163,214	\$ 3,598,430
Cash	6,027,381	2,978,317
Petty cash	<u>800</u>	<u>450</u>
	<u>\$ 9,191,395</u>	<u>\$ 6,577,197</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, 2012 and 2011, 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, 2012 and 2011 was \$3,163,214 and \$3,598,430, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

3. Capital assets and depreciation

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>July 01, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets:				
Utility plants	\$ 89,228,325	\$ 2,583,942	\$ -	\$ 91,812,267
Water plant systems	28,230,231	2,087,638	-	30,317,869
Equipment	6,976,230	888,786	259,322	7,605,694
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,794,273</u>	<u>-</u>	<u>1,000</u>	<u>3,793,273</u>
Subtotal	129,047,260	5,560,366	260,322	134,347,304
Not being depreciated:				
Utility plant construction in process	7,130,296	2,956,911	1,306,964	8,780,243
Water plant construction in process	4,502,571	2,455,668	963,764	5,994,475
Land and land rights	<u>634,687</u>	<u>-</u>	<u>-</u>	<u>634,687</u>
	<u>141,314,814</u>	<u>10,972,945</u>	<u>2,531,050</u>	<u>149,756,709</u>
Accumulated depreciation:				
Utility plants	31,022,783	2,083,731	-	33,106,514
Water plant systems	6,451,376	828,070	-	7,279,446
Equipment	4,240,833	629,332	257,561	4,612,604
Capitalized interest	270,006	16,364	-	286,370
Buildings	<u>840,023</u>	<u>171,946</u>	<u>-</u>	<u>1,011,969</u>
	<u>42,825,021</u>	<u>3,729,443</u>	<u>257,561</u>	<u>46,296,903</u>
Net capital assets	<u>\$ 98,489,793</u>	<u>\$ 7,243,502</u>	<u>\$ 2,273,489</u>	<u>\$ 103,459,806</u>

Depreciation expense of \$3,729,443 was charged to activities as follows:

Sewer activities	\$ 2,417,334
Water activities	1,094,016
Engineering activities	65,755
Administrative	<u>152,338</u>
Total	<u>\$ 3,729,443</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

3. Capital assets and depreciation (continued)

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>July 01, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets:				
Utility plants	\$ 87,149,150	\$ 2,079,175	\$ -	\$ 89,228,325
Water plant systems	23,509,657	4,729,149	8,575	28,230,231
Equipment	6,582,152	476,542	82,464	6,976,230
Capitalized interest	818,201	-	-	818,201
Buildings	<u>1,461,505</u>	<u>2,332,768</u>	<u>-</u>	<u>3,794,273</u>
Subtotal	119,520,665	9,617,634	91,039	129,047,260
Not being depreciated:				
Utility plant construction in process	4,889,809	3,988,169	1,747,682	7,130,296
Water plant construction in process	4,434,265	2,303,042	2,234,736	4,502,571
Land and land rights	<u>599,037</u>	<u>35,650</u>	<u>-</u>	<u>634,687</u>
	<u>129,443,776</u>	<u>15,944,495</u>	<u>4,073,457</u>	<u>141,314,814</u>
Accumulated depreciation:				
Utility plants	29,009,673	2,013,110	-	31,022,783
Water plant systems	5,729,084	730,867	8,575	6,451,376
Equipment	3,782,574	540,723	82,464	4,240,833
Capitalized interest	253,642	16,364	-	270,006
Buildings	<u>726,396</u>	<u>113,627</u>	<u>-</u>	<u>840,023</u>
	<u>39,501,369</u>	<u>3,414,691</u>	<u>91,039</u>	<u>42,825,021</u>
Net capital assets	<u>\$ 89,942,407</u>	<u>\$ 12,529,804</u>	<u>\$ 3,982,418</u>	<u>\$ 98,489,793</u>

Depreciation expense of \$3,414,691 was charged to activities as follows:

Sewer activities	\$ 2,295,418
Water activities	940,253
Engineering activities	71,992
Administrative	<u>107,028</u>
Total	<u>\$ 3,414,691</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. Long-term debt

Long-term bonds payable as of June 30, 2012, are as follows:

<u>Bonds Payable</u> <u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Twelfth Issue	1996-2013	3.9%-5.25%	\$ 235,000	\$ 12,337
Seventeenth Issue	2006-2019	2.75%-4.40%	3,520,000	550,180
Twenty-first Issue	2007-2021	3.65%-4.275%	755,300	158,017
Twenty-third Issue	2008-2027	3.5%-4.25%	6,581,336	2,504,694
Twenty-seventh Issue	2011-2030	0.75%-4.31%	5,852,083	2,532,464
Thirtieth Issue	2012-2029	2.96%	<u>1,375,249</u>	<u>1,375,249</u>
			18,318,968	7,132,941
Less current portion			<u>1,391,898</u>	<u>741,867</u>
Total			<u>\$ 16,927,070</u>	<u>\$ 6,391,074</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2012 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013 (current)	\$ 1,391,898	\$ 741,867
2014	1,198,277	693,592
2015	1,238,376	654,605
2016	1,287,695	613,366
2017	1,334,884	571,327
2018 – 2022	5,515,199	2,186,337
2023 – 2027	4,891,026	1,349,718
2028 – 2030	<u>1,461,613</u>	<u>322,129</u>
	<u>\$ 18,318,968</u>	<u>\$ 7,132,941</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. Long-term debt (continued)

Long-term bonds payable as of June 30, 2011 are as follows:

Bonds Payable <u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Twelfth Issue	1996-2013	3.9% - 5.25%	\$ 460,000	\$ 36,375
Fourteenth Issue	2001-2029	4.125%-5%	1,379,600	744,192
Seventeenth Issue	2006-2019	2.75%-4.40%	3,877,754	706,020
Twenty-first Issue	2007-2021	3.65%-4.275%	828,800	192,114
Twenty-third Issue	2008-2027	3.5%-4.25%	5,540,574	2,315,048
Twenty-seventh Issue	2011-2030	0.75%-4.31%	<u>3,766,172</u>	<u>1,714,996</u>
			15,852,900	5,708,745
Less current portion			<u>1,166,188</u>	<u>660,459</u>
Total			<u>\$ 14,686,712</u>	<u>\$ 5,048,286</u>

Redemption - Twelfth Issue

Optional redemption

Bonds that mature on or before June 1, 2006 are not subject to redemption prior to their maturities. Bonds that mature on or after June 1, 2006 are subject to redemption beginning June 1, 2006, as a whole at any time or in part on any interest payment date, in order of maturities, at the option of MetCom, at the following redemption prices expressed as a percentage of the principal amount of bonds to be redeemed plus accrued interest thereon to the date fixed for redemption:

<u>Period During Which Redeemable (Both Dates Inclusive)</u>	<u>Redemption Price</u>
June 1, 2006 to May 31, 2007	101%
June 1, 2007 to May 31, 2008	100-1/2%
June 1, 2008 and thereafter	100%

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. Long-term debt (continued)

Fourteenth Issue

On May 18, 1999, the Commission issued \$1,830,900 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). The average interest cost is 4.86%.

This bond was refinanced with SunTrust Bank effective March 15, 2012 as the Thirtieth Issue.

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 is 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).

These bonds have been restated to the amount of the bond. The deferred loss on the advance refunding has been reclassified to deferred bond issue costs.

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 is payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. Long-term debt (continued)

Twenty-first Issue (continued)

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, 2012 and 2011, MetCom had drawn only \$8,561,736 and \$7,093,073 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 is 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, 2012 AND 2011

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, 2012 and 2011, MetCom had drawn only \$6,838,245 and \$4,256,757 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 is 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, 2012 AND 2011

4. Long-term debt (continued)

Notes, leases and loans payable

Notes, leases and loans payable as of June 30, 2012 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Sixth Issue	2017	6.682%	\$ 74,323	\$ 15,540
MD Water Quality Loan #11	2017	4.26%	1,382,731	181,625
MD Water Quality Loan #15	2020	2.70%	388,030	48,610
MD Water Quality Loan #16	2023	1.20%	305,527	19,222
MD Water Quality Loan #18	2025	1.10%	3,178,821	250,123
MD Water Quality Loan #19	2024	1.10%	639,592	46,648
MD Water Quality Loan #20	2024	1.10%	798,607	43,434
MD Water Quality Loan #22	2027	1.10%	873,865	71,902
MD Water Quality Loan #25	2029	1.00%	172,160	15,885
MD Water Quality Loan #26	2030	1.00%	529,369	52,301
MD Water Quality Loan #28	2030	2.20%	424,854	94,255
SunTrust Bank Loan #29	2016	2.03%	<u>241,310</u>	<u>11,188</u>
			9,009,189	850,733
Less current portion			<u>877,634</u>	<u>159,780</u>
Total			<u>\$ 8,131,555</u>	<u>\$ 690,953</u>

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2012, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013 (current)	\$ 877,634	\$ 159,780
2014	897,456	139,364
2015	917,920	118,906
2016	939,053	97,769
2017	927,362	76,112
2018 - 2022	2,789,628	197,954
2023 - 2027	1,460,778	54,949
2028 - 2030	<u>199,358</u>	<u>5,899</u>
	<u>\$ 9,009,189</u>	<u>\$ 850,733</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. Long-term debt (continued)

Notes, leases and loans payable as of June 30, 2011 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Sixth Issue	2017	6.682%	\$ 86,514	\$ 21,321
MD Water Quality Loan #8	2012	3.45%	99,452	3,431
MD Water Quality Loan #11	2017	4.26%	1,626,320	250,905
MD Water Quality Loan #15	2020	2.70%	430,974	60,246
MD Water Quality Loan #16	2023	1.20%	336,432	23,259
MD Water Quality Loan #18	2025	1.10%	3,405,130	287,579
MD Water Quality Loan #19	2024	1.10%	689,198	54,229
MD Water Quality Loan #20	2024	1.10%	885,335	53,173
MD Water Quality Loan #22	2027	1.10%	933,268	82,168
MD Water Quality Loan #25	2029	1.00%	181,422	17,699
MD Water Quality Loan #26	2030	1.00%	552,148	56,881
MD Water Quality Loan #28	2030	2.20%	<u>443,927</u>	<u>100,168</u>
			9,670,120	1,011,059
Less current portion			<u>905,997</u>	<u>172,458</u>
Total			<u>\$ 8,764,123</u>	<u>\$ 838,601</u>

As of June 30, 2012, MetCom has ten loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eight amounting to \$1,326,045 were used to finance the Marley-Taylor WRF Interim Expansion. This loan was paid in full in FY12. 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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. Long-term debt (continued)

twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 was used for Patuxent Park Sewer Line Repair and the Marlay-Taylor Methane Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was used for the St. Clements Shore Well. Loan number twenty-nine is with SunTrust Bank in the amount of \$270,682 at an interest rate of 2.03%. Payments are made monthly on this loan from December 2011 through November 2016. The proceeds of this loan were used to purchase a Vactor truck.

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2012 were as follows:

	Balance July 01, 2011	Additions	Deductions	Balance June 30, 2012	Amounts Due Within One Year
Bonds payable	\$ 15,915,146	\$ 5,498,643	\$ 3,094,821	\$ 18,318,968	\$ 1,391,898
Notes, leases and loans payable	<u>9,670,120</u>	<u>274,625</u>	<u>935,556</u>	<u>9,009,189</u>	<u>877,634</u>
Total long-term debt	<u>\$ 25,585,266</u>	<u>\$ 5,773,268</u>	<u>\$ 4,030,377</u>	<u>\$ 27,328,157</u>	<u>\$ 2,269,532</u>

The changes in long-term debt payable for the year ended June 30, 2011 were as follows:

	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011	Amounts Due Within One Year
Bonds payable	\$ 12,080,812	\$ 5,462,119	\$ 1,627,785	\$ 15,915,146	\$ 1,166,188
Notes, leases and loans payable	<u>10,084,800</u>	<u>552,384</u>	<u>967,064</u>	<u>9,670,120</u>	<u>905,997</u>
Total long-term debt	<u>\$ 22,165,612</u>	<u>\$ 6,014,503</u>	<u>\$ 2,594,849</u>	<u>\$ 25,585,266</u>	<u>\$ 2,072,185</u>

Bonds payable at July 01, 2010 and additions to bonds payable during fiscal year 2011 were reclassified by \$71,138 and (\$8,892), respectively. The \$62,246 was the net deferred loss on the advance refunding of bond issue number seventeen which was reclassified to bond issue costs.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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, 2012 and 2011 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, 2012 and 2011 is \$130,894.
- c. System Improvement Charges are collected 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, 2012 and 2011 was \$4,479,662 and \$3,694,933, respectively.
- d. Capital Contribution Charges are collected for the construction of facilities to serve new customers. These funds are restricted by law for that purpose. The balance at June 30, 2012 and 2011 was \$0 and \$39,927, respectively.

6. Retirement and pension plan

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.

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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

6. Retirement and pension plan (continued)

Description

All qualified career employees of MetCom are required to join the Maryland State Employees' Pension Plan. The Plan has provisions for early retirement, death and disability benefits. 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. The Plan is an agent multiple-employer public employee retirement system. The State Retirement and Pension System of Maryland is the administrator of the Systems. The System was established and benefits are provided by the State Personnel and Pensions Article of the Annotated Code of Maryland. The separately issued financial statements of the System may be obtained by contacting the administrator.

Maryland State Pension Systems

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 benefit will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not.

Funding policy

The State Retirement 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% and 5% of earnable compensation for the years ended June 30, 2012 and 2011, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

6. Retirement and pension plan (continued)

Funding policy (continued)

Contribution rates are established by annual actuarial valuations. The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in distinct layers. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. Each separate amortized layer has a closed amortization 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, 2012, MetCom's total payroll and payroll for covered employees were \$5,323,531 and \$4,352,238, respectively. MetCom's contribution to the System was \$425,888 and \$414,746 for the years ended June 30, 2012 and 2011, respectively.

Actuarial assumptions

Investment Rate of Return	7.75% compounded annually
Projected payroll growth	3.5% compounded annually due to inflation
COLAs	2.75-3.5% per annum depending on the system

Trend information

	June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual required contributions (in thousands)	\$2,035,401	\$ 1,519,980	\$1,313,560
Percentage contributed	74%	86%	84%

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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.

During FY08 MetCom established a trust fund, the Retiree Benefit Trust of St. Mary's County Metropolitan Commission, to fund certain retiree health benefits.

Plan Description

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

Membership

At June 30 membership consisted of:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Retirees and Beneficiaries Currently Receiving Benefits	9	9	9
Active Employees	<u>76</u>	<u>62</u>	<u>60</u>
Total	<u>85</u>	<u>71</u>	<u>69</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

7. Other post-employment benefits (continued)

Funding Policy

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY13 Operating Budget includes fully funding the OPEB cost. MetCom contributed \$538,000 and \$431,000 to the trust in FY12 and FY11, respectively. The Net OPEB Obligation is overpaid by \$283,984 as of June 30, 2012.

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>2012</u>	<u>2011</u>
Annual Required Contribution	\$ 541,000	\$ 434,000
Interest on NOPEBO	(20,000)	(20,000)
Adjustment to ARC	<u>17,000</u>	<u>17,000</u>
Annual OPEB Cost	538,000	431,000
Contributions Made	538,000	431,000
NOPEBO, (Prepaid) Beginning of Year	<u>\$ (283,984)</u>	<u>\$ (283,984)</u>
NOPEBO, (Prepaid) End of Year	<u>\$ (283,984)</u>	<u>\$ (283,984)</u>

The funded status of the plan as of June 30, 2012, was as follows:

Actuarial Accrued Liability (AAL)	\$ 5,920,000
Actuarial Value of Plan Assets	<u>2,054,000</u>
Unfunded Actuarial Accrued Liability	<u>\$ 3,866,000</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	34.70%
Covered Payroll (Active Plan Members)	\$ 4,162,094
UAAL as a percentage of covered payroll	92.89%

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

7. Other post-employment benefits (continued)

Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 8% and 5.2% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 3.2% rate of inflation assumption. The UAAL is being amortized as a 30-year level percentage of projected payroll, closed basis, with 25 years remaining.

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

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits. The actuarial value of assets was based on the estimated July 1, 2011 asset figure of \$2,054,000.

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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

7. Other post-employment benefits (continued)

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>2012</u>	<u>2011</u>
Change in net assets – per financial statements	\$ 4,720,522	\$ 7,047,587
Add:		
Depreciation – facilities	3,136,164	2,871,635
Less:		
Principal payment on capital debt	(2,637,754)	(2,495,449)
Repayment of internal pension loan	(113,092)	(113,092)
Meter costs	(48,407)	(110,843)
Capital contributions	<u>(3,017,866)</u>	<u>(4,926,292)</u>
Excess or (deficiency) of revenue over expenses – rate-setting method	<u>\$ 2,039,567</u>	<u>\$ 2,273,546</u>

9. Risk management

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

9. Risk management (continued)

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 fiscal years 2012 and 2011, MetCom paid premiums of \$97,196 and \$101,821, 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. Commitments 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 September 2014. MetCom is currently in the design stage of an 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 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.

11. Subsequent events

In preparing these financial statements, MetCom has evaluated events and transactions for potential recognition or disclosure through September 27, 2012, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POSTEMPLOYMENT BENEFIT PLAN

JUNE 30, 2012 AND 2011

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%

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Annual OPEB Cost	Percentage Contributed
06/30/08	\$ 801,984	\$ 518,000	155%
06/30/09	514,000	514,000	100%
06/30/10	405,000	405,000	100%
06/30/11	431,000	431,000	100%
06/30/12	538,000	538,000	100%

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, 2012

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Operating revenue:				
Service charges	\$ 7,341,595	\$ 4,390,010	\$ 349,756	\$ 12,081,361
Miscellaneous	<u>48,437</u>	<u>189,295</u>	<u>35,875</u>	<u>273,607</u>
Total operating revenue	<u>7,390,032</u>	<u>4,579,305</u>	<u>385,631</u>	<u>12,354,968</u>
Operating expenses:				
Direct operating expenses	3,987,400	2,010,307	524,734	6,522,441
Administrative expenses	<u>2,368,889</u>	<u>1,454,581</u>	<u>332,475</u>	<u>4,155,945</u>
Total operating expenses	<u>6,356,289</u>	<u>3,464,888</u>	<u>857,209</u>	<u>10,678,386</u>
Operating income (loss) before depreciation	1,033,743	1,114,417	(471,578)	1,676,582
Depreciation	<u>(2,417,334)</u>	<u>(1,094,016)</u>	<u>(65,755)</u>	<u>(3,577,105)</u>
Operating income (loss)	<u>(1,383,591)</u>	<u>20,401</u>	<u>(537,333)</u>	<u>(1,900,523)</u>
Allocable nonoperating revenue (expense):				
Interest income	700	175	-	875
Debt service charges	3,021,232	1,632,200	-	4,653,432
House connection charges - net	(73)	51,161	-	51,088
Debt service - interest and finance charges	<u>(666,957)</u>	<u>(569,312)</u>	<u>-</u>	<u>(1,236,269)</u>
Total allocable nonoperating revenue	<u>2,354,902</u>	<u>1,114,224</u>	<u>-</u>	<u>3,469,126</u>
Total allocable net income (loss)	<u>\$ 971,311</u>	<u>\$ 1,134,625</u>	<u>\$ (537,333)</u>	<u>1,568,603</u>
Nonallocable revenue:				
Interest income				34,080
Other fees				<u>99,973</u>
Total nonallocable revenue				<u>134,053</u>
Capital contribution				<u>3,017,866</u>
Change in fund net assets				<u>\$ 4,720,522</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF DEPARTMENTAL ALLOCABLE OPERATING AND NONOPERATING REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2011

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Operating revenue:				
Service charges	\$ 6,935,591	\$ 4,285,944	\$ 298,579	\$ 11,520,114
Miscellaneous	<u>34,178</u>	<u>166,457</u>	<u>21,543</u>	<u>222,178</u>
Total operating revenue	<u>6,969,769</u>	<u>4,452,401</u>	<u>320,122</u>	<u>11,742,292</u>
Operating expenses:				
Direct operating expenses	3,553,253	2,083,820	515,199	6,152,272
Administrative expenses	<u>2,153,908</u>	<u>1,269,268</u>	<u>423,089</u>	<u>3,846,265</u>
Total operating expenses	<u>5,707,161</u>	<u>3,353,088</u>	<u>938,288</u>	<u>9,998,537</u>
Operating income (loss) before depreciation	1,262,608	1,099,313	(618,166)	1,743,755
Depreciation	<u>(2,295,418)</u>	<u>(940,253)</u>	<u>(71,992)</u>	<u>(3,307,663)</u>
Operating income (loss)	<u>(1,032,810)</u>	<u>159,060</u>	<u>(690,158)</u>	<u>(1,563,908)</u>
Allocable nonoperating revenue (expense):				
Interest income	1,404	351	-	1,755
Debt service charges	3,084,695	1,728,934	-	4,813,629
House connection charges - net	220	55,406	-	55,626
Debt service - interest and finance charges	<u>(698,378)</u>	<u>(610,815)</u>	<u>-</u>	<u>(1,309,193)</u>
Total allocable nonoperating revenue	<u>2,387,941</u>	<u>1,173,876</u>	<u>-</u>	<u>3,561,817</u>
Total allocable net income (loss)	<u>\$ 1,355,131</u>	<u>\$ 1,332,936</u>	<u>\$ (690,158)</u>	<u>1,997,909</u>
Nonallocable revenue:				
Interest income				20,231
Other fees				<u>103,155</u>
Total nonallocable revenue				<u>123,386</u>
Capital contribution				<u>4,926,292</u>
Change in fund net assets				<u>\$ 7,047,587</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2012

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Service charges:				
Service charge - metered	\$ 1,206,828	\$ 3,943,946	\$ -	\$ 5,150,774
Service charge - nonmetered	5,973,324	329,113	-	6,302,437
Service charge - ready-to-serve	-	68,650	-	68,650
Septage haul revenue	119,873	-	-	119,873
Remote area surcharge	41,570	476	-	42,046
Water meter installation	-	15,300	-	15,300
Review fees	-	-	84,970	84,970
Inspection fees	-	-	262,036	262,036
Residential tap fee sewer	-	-	2,750	2,750
Cut-on cut-off fees	-	32,525	-	32,525
Total service charges	<u>\$ 7,341,595</u>	<u>\$ 4,390,010</u>	<u>\$ 349,756</u>	<u>\$ 12,081,361</u>
Direct operating expenses:				
Salaries	\$ 2,004,123	\$ 867,431	\$ 552,868	\$ 3,424,422
Chemicals	203,196	92,180	-	295,376
Contractual employees	22,815	5,300	132,817	160,932
Employee physicals/uniforms	16,166	4,293	3,173	23,632
Employee training	19,534	8,466	8,951	36,951
Lab/soil testing	10,839	-	-	10,839
Leonardtown - treatment plant	107,836	-	-	107,836
Maintenance	416,647	163,037	819	580,503
Major system repair cost	168,643	103,450	-	272,093
Materials and supplies	75,648	40,848	12,393	128,889
Meter reading expense	-	86,374	-	86,374
Miscellaneous	15,348	9,497	2,090	26,935
Oil and gas	96,568	11,217	1,132	108,917
Power	487,710	538,298	6,434	1,032,442
Professional fees	1,312	-	1,000	2,312
Safety supplies	10,535	5,482	-	16,017
Sludge removal	184,648	-	-	184,648
SSO fines and penalties	2,080	-	-	2,080
Telephone	41,124	13,670	11,443	66,237
Temporary labor	-	-	24,021	24,021
Tools purchased	14,590	9,106	-	23,696
Vehicle operating and mileage	158,360	47,405	25,665	231,430
Water testing	-	14,404	-	14,404
Recovery of costs	(70,322)	(10,151)	(258,072)	(338,545)
Total direct operating expenses	<u>\$ 3,987,400</u>	<u>\$ 2,010,307</u>	<u>\$ 524,734</u>	<u>\$ 6,522,441</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2011

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Service charges:				
Service charge - metered	\$ 1,211,452	\$ 3,825,363	\$ -	\$ 5,036,815
Service charge - nonmetered	5,597,619	343,837	-	5,941,456
Service charge - ready-to-serve	-	69,699	-	69,699
Septage haul revenue	85,051	-	-	85,051
Remote area surcharge	41,469	520	-	41,989
Review fees	-	-	138,505	138,505
Inspection fees	-	-	158,574	158,574
Residential tap fee sewer	-	-	1,500	1,500
Cut-on cut-off fees	-	46,525	-	46,525
Total service charges	<u>\$ 6,935,591</u>	<u>\$ 4,285,944</u>	<u>\$ 298,579</u>	<u>\$ 11,520,114</u>
Direct operating expenses:				
Salaries	\$ 1,811,555	\$ 891,032	\$ 536,024	\$ 3,238,611
Contractual employees	-	-	121,147	121,147
Chemicals	122,637	84,106	-	206,743
Employee physicals/uniforms	15,732	5,552	2,451	23,735
Employee training	12,300	2,050	5,316	19,666
Lab/soil testing	5,463	-	-	5,463
Leonardtown - treatment plant	109,716	-	-	109,716
Maintenance	339,473	138,775	663	478,911
Major system repair cost	68,181	144,318	-	212,499
Materials and supplies	70,370	49,952	10,039	130,361
Meter reading expense	-	84,430	-	84,430
Miscellaneous	14,659	8,550	1,297	24,506
Oil and gas	87,034	8,725	1,044	96,803
Power	546,532	591,281	4,297	1,142,110
Professional fees	-	-	19,130	19,130
Safety supplies	8,358	5,685	-	14,043
Sludge removal	146,432	-	-	146,432
SSO fines and penalties	13,200	-	-	13,200
Telephone	36,486	11,813	10,231	58,530
Tools purchased	10,912	4,346	-	15,258
Vehicle operating and mileage	150,583	42,803	24,555	217,941
Water testing	-	17,800	-	17,800
Recovery of costs	(16,370)	(7,398)	(220,995)	(244,763)
Total direct operating expenses	<u>\$ 3,553,253</u>	<u>\$ 2,083,820</u>	<u>\$ 515,199</u>	<u>\$ 6,152,272</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>Years ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Administrative expenses:		
Accounting	\$ 16,500	\$ 12,825
Advertising	21,860	21,156
Bond fees	1,500	1,500
Commissioners' salaries	14,500	14,167
Computer services	63,318	44,216
Consulting	9,508	9,112
Contractual employees	127,478	150,929
Depreciation	152,338	107,028
Dues and subscriptions	10,279	7,402
Electric	12,418	9,936
Employee training	65,639	14,874
Hospitalization and disability	1,260,930	1,194,504
Insurance	175,075	195,582
Legal	43,634	63,649
Mileage and travel	4,519	4,158
Miscellaneous	6,925	6,897
Office and administrative salaries	1,140,132	1,037,284
Office supplies and expenses	86,213	62,123
Payroll taxes	388,459	351,817
Postage expense	102,851	97,451
Rent expense	-	6,631
Retirement	425,888	414,746
Telephone and fax	45,123	37,724
Temporary labor	2,406	-
Tuition reimbursement	5,816	7,668
Recovery of costs	<u>(27,364)</u>	<u>(27,114)</u>
Total administrative expenses	<u>\$ 4,155,945</u>	<u>\$ 3,846,265</u>
Allocated to services as follows:		
Sewer 57% and 56%	\$ 2,368,889	\$ 2,153,908
Water 35% and 33%	1,454,581	1,269,268
Engineering 8% and 11%	<u>332,475</u>	<u>423,089</u>
	<u>\$ 4,155,945</u>	<u>\$ 3,846,265</u>



Murphy & Murphy, CPA, LLC
Certified Public Accountants

**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
California, Maryland

We have audited the financial statements of the business-type activities of the St. Mary's County Metropolitan Commission as of and for the years ended June 30, 2012 and 2011, which collectively comprise the St. Mary's County Metropolitan Commission's basic financial statements and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of St. Mary's County Metropolitan Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered St. Mary's County Metropolitan Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the St. Mary's County Metropolitan Commission's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Mary's County Metropolitan Commission's financial statements are free of 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*.

This report is intended solely for the information and use of the Commissioners, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
September 27, 2012