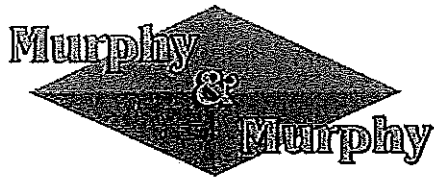


ST. MARY'S COUNTY METROPOLITAN COMMISSION

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2009 AND 2008**

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CPA, LLC

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

The Commissioners
St. Mary's County Metropolitan Commission
Hollywood, 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, 2009 and 2008, which 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 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2009 and 2008, and the 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.

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In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2009, 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 the 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 important for assessing the results of our audits.

The management's discussion and analysis on pages 3-9 and the Schedule of funding progress and Schedule of employer contributions on page 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that comprise the St. Mary's County Metropolitan Commission's basic financial statements. The accompanying supplementary information presented on pages 39-43 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
September 24, 2009

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, 2009 and 2008. Please read it in conjunction with MetCom's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- MetCom's net assets increased by \$7.5 million and \$4.99 million, or 12.68% and 9.31%, as a result of operations in fiscal years 2009 and 2008, respectively.
- During the current year, MetCom's revenue from operations was \$10.3 million, representing an increase of 1.8% over the prior year. The increase in operating revenue is due to an increase in the number of customers served. In fiscal year 2008, revenue from operations was \$10.1 million, or 17.62% over the prior year. This increase in operating revenue was due to an increase in rates of approximately 19% for sewer services and 28% for water services. The increase in revenues was also affected by a drought and a reduction in engineering services.
- In fiscal year 2009 the overage rates for water and sewer increased 9% and 3%, respectively; all other service charge rates were unchanged. New service charges rates were implemented effective 7/1/07.
- MetCom's operating expenses excluding depreciation were \$9.46 million during the current year and \$8.67 million during the prior year.
- MetCom's nonoperating revenue was \$9.16 million during the current year and \$5.82 million in fiscal year 2008, representing an increase of 58% and 9%, respectively. Most of the increase is due to the large amount of capital contributions received in FY09, \$5.4 million. In addition, there was a \$717 thousand increase as the result of the new rate structure for financing capital construction that was implemented on October 1, 2007 and increases in the debt service rates in FY09.
- House Bill 969 was approved in the 2007 Legislative session that changed the way MetCom finances capital construction. New System Improvement Charges became effective October 1, 2007 for all customers with allocations on our water and/or sewer lines, and all new customers after that date pay a Capital Contribution Charge at time of connection. These charges replace the Benefit Assessment Charges that were used by the Commission for almost 40 years to finance new water and sewer improvements. Capital Contribution Charge rates increased in fiscal year 2009.
- The slowdown in the construction industry has negatively impacted Engineering Revenues in both fiscal years 2009 and 2008.

- 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 \$1.2 million as of 6/30/09 and \$758 thousand as of 6/30/08. MetCom has funded the full OPEB cost for both years.
- MetCom did not issue any bonds in fiscal year 2009.

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, 2009 and 2008. Amounts on the Statements 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, 2009 and 2008. 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 flows 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 resources measurement focus. All assets and liabilities are included in the financial statements. Revenue is recognized when water or 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 for using certain grants and other money.

METCOM AS A WHOLE

Statements of Net Assets

MetCom's net assets increased by approximately \$7.5 million in FY 2009 and approximately \$5.0 million in FY08. The majority of the increase is attributable to the change in net assets invested in capital assets, net of related debt. During fiscal year 2009, developers completed construction of \$5.2 million of capital assets and donated them to MetCom. In fiscal year 2008, developers contributed \$2.4 million of capital assets. The following condensed statements show the changes in assets, liabilities and net assets for the years ended June 30, 2009, 2008 and 2007:

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

	<u>June 30,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 10.10	\$ 8.40	\$ 5.80
Capital assets	<u>78.80</u>	<u>71.50</u>	<u>68.90</u>
Total assets	<u>\$ 88.90</u>	<u>\$ 79.90</u>	<u>\$ 74.70</u>
Long-term debt outstanding	\$ 18.90	\$ 17.80	\$ 17.70
Other liabilities	<u>3.90</u>	<u>3.50</u>	<u>3.40</u>
Total liabilities	<u>\$ 22.80</u>	<u>\$ 21.30</u>	<u>\$ 21.10</u>
Net assets			
Invested in capital assets, net of related debt	\$ 58.30	\$ 52.20	\$ 49.80
Restricted	3.10	3.80	2.00
Unrestricted	<u>4.70</u>	<u>2.60</u>	<u>1.80</u>
Total net assets	<u>\$ 66.10</u>	<u>\$ 58.60</u>	<u>\$ 53.60</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:

	Years ended June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 10.3	\$ 10.1	\$ 8.6
Operating expenses	9.4	8.6	7.9
Depreciation expense	<u>2.6</u>	<u>2.3</u>	<u>2.1</u>
Operating loss	(1.7)	(0.8)	(1.4)
Net nonoperating revenues	<u>9.2</u>	<u>5.8</u>	<u>5.3</u>
Change in net assets	7.5	5.0	3.9
Net assets at beginning of year, as restated	<u>58.6</u>	<u>53.6</u>	<u>49.7</u>
Net assets at end of year	<u>\$ 66.1</u>	<u>\$ 58.6</u>	<u>\$ 53.6</u>

MetCom's operating revenues totaled \$10.3 million during the current year. Total operating revenues increased by 1.82% over the prior year, compared to operating revenue of the prior year of \$10.1 million, which was an increase of 17.62% over fiscal year 2007. The current year increase is due to customer growth; the prior year increase was due to rate increases of approximately 28% in water and 19% in sewer effective 7/1/07, the drought which caused water overage to increase by 78 million gallons or 25% over the previous year, and customer growth.

Expenses from MetCom's operating activities excluding depreciation totaled \$9.4 million during the current year and \$8.6 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 \$6.2 million, or 65.61% of operating expenses. Power for plant operations was \$1.1 million, or 11.67%. The remaining \$2.1 million, or 22.72%, related to administrative and direct costs

Net nonoperating revenue increased 58% to \$9.2 million during the current year and 8.8% to \$5.8 million in fiscal year 2008. Capital contributions made up \$5.4 million and \$2.4 million of the net nonoperating revenue in fiscal years 2009 and 2008, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At June 30, 2009, MetCom had \$115.2 million prior to depreciation invested in capital assets. This represents an increase of 9% over the previous year. As of June 30, 2008, MetCom had \$105.6 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 a building. The following table summarizes MetCom's capital assets (in millions):

	<u>2009</u>	<u>2008</u>
Utility plants	\$ 79.8	\$ 75.8
Water plants	19.8	17.9
Equipment	6.2	5.7
Capitalized interest	0.8	0.8
Buildings	1.5	1.5
Land	0.6	0.6
Construction in process	<u>6.5</u>	<u>3.3</u>
	115.2	105.6
Accumulated depreciation	<u>36.4</u>	<u>34.1</u>
Net capital assets	<u>\$ 78.8</u>	<u>\$ 71.5</u>

This year's major capital asset additions included:

Laurel Ridge Well built with loan proceeds, \$170 thousand.

Evergreen Park sewer project, relining the lines and installing new manholes built with grant proceeds, \$223 thousand.

Patuxent Park Sewer project on Essex Drive, relining sewer mains and installing new sewer pipes and taps, built with loan proceeds, \$247 thousand.

Sewer lines, force mains, manholes, grinder pumps and a sewer pump station and water mains, valves, and fire hydrants constructed and contributed by developers, \$5.2 million.

MetCom's FY10 Capital Improvement Budget for water is \$13.4 million, which includes \$3.1 million for water lines, \$7.4 million for water storage tanks, \$2.7 million for wells and \$0.2 million for miscellaneous projects.

The FY10 Capital Improvement Budget for sewer is \$41.2 million, which includes \$6.6 million for replacement projects, \$.1 million for pump stations and \$34.5 million for upgrades/expansions. The largest project is \$30.5 million for the Enhanced Nutrient Removal, ENR, project at the Marlay-Taylor Wastewater Reclamation Facility, which is in the design phase. 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 \$13 million, and the Navy is expected to pay \$6 million for this project.

In FY 09 MetCom received a grant from the Maryland Department of the Environment, MDE, in the amount of \$204 thousand to fund 100% of the construction of the Evergreen Park Sewer Upgrade. In addition, MDE provided a grant in the amount of \$282 thousand during FY08 and FY 09 to cover part of the costs of the Andover Estates Sewer Project.

MetCom has also been approved for a \$3 million grant from the ARRA 2009 Stimulus Funds to build the Methane Powered Co-Generator, including the cost of the Digester Covers needed to make the methane recoverable.

Debt administration

At the end of FY 2009 and FY 2008, MetCom had a total of \$20.5 million and \$19.3 million, respectively in debt outstanding,

On November 14, 2007, MetCom issued \$10.9 million of Infrastructure Financing Bonds in conjunction with the Maryland Department of Housing and Community Development. During FY09, MetCom received \$3.3 million in draws on various loans. During FY08, draws totaled \$1.8 million.

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

	June 30,			% change	
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>FY09</u>	<u>FY08</u>
Bonds payable	\$ 10.4	\$ 9.2	\$ 9.5	13.1	(3.2)
Notes, leases and loans payable	<u>10.1</u>	<u>10.1</u>	<u>9.6</u>	.0	5.2
Total debt	<u>\$ 20.5</u>	<u>\$ 19.3</u>	<u>\$ 19.1</u>	6.4	1.0

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 an 8% increase in the total operating revenues for next year. This increase is mostly attributable to the service rate increases effective July 1, 2009.

The total operating expenses in MetCom's Operating Budget for FY10 are \$11 million, about \$783 thousand more than the FY09 Amended Budget. Salaries are the largest component of MetCom's expenses; in FY10 salaries are \$4.6 million, with a \$178 thousand increase over the FY09 Amended Operating Budget. Health insurance is \$1.2 million, which includes \$413 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 over \$1.2 million in the FY10 Operating Budget.

MetCom intends to pursue financing of approximately \$12.5 million from the Maryland Department of Housing and Community Development (DHCD) Local Government Infrastructure Program and about \$700,000 from the Maryland Department of the Environment (MDE) Water Quality Financing Administration to fund construction projects.

In 2009 the State Legislature passed House Bill 1559 which established a Task Force to study the governance and structure of MetCom. By July 1, 2010, the Task Force is to make recommendations regarding the structure and governance of MetCom and how best to continue the provision of water and sewer services to the citizens of St. Mary's County.

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 43990 Commerce Avenue, Hollywood, Maryland 20636.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET ASSETS

ASSETS

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 8,119,670	\$ 6,397,782
Accounts receivable	1,090,559	1,102,000
Inventory	128,555	31,423
Prepaid expenses	<u>300,224</u>	<u>299,352</u>
 Total current assets	 <u>9,639,008</u>	 <u>7,830,557</u>
 Noncurrent assets:		
Capital assets, net	78,787,257	71,508,447
Deferred bond issue costs	445,125	484,054
Unamortized bond discount	<u>70,487</u>	<u>76,044</u>
 Total noncurrent assets	 <u>79,302,869</u>	 <u>72,068,545</u>
 Total assets	 <u>\$ 88,941,877</u>	 <u>\$ 79,899,102</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET ASSETS (CONTINUED)

LIABILITIES AND NET ASSETS

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Current liabilities:		
Accounts payable	\$ 762,855	\$ 856,079
Accrued interest payable	265,475	232,473
Accrued expenses	941,020	472,646
Deferred income	334,023	358,130
Bond premiums	37,239	41,405
Bonds payable	796,849	715,061
Notes, leases and loans payable	<u>810,641</u>	<u>767,163</u>
Total current liabilities	<u>3,948,102</u>	<u>3,442,957</u>
Noncurrent liabilities:		
Bonds payable	9,665,494	8,533,075
Notes, leases and loans payable	<u>9,251,420</u>	<u>9,283,199</u>
Total noncurrent liabilities	<u>18,916,914</u>	<u>17,816,274</u>
Total liabilities	<u>22,865,016</u>	<u>21,259,231</u>
Net assets:		
Invested in capital assets, net of related debt	58,262,853	52,209,949
Restricted	3,151,341	3,801,845
Unrestricted	<u>4,662,667</u>	<u>2,628,077</u>
Total net assets	<u>66,076,861</u>	<u>58,639,871</u>
Total liabilities and net assets	<u>\$ 88,941,877</u>	<u>\$ 79,899,102</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>2009</u>	<u>2008</u>
Operating revenue:		
Service charges	\$ 10,118,110	\$ 9,937,238
Miscellaneous	<u>205,939</u>	<u>202,085</u>
Total operating revenue	<u>10,324,049</u>	<u>10,139,323</u>
Operating expenses:		
Direct operating expenses	5,950,589	5,717,744
Administrative expenses	<u>3,505,591</u>	<u>2,955,526</u>
Total operating expenses	<u>9,456,180</u>	<u>8,673,270</u>
Operating income before depreciation	867,869	1,466,053
Depreciation	<u>(2,595,661)</u>	<u>(2,286,655)</u>
Operating loss	<u>(1,727,792)</u>	<u>(820,602)</u>
Nonoperating revenue (expenses):		
Interest income	78,573	206,370
Benefit assessment charges	-	452,878
Debt service charges	4,090,607	2,555,360
House connection charges- net	157,820	406,356
Water supply fees	61,200	193,933
Water storage fees	167,940	309,090
Interest expense	(980,219)	(869,004)
Other fees	<u>152,236</u>	<u>169,448</u>
Total nonoperating revenue, net	<u>3,728,157</u>	<u>3,424,431</u>
Income before contributions	2,000,365	2,603,829
Capital contributions	<u>5,436,625</u>	<u>2,391,659</u>
Change in fund net assets	7,436,990	4,995,488
Total net assets- beginning	<u>58,639,871</u>	<u>53,644,383</u>
Total net assets- ending	<u>\$ 66,076,861</u>	<u>\$ 58,639,871</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS

	<u>Years ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from customers	\$ 10,105,444	\$ 9,833,751
Payments to suppliers	(5,179,670)	(4,728,330)
Payments to employees	(3,911,749)	(4,301,924)
Other receipts	<u>205,939</u>	<u>202,085</u>
Net cash provided by operating activities	<u>1,219,964</u>	<u>1,005,582</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	3,298,543	1,835,257
Purchases of capital assets	(4,525,461)	(2,541,190)
Principal paid on capital debt	(2,072,637)	(1,823,672)
Interest paid on capital debt	(906,897)	(787,954)
Other receipts and payments	<u>4,629,803</u>	<u>4,087,065</u>
Net cash provided by capital and related financing activities	<u>423,351</u>	<u>769,506</u>
Cash flows from investing activities:		
Interest received	<u>78,573</u>	<u>206,370</u>
Net increase in cash and cash equivalents	1,721,888	1,981,458
Cash and cash equivalents at beginning of year	<u>6,397,782</u>	<u>4,416,324</u>
Cash and cash equivalents at end of year	<u>\$ 8,119,670</u>	<u>\$ 6,397,782</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>Years ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,727,792)	\$ (820,602)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,683,276	2,343,474
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	11,441	(104,151)
Increase in prepaid expense	(872)	(275,198)
Increase in inventory	(97,132)	(3,066)
Increase (decrease) in accounts payable	(93,224)	148,558
Increase (decrease) in accrued expenses	468,374	(284,097)
Increase in deferred income	<u>(24,107)</u>	<u>664</u>
Net cash provided by operating activities	<u>\$ 1,219,964</u>	<u>\$ 1,005,582</u>

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

	<u>Years ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Increase in capital assets	\$ 9,962,086	\$ 4,932,849
Capital contribution	<u>(5,436,625)</u>	<u>(2,391,659)</u>
Purchase of capital assets	<u>\$ 4,525,461</u>	<u>\$ 2,541,190</u>
Additions to capital debt	\$ 3,298,543	\$ 2,062,857
Deferred bond issue costs	<u>-</u>	<u>(227,600)</u>
Proceeds from capital debt	<u>\$ 3,298,543</u>	<u>\$ 1,835,257</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF FIDUCIARY NET ASSETS

ASSETS

	<u>Years ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Restricted investments	<u>\$ 1,222,517</u>	<u>\$ 757,828</u>
Total assets	<u>\$ 1,222,517</u>	<u>\$ 757,828</u>

NET ASSETS

	<u>Years ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Held in trust for other post employment benefits	<u>\$ 1,222,517</u>	<u>\$ 757,828</u>
Total net assets	<u>\$ 1,222,517</u>	<u>\$ 757,828</u>

See accompanying notes.

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

	<u>Years ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
ADDITIONS:		
Contributions	\$ 514,000	\$ 801,984
Interest income	<u>10,976</u>	<u>-</u>
Net additions	<u>\$ 524,976</u>	<u>\$ 801,984</u>
DEDUCTIONS:		
Benefits paid	\$ (55,287)	\$ (44,156)
Administrative expenses	<u>(5,000)</u>	<u>-</u>
Net deductions	<u>(60,287)</u>	<u>(44,156)</u>
Change in net assets	<u>\$ 464,689</u>	<u>\$ 757,828</u>
NET ASSETS:		
Beginning of year	<u>\$ 757,828</u>	<u>\$ -</u>
End of year	<u>\$ 1,222,517</u>	<u>\$ 757,828</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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 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.

Net assets are reported as restricted when constraints placed on net assets use are either externally imposed by creditors (such as through debt covenants),

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

1. Summary of significant accounting policies (continued)

Fund accounting and basis of accounting (continued)

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.

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:

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

1. Summary of significant accounting policies (continued)

Capital assets (continued)

<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	25 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.

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 \$323,090 and \$291,702 at June 30, 2009 and 2008, respectively.

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

1. Summary of significant accounting policies (continued)

Deferred bond issue costs (continued)

maturity of the bond issues using the bonds-outstanding method, which approximates the effective interest method.

2. Deposits and investments

June 30, 2009

Deposits

The carrying amount of MetCom's deposits was \$3,863,157 at June 30, 2009, and the bank balances were \$3,771,506. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2009, with the remaining \$3,521,506 adequately covered by collateral. State statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Cash and cash equivalents consisted of the following:

Investments	\$ 4,256,063
Cash	3,863,157
Petty cash	<u>450</u>
	<u>\$ 8,119,670</u>

Investments

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. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). Investments in the Maryland Local Government Investment Pool, an external investment pool, are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. None of MetCom's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

2. Deposits and investments (continued)

	<u>Carrying Amount</u>	<u>Market Value</u>
MLGIP	<u>\$ 4,256,063</u>	<u>\$ 4,256,063</u>

June 30, 2008

Deposits

The carrying amount of MetCom's deposits was \$2,258,135 at June 30, 2008, and the bank balances were \$2,437,448. Of the bank balances, \$100,000 was covered by federal depository insurance at June 30, 2008, with the remaining \$2,337,448 adequately covered by collateral. State statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Cash and cash equivalents consisted of the following:

Investments	\$ 4,139,197
Cash	2,258,135
Petty cash	<u>450</u>
	<u>\$ 6,397,782</u>

Investments

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. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). Investments in the Maryland Local Government Investment Pool, an external investment pool, are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. None of MetCom's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

	<u>Carrying Amount</u>	<u>Market Value</u>
MLGIP	<u>\$ 4,139,197</u>	<u>\$ 4,139,197</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

3. Capital assets and depreciation

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets:				
Utility plants	\$ 75,771,536	\$ 4,027,139	\$ 0	\$ 79,798,675
Water plant systems	17,881,970	1,907,887	0	19,789,857
Equipment	5,730,349	836,926	321,404	6,245,871
Capitalized interest	818,201	0	0	818,201
Buildings	<u>1,461,505</u>	<u>0</u>	<u>0</u>	<u>1,461,505</u>
Subtotal	101,663,561	6,771,952	321,404	108,114,109
Not being depreciated:				
Utility plant construction in process	2,311,778	1,751,185	481,523	3,581,440
Water plant construction in process	1,030,256	2,201,168	283,696	2,947,728
Land and land rights	<u>595,037</u>	<u>3,000</u>	<u>0</u>	<u>598,037</u>
	<u>105,600,632</u>	<u>10,727,305</u>	<u>1,086,623</u>	<u>115,241,314</u>
Accumulated depreciation:				
Utility plants	25,496,815	1,634,564	0	27,131,379
Water plant systems	4,645,569	490,463	0	5,136,032
Equipment	3,113,108	486,576	321,404	3,278,280
Capitalized interest	220,914	16,364	0	237,278
Buildings	<u>615,779</u>	<u>55,309</u>	<u>0</u>	<u>671,088</u>
	<u>34,092,185</u>	<u>2,683,276</u>	<u>321,404</u>	<u>36,454,057</u>
Net capital assets	<u>\$ 71,508,447</u>	<u>\$ 8,044,029</u>	<u>\$ 765,219</u>	<u>\$ 78,787,257</u>

Depreciation expense of \$2,683,276 was charged to activities as follows:

Sewer activities	\$ 1,877,835
Water activities	666,204
Engineering activities	51,622
Administrative	<u>87,615</u>
Total	<u>\$ 2,683,276</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

3. Capital assets and depreciation (continued)

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets:				
Utility plants	\$ 67,787,669	\$ 7,983,867	\$ 0	\$ 75,771,536
Water plant systems	15,156,119	2,725,851	0	17,881,970
Equipment	5,066,502	848,340	184,493	5,730,349
Capitalized interest	818,201	0	0	818,201
Buildings	<u>1,461,505</u>	<u>0</u>	<u>0</u>	<u>1,461,505</u>
Subtotal	90,289,996	11,558,058	184,493	101,663,561
Not being depreciated:				
Utility plant construction in process	8,354,506	1,358,156	7,400,884	2,311,778
Water plant construction in process	1,614,237	564,964	1,148,945	1,030,256
Land and land rights	<u>593,537</u>	<u>1,500</u>	<u>0</u>	<u>595,037</u>
	<u>100,852,276</u>	<u>13,482,678</u>	<u>8,734,322</u>	<u>105,600,632</u>
Accumulated depreciation:				
Utility plants	24,011,595	1,485,220	0	25,496,815
Water plant systems	4,239,182	406,387	0	4,645,569
Equipment	2,917,406	380,195	184,493	3,113,108
Capitalized interest	204,550	16,364	0	220,914
Buildings	<u>560,471</u>	<u>55,308</u>	<u>0</u>	<u>615,779</u>
	<u>31,933,204</u>	<u>2,343,474</u>	<u>184,493</u>	<u>34,092,185</u>
Net capital assets	<u>\$ 68,919,072</u>	<u>\$ 11,139,204</u>	<u>\$ 8,549,829</u>	<u>\$ 71,508,447</u>

Depreciation expense of \$2,343,474 was charged to activities as follows:

Sewer activities	\$ 1,693,519
Water activities	552,081
Engineering activities	41,055
Administrative	<u>56,819</u>
Total	<u>\$ 2,343,474</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

4. Long-term debt

Long-term bonds payable as of June 30, 2009, 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%	\$ 870,000	\$ 115,918
Fourteenth Issue	2001-2029	4.125%-5%	1,471,300	886,090
Seventeenth Issue	2006-2019	2.75%-4.40%	4,654,969	1,062,859
Twenty-first Issue	2007-2021	3.65%-4.275%	968,200	267,984
Twenty-third Issue	2008-2027	3.5%-4.25%	<u>2,497,874</u>	<u>1,040,614</u>
			10,462,343	3,373,465
Less current portion			<u>796,849</u>	<u>436,599</u>
Total			<u>\$ 9,665,494</u>	<u>\$ 2,936,866</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2009 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010 (current)	\$ 796,849	\$ 436,599
2011	819,671	404,714
2012	863,703	370,378
2013	902,203	333,007
2014	696,858	292,866
2015 – 2019	3,978,086	999,958
2020 – 2024	1,335,636	409,522
2025 – 2029	<u>1,069,337</u>	<u>126,421</u>
	<u>\$ 10,462,343</u>	<u>\$ 3,373,465</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

4. Long-term debt (continued)

Long-term bonds payable as of June 30, 2008 are as follows:

Bonds Payable				
<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Tenth Issue	1995-2015	5.56% - 6.08%	\$ 170,000	\$ 43,790
Twelfth Issue	1996-2013	3.9% -5.25%	1,060,000	170,416
Fourteenth Issue	2001-2029	4.125%-5%	1,514,300	959,832
Seventeenth Issue	2006-2019	2.75%-4.40%	5,026,077	1,260,631
Twenty-first Issue	2007-2021	3.65%-4.275%	1,034,200	309,909
Twenty-third Issue	2008-2027	3.5%-4.25%	<u>443,559</u>	<u>200,032</u>
			9,248,136	2,944,610
Less current portion			<u>715,061</u>	<u>395,577</u>
Total			<u>\$ 8,533,075</u>	<u>\$ 2,549,033</u>

Redemption - Tenth Issue - DHCD Loan

Bonds in the amount of \$170,000 were redeemed in full at 100% on March 8, 2009.

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</u> <u>(Both Dates Inclusive)</u>	<u>Redemption</u> <u>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, 2009 AND 2008

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).

Principal payments are due from 2001-2029. The average interest cost is 4.86%.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
June 1, 2009 through May 31, 2010	101%
June 1, 2010 through May 31, 2011	100-1/2%
After June 1, 2011	100%

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).

The outstanding amount of refunding bond issue number seventeen is shown net of a deferred loss on the advance refunding of \$80,031.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

4. Long-term debt (continued)

Twenty-first Issue

In fiscal year 2006, the Commission issued Refunding Bonds on April 5, 2006 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 rates on the bonds range from 3.65% to 4.275%. Interest is 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). The Thirteenth Issue was fully refunded and \$500,000 of the Tenth Issue was fully refunded.

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 with a coupon rate of 5.579% and \$500,000 in outstanding 1995 series A bonds 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, 2009 and 2008, MetCom had drawn only \$3,018,073 and \$582,759 of the proceeds, respectively. The cost of issuance was \$227,600, which is included in fiscal year 2008 additions.

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, 2009 AND 2008

4. Long-term debt (continued)

Notes, leases and loans payable

Notes, leases and loans payable as of June 30, 2009 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Leonardtwn	2010-2020	6.10% - 10%	\$ 119,571	\$ 88,601
MD Bank and Trust	2010	4.80%	18,885	919
Sixth Issue	2017	6.682%	108,655	35,125
MD Water Quality Loan #8	2012	3.45%	287,677	20,105
MD Water Quality Loan #11	2017	4.26%	2,084,048	418,920
MD Water Quality Loan #15	2020	2.70%	513,504	84,284
MD Water Quality Loan #16	2023	1.20%	397,148	32,430
MD Water Quality Loan #18	2025	1.10%	3,850,387	369,850
MD Water Quality Loan #19	2024	1.10%	648,687	58,541
MD Water Quality Loan #20	2024	1.10%	983,355	88,745
MD Water Quality Loan #22	2027	1.10%	<u>1,050,144</u>	<u>102,903</u>
			10,062,061	1,300,423
Less current portion			<u>810,641</u>	<u>208,655</u>
Total			<u>\$ 9,251,420</u>	<u>\$ 1,091,768</u>

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2009, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010 (current)	\$ 810,641	\$ 208,655
2011	812,707	184,528
2012	824,657	166,297
2013	742,804	142,997
2014	761,036	127,036
2015 – 2019	3,399,705	354,989
2020 – 2024	2,332,900	110,382
2025 – 2028	<u>377,611</u>	<u>5,539</u>
	<u>\$ 10,062,061</u>	<u>\$ 1,300,423</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

4. Long-term debt (continued)

Notes, leases and loans payable as of June 30, 2008 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Leonardtwn	2010-2020	6.10% - 10%	\$ 132,606	\$ 100,436
MD Bank and Trust	2009	4.15%	28,502	1,202
MD Bank and Trust	2010	4.80%	36,889	2,719
Sixth Issue	2017	6.682%	118,696	43,056
MD Water Quality Loan #8	2012	3.45%	375,809	33,070
MD Water Quality Loan #11	2017	4.26%	2,298,982	516,856
MD Water Quality Loan #15	2020	2.70%	553,149	99,219
MD Water Quality Loan #16	2023	1.20%	426,967	37,552
MD Water Quality Loan #18	2025	1.10%	4,069,388	414,616
MD Water Quality Loan #19	2024	1.10%	236,060	22,675
MD Water Quality Loan #20	2024	1.10%	826,802	79,419
MD Water Quality Loan #22	2027	1.10%	<u>946,512</u>	<u>107,882</u>
			10,050,362	1,458,702
Less current portion			<u>767,163</u>	<u>220,874</u>
Total			<u>\$ 9,283,199</u>	<u>\$ 1,237,828</u>

As of June 30, 2009, MetCom has eight 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. 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 is to be used to replace the wastewater pumping station. Proceeds drawn at June 30, 2009 and 2008 were \$838,591 and \$377,962, respectively. Loan number twenty is to be used for water meter installations. As of June 30, 2009 and 2008, amounts drawn on the loan were \$1,393,960 and \$1,153,479, respectively. Loan number twenty-two is to be used for the Andover Road/Estates sewer projects and for arsenic remediation wells. As of June 30, 2009 and 2008, amounts drawn on the loan were \$1,136,984 and \$974,866, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

4. Long-term debt (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2009 were as follows:

	Balance <u>July 01, 2008</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2009</u>	Amounts Due <u>Within One Year</u>
Bonds payable	\$ 9,248,136	\$ 2,435,314	\$ 1,221,107	\$ 10,462,343	\$ 796,849
Notes, leases and loans payable	<u>10,050,362</u>	<u>863,229</u>	<u>851,530</u>	<u>10,062,061</u>	<u>810,641</u>
Total long-term debt	<u>\$ 19,298,498</u>	<u>\$ 3,298,543</u>	<u>\$ 2,072,637</u>	<u>\$ 20,524,404</u>	<u>\$ 1,607,490</u>

The changes in long-term debt payable for the year ended June 30, 2008 were as follows:

	Balance <u>July 01, 2007</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2008</u>	Amounts Due <u>Within One Year</u>
Bonds payable	\$ 9,470,386	\$ 810,359	\$ 1,032,609	\$ 9,248,136	\$ 715,061
Notes, leases and loans payable	<u>9,588,927</u>	<u>1,252,498</u>	<u>791,063</u>	<u>10,050,362</u>	<u>767,163</u>
Total long-term debt	<u>\$ 19,059,313</u>	<u>\$ 2,062,857</u>	<u>\$ 1,823,672</u>	<u>\$ 19,298,498</u>	<u>\$ 1,482,224</u>

5. Restricted net assets

Net assets are restricted for the repayment of the following:

- a. Special assessments are restricted in net assets for the future replacement of sewer systems that were built with Environmental Protection Agency grants awarded after February 1984. The amount restricted at June 30, 2009 and 2008 is \$1,410,023 and \$1,410,023, respectively.
- b. 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 June 30, 2009 and 2008 is \$687,123 and \$707,104, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

5. Restricted net assets (continued)

- c. The Board has restricted net assets per agreement with customers for upgrades and replacements to their water and sewer systems. The amount restricted June 30, 2009 and 2008 is \$130,894 and \$130,894, respectively.
- d. Effective October 1, 2007, MetCom started collecting System Improvement Charges 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, 2009 and 2008 was \$848,882 and \$1,372,319, respectively.
- e. Effective October 1, 2007, MetCom started collecting Capital Contribution Charges for the construction of facilities to serve new customers. These funds are restricted by law for that purpose. The balance at June 30, 2009 and 2008 was \$74,419 and \$181,505, 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 25% 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.

Description

All qualified career employees of MetCom are required to join the Maryland State Employees' Pension Plan. The plans have provisions for early retirement, death and disability benefits. Participants become eligible for a vested retirement allowance after 5 years' service. The Plans are 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.