

ST. MARY'S COUNTY METROPOLITAN COMMISSION

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2013 AND 2012**



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

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of St. Mary's County Metropolitan Commission, a component unit of St. Mary's County, Maryland, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise St. Mary's County Metropolitan Commission's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the remaining fund information of St. Mary's County Metropolitan Commission as of June 30, 2013 and 2012, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Mary's County Metropolitan Commission's basic financial statements. The Other Supplemental Information on pages 42 through 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013, on our consideration of the St. Mary's County Metropolitan Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Mary's County's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
September 26, 2013

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, 2013 and 2012. Please read it in conjunction with MetCom's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- MetCom's net position increased by \$4.2 million and \$4.7 million, or 4.8% and 5.8%, as a result of operations in FY 2013 and 2012, respectively.
- During the current year, MetCom's revenue from operations was \$13.6 million, representing an increase of 10.1% over the prior year. The increase in operating revenue is mainly due to an increase in rates of approximately 10% for sewer services and 7% for water services. In FY 2012, revenue from operations was \$12.4 million, or 5.2% over the prior year. The increase in operating revenue was due to an increase in rates of approximately 3.7% for both water and sewer services.
- MetCom's operating expenses excluding depreciation were \$11.1 million during the current year and \$10.7 million in the prior year.
- MetCom's nonoperating revenue was \$5.7 million during the current year and \$6.6 million in FY 2012, representing a decrease of 13% in the current year and a decrease of 23% in the prior year. The fluctuation in both years is attributable to capital contributions received.
- Although Engineering Revenues have not returned to the high levels experienced prior to the slow-down in the construction industry that started in FY 2008, the current year's engineering revenues increased 3% over the prior year and FY 2012 engineering revenues increased 20% over FY 2011.
- In FY 2008, MetCom established a trust fund for the management of assets and accounting for financial transactions associated with the provision of retiree health insurance coverage. In FY 2013 MetCom contributed \$596 thousand, \$16 thousand more than the required contribution as the result of a health insurance refund and fully funded OPEB in the prior year.
- MetCom has recorded four loans in FY 2013.

USING THIS ANNUAL REPORT

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

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

The Statements of Net Position provide a snapshot of MetCom’s financial position at both June 30, 2013 and 2012. Amounts of Net Position are cumulative from inception. Both current and long-term assets and liabilities, as well as net position, are presented.

The Statements of Revenues, Expenses and Changes in Net Position provide information about the activities of MetCom as a whole and reflect activity for the fiscal years ended June 30, 2013 and 2012. These statements measure operating revenues and expenses as well as non-operating revenues and expenses. The statements also present capital contributions as well as changes in net position.

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

The Notes to the Financial Statements provide information and more detailed data about the financial statements.

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 Required Supplemental Information provides information on the Other Post Employment Benefit Plan (OPEB).

The Supplementary Departmental Financial Statements report MetCom's activities in more detail by providing information about MetCom's most financially significant funds – not MetCom as a whole. The Board of Commissioners of MetCom establishes funds to help it manage and control monies for particular purposes or to show that it is meeting legal responsibilities.

METCOM AS A WHOLE

Statements of Net Position

MetCom's net position increased by approximately \$4.2 million in FY 2013 and \$4.7 million in FY 2012. The majority of the current year's increase is attributable to the change in Current and other assets. The prior year's increase was attributable to the change in net assets invested in capital assets, net of related debt. During FY 2012, developers completed construction of \$2.4 million of capital assets and donated them to MetCom and MetCom received \$.6 million in grants. The following condensed statements show the changes in assets, liabilities and net position for the years ended June 30, 2013, 2012 and 2011.

	MetCom's Net Position (in millions of dollars) Business-type activities		
	<u>June 30,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 17.00	\$ 12.50	\$ 11.40
Capital assets	<u>107.40</u>	<u>103.40</u>	98.50
Total assets	<u>\$ 124.40</u>	<u>\$ 115.90</u>	<u>\$ 109.90</u>
Long-term debt outstanding	\$ 28.20	\$ 25.10	\$ 23.50
Other liabilities	5.40	4.20	4.50
Total liabilities	<u>\$ 33.60</u>	<u>\$ 29.30</u>	<u>\$ 28.00</u>
Net position			
Net invested in capital assets	\$ 77.00	\$ 76.10	\$ 72.90
Restricted	6.30	5.30	4.60
Unrestricted	7.50	5.20	4.40
Total net position	<u>\$ 90.80</u>	<u>\$ 86.60</u>	<u>\$ 81.90</u>

Statements of Revenues, Expenses and Changes in Net Position

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

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

	Years ended June 30,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 13.60	\$ 12.40	\$ 11.70
Operating expenses	(11.10)	(10.70)	(10.00)
Depreciation expense	<u>(4.00)</u>	<u>(3.60)</u>	<u>(3.30)</u>
Operating loss	(1.50)	(1.90)	(1.60)
Nonoperating revenues	4.60	3.60	3.70
Capital contributions	1.10	3.00	4.90
Change in net position	4.20	4.70	7.00
Net position at beginning of year	86.60	81.90	74.90
Net position at end of year	<u>\$ 90.80</u>	<u>\$ 86.60</u>	<u>\$ 81.90</u>

MetCom's operating revenues totaled \$13.6 million during the current year. Total operating revenues increased by 10.1% over the prior year, compared to operating revenue in the prior year of \$12.4 million which was an increase of 5.2% over FY 2011. The current year increase is mainly due to an average increase in sewer rates of approximately 10% and in water service rates of almost 7%. The prior year increase was due to a 3.7% average increase in water and sewer service charges. Expenses from MetCom's operating activities excluding depreciation totaled \$11.1 million during the current year and \$10.7 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 \$7.4 million, or 66% of operating expenses. Power for plant operations was \$1.0 million, or 8.6%. Maintenance of the system was \$.6 million or 5.3% of operating expenses. The remaining \$2.1 million, or 20%, related to administrative and direct costs.

Total Nonoperating Revenue increased \$1 million to \$4.6 million in the current year. Debt Service Charges increased \$1.2 million to \$5.9 million. The Debt Service Charges are made up of \$4.8 million of System Improvement Charges and \$1.1 million of Capital Contribution Charges. System Improvement Charges increased \$.5 million or 11% due mostly to a 9% increase in Water System Improvement Charges and an 11% increase in Sewer System Improvement Charges. Capital Contribution Charges increased \$.8 million. Although there was a substantial increase for both Water and Sewer Capital Contribution Charges, 85% and 113% respectively, most of the increase was due to a large increase in the number of Capital Contribution Charges paid. Many permits were

processed in July 2013 for customers who took advantage of the lower rates in FY 2012 to avoid the rate increase in FY 2013. Interest Expense increased by \$.1 million. In the prior year, total Nonoperating Revenue decreased \$.1 million due to a \$.2 million decrease in Debt Service Charges and a \$.1 million decrease in Interest Expense.

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 donated assets of \$1.3 million. The \$1.9 million reduction in the prior year was primarily due to a reduction in grants of \$1.6 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At June 30, 2013, MetCom had \$157.4 million prior to depreciation invested in capital assets. This represents an increase of 5% over the previous year. As of June 30, 2012, MetCom had \$149.7 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>2013</u>	<u>2012</u>	<u>2011</u>
Utility plants	\$ 98.20	\$ 91.80	\$ 89.20
Water plants	36.90	30.30	28.20
Equipment	7.60	7.60	7.00
Capitalized interest	.80	.80	.80
Buildings	3.90	3.80	3.80
Land	.60	.60	.60
Construction in process	9.40	14.80	11.70
	157.40	149.70	141.30
Accumulated depreciation	<u>(50.00)</u>	<u>(46.30)</u>	<u>(42.80)</u>
Net capital assets	<u>\$ 107.40</u>	<u>\$ 103.40</u>	<u>\$ 98.50</u>

This year's major capital asset additions included:

- The Chancellor's Run Road Water and Sewer project was completed at a cost of \$2.6 million. The water portion of the project, \$2.5 million, was funded with a DHCD loan. The sewer portion of the project, \$.1 million, was funded as a direct pay from System Improvement and Capital Contribution Charges.
- The Methane CoGenerator was completed at a cost of \$4 million, which was funded with a \$3.5 million Stimulus Fund grant and a loan from MDE.
- The Great Mills to Peggs Road Water Main Connector was completed at a cost

of \$373 thousand and was funded with a loan from DHCD.

- The Country Lakes Well was completed at a cost of \$1 million. This project was funded with a loan from DHCD.
- The Great Mills Road Streetscape project was put in service at a cost of \$2.4 million and was funded with a loan from DHCD.

MetCom's FY 2014 Capital Improvement Budget for water is \$7.7 million, which includes \$.3 million for water lines, \$5.9 million for water storage tanks, \$.5 million for wells, and \$1 million for miscellaneous projects. The Radio Read Water Meter Project was approved during FY 2012 in the amount of \$8.3 million; construction started in FY 2013. MDE has awarded a grant to MetCom for \$3 million. The balance will be funded with a loan from MDE and DHCD.

The FY 2014 Capital Improvement Budget for sewer is \$8 million, \$1.1 million for replacement projects, \$2.1 million for pump stations and \$4.8 million for upgrades/expansions. The largest project is the Enhanced Nutrient Removal Project, ENR, at the Marlay-Taylor Wastewater Reclamation Facility in the amount of \$39.1 million; \$36.1 million was approved in FY 2012 and \$3 million in FY 2014. This project is in the construction 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. 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 \$10.4 million, and the Navy is expected to pay \$7.8 million for this project.

Most of the FY 2014 capital projects not funded by the previously mentioned grants will be financed with additional MetCom debt.

Debt administration

At the end of FY 2013 and FY 2012, MetCom had a total of \$30.4 million and \$27.3 million in debt outstanding, respectively.

On April 11, 2013 MetCom closed on a \$4.9 million loan from the Maryland Water Quality Financing Administration. As of June 30, 2013 MetCom has drawn \$227 thousand on this loan. The undrawn amount is not included in Notes Payable.

On June 21, 2013 MetCom closed on a \$394 thousand loan from the Maryland Water Quality Financing Administration. MetCom has drawn \$35 thousand on this loan. The undrawn amount is not included in Notes Payable.

On August 28, 2013 MetCom closed on two loans with the Maryland Water Quality Financing Administration for the ENR project. These loans total \$26.4 million. As of June 30, 2013 MetCom has drawn \$2.2 million. The undrawn amount is not included in Bonds Payable.

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

	<u>Years ended June 30,</u>			<u>% change</u>	
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>FY 2013</u>	<u>FY 2012</u>
Bonds payable	\$ 19.8	\$ 18.3	\$ 15.9	8.2%	15.1%
Notes, leases and loans payable	<u>10.6</u>	<u>9.0</u>	<u>9.7</u>	17.8%	-7.2%
Total debt	<u>\$ 30.4</u>	<u>\$ 27.3</u>	<u>\$ 25.6</u>	11.4%	6.6%

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 2% increase in the total operating revenues for next year. This increase is mostly attributable to rate increases of approximately 3% in sewer and 1% in water service charges.

The total operating expenses in MetCom's Operating Budget for FY 2014 are \$13.4 million, about \$100 thousand more than the FY 2013 Amended Budget. Salaries are the largest component of MetCom's expenses. In the FY 2014 budget, salaries are \$5.5 million, a \$125 thousand increase over FY 2013 Amended Operating Budget. Health insurance is \$1.3 million and OPEB is \$456 thousand to fully fund the Annual Required Contribution, ARC, to the Other Post-Employment Benefit Trust, OPEB. Electricity to operate the water and sewer systems is \$1 million in the FY 2014 Operating Budget.

MetCom is in the middle of an aggressive plan to upgrade or replace many of MetCom's existing water and sewer facilities consistent with the guidance provided by the 5th and 8th Sanitary Districts Facilities Plan prepared by CH2M Hill. As part of this plan MetCom has issued \$16 million in Infrastructure Financing Bonds in conjunction with the Maryland Department of Housing & Community Development, DHCD. In addition, MetCom intends to issue another bond for approximately \$3.5 million to DHCD by the end of the current fiscal year. MetCom also expects to close on a loan from the Maryland Water Quality Financing Administration in the amount of \$3.4 million in March 2014. All of these loans are to fund FY 2014 or prior construction projects.

CONTACTING METCOM'S FINANCIAL MANAGEMENT

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION

ASSETS

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 11,081,716	\$ 9,191,395
Accounts receivable	1,279,887	1,128,509
Loans/grants receivable	3,376,354	936,557
Inventory	276,048	260,355
Prepaid expenses	<u>345,973</u>	<u>321,592</u>
Total current assets	<u>16,359,978</u>	<u>11,838,408</u>
Noncurrent assets:		
Net capital assets	107,465,652	103,459,806
Bond issue costs	587,138	563,556
Unamortized bond discount	<u>42,899</u>	<u>50,125</u>
Total noncurrent assets	<u>108,095,689</u>	<u>104,073,487</u>
Total assets	<u>\$ 124,455,667</u>	<u>\$ 115,911,895</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF NET POSITION (CONTINUED)

LIABILITIES AND NET POSITION

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 1,953,912	\$ 850,952
Accrued interest payable	286,460	245,461
Accrued expenses	733,062	641,549
Unearned revenue	52,979	81,043
Bond premiums	148,014	83,371
Bonds payable	1,327,174	1,391,898
Notes, leases and loans payable	<u>897,546</u>	<u>877,634</u>
 Total current liabilities	 <u>5,399,147</u>	 <u>4,171,908</u>
Noncurrent liabilities:		
Bonds payable	18,470,843	16,927,070
Notes, leases and loans payable	<u>9,732,586</u>	<u>8,131,555</u>
 Total noncurrent liabilities	 <u>28,203,429</u>	 <u>25,058,625</u>
 Total liabilities	 <u>33,602,576</u>	 <u>29,230,533</u>
Net position:		
Net investment in capital assets	77,037,503	76,131,649
Restricted	6,300,901	5,317,660
Unrestricted	<u>7,514,687</u>	<u>5,232,053</u>
 Total net position	 <u>90,853,091</u>	 <u>86,681,362</u>
 Total liabilities and net position	 <u>\$ 124,455,667</u>	 <u>\$ 115,911,895</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Operating revenue:		
Service charges	\$ 13,307,225	\$ 12,081,361
Miscellaneous	<u>289,695</u>	<u>273,607</u>
Total operating revenue	<u>13,596,920</u>	<u>12,354,968</u>
Operating expenses:		
Direct operating expenses	6,808,709	6,522,441
Administrative expenses	<u>4,343,989</u>	<u>4,155,945</u>
Total operating expenses	<u>11,152,698</u>	<u>10,678,386</u>
Operating income before depreciation	2,444,222	1,676,582
Depreciation	<u>(4,003,772)</u>	<u>(3,577,105)</u>
Operating loss	<u>(1,559,550)</u>	<u>(1,900,523)</u>
Nonoperating revenue (expenses):		
Interest income	20,433	34,955
Debt service charges	5,875,128	4,653,432
House connection charges- net	(3,146)	51,088
Interest expense	(1,358,257)	(1,236,269)
Other fees	<u>110,404</u>	<u>99,973</u>
Total nonoperating revenue, net	<u>4,644,562</u>	<u>3,603,179</u>
Income before contributions	3,085,012	1,702,656
Capital contributions	<u>1,086,717</u>	<u>3,017,866</u>
Change in net position	4,171,729	4,720,522
Total net position- beginning	<u>86,681,362</u>	<u>81,960,840</u>
Total net position- ending	<u>\$ 90,853,091</u>	<u>\$ 86,681,362</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from customers	\$ 13,127,783	\$ 12,093,042
Payments to suppliers	(4,866,140)	(5,982,961)
Payments to employees	(5,013,509)	(5,021,777)
Other receipts	<u>289,695</u>	<u>273,607</u>
Net cash provided by operating activities	<u>3,537,829</u>	<u>1,361,911</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	3,099,320	5,976,923
Purchases of capital assets	(6,550,322)	(5,733,110)
Principal paid on capital debt	(3,013,793)	(2,650,777)
Interest paid on capital debt	(1,185,532)	(1,180,197)
Other receipts and payments	<u>5,982,386</u>	<u>4,804,493</u>
Net cash (used) provided by capital and related financing activities	<u>(1,667,941)</u>	<u>1,217,332</u>
Cash flows from investing activities:		
Interest received	<u>20,433</u>	<u>34,955</u>
Net increase in cash and cash equivalents	1,890,321	2,614,198
Cash and cash equivalents at beginning of year	<u>9,191,395</u>	<u>6,577,197</u>
Cash and cash equivalents at end of year	<u>\$ 11,081,716</u>	<u>\$ 9,191,395</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (1,559,550)	\$ (1,900,523)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	4,122,422	3,729,443
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(151,378)	76,906
Increase in prepaid expense	(24,381)	(12,282)
Increase in inventory	(15,693)	(14,801)
Increase (decrease) in accounts payable	1,102,960	(297,294)
Increase (decrease) in accrued expenses	91,513	(154,313)
Increase in unearned revenue	<u>(28,064)</u>	<u>(65,225)</u>
Net cash provided by operating activities	<u>\$ 3,537,829</u>	<u>\$ 1,361,911</u>

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Increase in capital assets	\$ 8,128,268	\$ 8,699,456
Capital contribution	(1,086,717)	(3,017,866)
Change in grants receivable	<u>(491,229)</u>	<u>51,520</u>
Purchase of capital assets	<u>\$ 6,550,322</u>	<u>\$ 5,733,110</u>
Additions to capital debt	\$ 6,113,785	\$ 5,773,268
Refinanced debt	-	(1,379,600)
Deferred bond issue costs	(159,297)	(59,739)
Premiums on bonds	75,858	-
Change in loans receivable	<u>(2,931,026)</u>	<u>1,642,994</u>
Proceeds from capital debt	<u>\$ 3,099,320</u>	<u>\$ 5,976,923</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

STATEMENTS OF FIDUCIARY NET POSITION

ASSETS

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Restricted investments	\$ <u>2,844,451</u>	\$ <u>2,344,114</u>
Total assets	\$ <u>2,844,451</u>	\$ <u>2,344,114</u>

LIABILITIES

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Due to general fund	\$ _____ -	\$ _____ -

LIABILITIES AND NET POSITION

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Net assets held in trust for OPEB	\$ <u>2,844,451</u>	\$ <u>2,344,114</u>

See accompanying notes.

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

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
ADDITIONS:		
Contributions	\$ 596,404	\$ 538,000
Interest income	<u>2,945</u>	<u>2,007</u>
Net additions	<u>\$ 599,349</u>	<u>\$ 540,007</u>
DEDUCTIONS:		
Benefits paid	\$ (94,012)	\$ (94,282)
Administrative expenses	<u>(5,000)</u>	<u>-</u>
Net deductions	<u>(99,012)</u>	<u>(94,282)</u>
Change in net position	<u>\$ 500,337</u>	<u>\$ 445,725</u>
NET POSITION:		
Beginning of year	<u>\$ 2,344,114</u>	<u>\$ 1,898,389</u>
End of year	<u>\$ 2,844,451</u>	<u>\$ 2,344,114</u>

See accompanying notes.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

1. Summary of significant accounting policies

Financial reporting entity

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

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

Fund accounting and basis of accounting

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Both enterprise and fiduciary funds are accounted for using the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net position. Fund equity (i.e., net position) is segregated into 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 position.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

1. Summary of significant accounting policies (continued)

Fund accounting and basis of accounting (continued)

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

Use of estimates

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

Cash and cash equivalents

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

Inventory

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

Receivables

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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 \$371,216 and \$344,878 at June 30, 2013 and 2012, respectively.

Capital assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Depreciation expense is calculated on a straight-line basis over the estimated useful lives of the related assets, as follows:

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

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

Capital contributions

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

Donated assets consist principally of capital assets constructed by developers and subsequently donated to MetCom and reported as capital contributions. They are recorded at estimated fair value using developers' estimated costs to construct the assets. The capital assets and related capital contributions are recognized upon completion of construction.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

1. Summary of significant accounting policies (continued)

Bond issue costs

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

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 \$7,925,001 and \$6,027,381 at June 30, 2013 and 2012, respectively, and the bank balances were \$8,423,339 and \$6,716,733, respectively. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2013 and 2012, with the remaining \$8,173,339 and \$6,466,733, respectively, adequately covered by collateral.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. Deposits and investments (continued)

Deposits (continued)

At June 30, 2013 and 2012, 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>2013</u>	<u>2012</u>
Investments	\$ 3,155,815	\$ 3,163,214
Cash	7,925,001	6,027,381
Petty cash	<u>900</u>	<u>800</u>
	<u>\$ 11,081,716</u>	<u>\$ 9,191,395</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, 2013 and 2012, 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, 2013 and 2012 was \$3,155,815 and \$3,163,214, respectively.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

3. Capital assets and depreciation

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

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

3. Capital assets and depreciation (continued)

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

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <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, 2013 AND 2012

4. Long-term debt

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

Bonds Payable <u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Seventeenth Issue	2006-2019	2.75%-4.40%	\$ 3,080,000	\$ 411,540
Twenty-first Issue	2007-2021	3.65%-4.275%	679,300	126,604
Twenty-third Issue	2008-2027	3.5%-4.25%	7,318,236	2,533,203
Twenty-seventh Issue	2011-2030	0.75%-4.31%	6,608,677	2,739,018
Thirtieth Issue	2012-2029	2.96%	1,302,004	361,368
Thirty-first Issue	2012-2032	0.61%-3.42%	<u>809,800</u>	<u>354,125</u>
			19,798,017	6,525,858
Less current portion			<u>1,327,174</u>	<u>773,389</u>
Total			<u>\$18,470,843</u>	<u>\$ 5,752,469</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2013 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014 (current)	\$ 1,327,174	\$ 773,389
2015	1,381,577	727,371
2016	1,434,901	679,006
2017	1,485,845	627,839
2018	1,548,662	570,407
2019 – 2023	5,885,367	2,088,362
2024 – 2028	5,413,490	960,227
2029 – 2032	<u>1,321,001</u>	<u>99,257</u>
	<u>\$ 19,798,017</u>	<u>\$ 6,525,858</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. Long-term debt (continued)

Long-term bonds payable as of June 30, 2012 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%	\$ 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>

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 was payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1 to maturity.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. Long-term debt (continued)

Seventeenth Issue (continued)

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

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

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. Long-term debt (continued)

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, 2013 and 2012, MetCom had drawn only \$9,739,936 and \$8,561,736 of the proceeds, respectively.

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

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, 2013 and 2012, MetCom had drawn only \$8,096,339 and \$6,838,245 of the proceeds, respectively.

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

Thirtieth Issue

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. Long-term debt (continued)

Thirtieth Issue (continued)

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.

Thirty-First Issue

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

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. Long-term debt (continued)

Notes, leases and loans payable

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

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

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2013, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014 (current)	\$ 897,546	\$ 143,520
2015	919,540	159,472
2016	1,041,914	159,973
2017	1,032,346	132,268
2018	701,348	108,603
2019 - 2023	3,207,885	399,413
2024 - 2028	1,718,602	212,156
2029 - 2033	829,269	109,495
2034	<u>281,682</u>	<u>22,033</u>
	<u>\$ 10,630,132</u>	<u>\$ 1,446,933</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. Long-term debt (continued)

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>

As of June 30, 2013, MetCom has fourteen loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purpose of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for \$976,700 was used to replace the Lexington Park Wastewater Pumping Station. Loan number twenty for \$1,466,576 was for water meter installations. Loan number twenty-two for \$1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 was used for Patuxent Park Sewer Line Repair and the Marley-Taylor Methane Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. Long-term debt (continued)

used for the St. Clements Shore Well. Loan number twenty-nine is with SunTrust Bank in the amount of \$270,682 at an interest rate of 2.03%. Payments are made monthly on this loan from December 2011 through November 2016. The proceeds of this loan were used to purchase a Vactor truck. Loan number thirty-two in the amount of \$4,874,202 is for the Radio Read Meter Project. As of June 30, 2013 MetCom had drawn \$227,326 of the proceeds. Loan number thirty-three in the amount of \$394,000 is for the Shangri La Drive/South Essex Drive Sewer Rehabilitation. As of June 30, 2013 MetCom had drawn \$35,044 of the proceeds. Loan number thirty-four in the amount of \$21,082,400 is for the Marlay-Taylor Wastewater Reclamation Facility Enhanced Nutrient Removal, ENR, project. Loan number thirty-five in the amount of \$5,270,600 is also for Marlay-Taylor Water Reclamation Facility ENR project. This loan that will be paid for by Navy charges and is therefore taxable. As of June 30, 2013, MetCom has drawn \$2,236,208 on loans thirty-four and thirty-five.

Changes in long-term debt

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

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

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

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2012</u>	Amounts Due <u>Within One Year</u>
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>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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, 2013 and 2012 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, 2013 and 2012 is \$130,894.
- c. System Improvement Charges are collected for the replacement and upgrade of water and sewer facilities and associated debt. These funds are restricted by law for that purpose. The balance as of June 30, 2013 and 2012 was \$0 and \$4,479,662, respectively.
- d. Capital Contribution Charges are collected for the construction of facilities to serve new customers and associated debt. These funds are restricted by law for that purpose. The balance at June 30, 2013 and 2012 was \$0.
- e. The Capital Project Upgrade funds are reserved for the replacement and upgrade of water and sewer facilities. These funds are restricted by law for that purpose. The balance as of June 30, 2013 and 2012 was \$5,106,717 and \$0.00, respectively.
- f. The Capital Project New Services funds are reserved for the construction of facilities to serve customers. These funds are restricted by law for that purpose. The balance as of June 30, 2013 and 2012 was \$356,186 and \$0.00, 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, 2013 AND 2012

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 benefits 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 Personnel and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the Pension Systems were required to contribute 7% of earnable compensation for the years ended June 30, 2013 and 2012.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

6. Retirement and pension plan (continued)

Funding policy (continued)

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

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in two 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, 2013, MetCom's total payroll and payroll for covered employees were \$5,406,058 and \$4,479,722, respectively. MetCom's contribution to the System was \$383,616 and \$425,888 for the years ended June 30, 2013 and 2012, respectively.

Actuarial assumptions

Investment Rate of Return	7.75% compounded annually
Projected payroll growth	3.5% to 12% compounded annually due to inflation
COLAs	2.75%-3.5% for service prior to July 1, 2011 and 1.7%-3.5% for service after June 30, 2011 per year based on the system and provisions per annum depending on the system

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

6. Retirement and pension plan (continued)

Trend information

	<u>June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual required contributions (in thousands)	\$2,146,624	\$2,035,401	\$ 1,519,980
Percentage contributed	77%	74%	86%

7. Other post-employment benefits

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

Plan Description

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

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

7. Other post-employment benefits (continued)

Membership

At June 30 membership consisted of:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Retirees and Beneficiaries Currently Receiving Benefits	10	9	9
Active Employees	<u>65</u>	<u>62</u>	<u>60</u>
Total	<u>75</u>	<u>71</u>	<u>69</u>

Funding Policy

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY 2013 Operating Budget includes fully funding the OPEB cost. MetCom contributed \$596,404 and \$538,000 to the trust in FY 2013 and FY 2012, respectively. The Net OPEB Obligation is overpaid by \$300,388 as of June 30, 2013.

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>2013</u>	<u>2012</u>
Annual Required Contribution	\$ 582,000	\$ 541,000
Interest on NOPEBO	(20,000)	(20,000)
Adjustment to ARC	<u>18,000</u>	<u>17,000</u>
Annual OPEB Cost	580,000	538,000
Contributions Made	596,404	538,000
NOPEBO, (Prepaid) Beginning of Year	<u>\$ (283,984)</u>	<u>\$ (283,984)</u>
NOPEBO, (Prepaid) End of Year	<u>\$ (300,388)</u>	<u>\$ (283,984)</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

7. Other post-employment benefits (continued)

The funded status of the plan as of June 30, 2013, was as follows:

Actuarial Accrued Liability (AAL)	\$ 6,518,000
Actuarial Value of Plan Assets	<u>2,344,114</u>
Unfunded Actuarial Accrued Liability	<u>\$ 4,173,886</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	35.96%
Covered Payroll (Active Plan Members)	\$ 4,319,527
UAAL as a percentage of covered payroll	96.63%

Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the liabilities were computed using the project unit credit, 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 24 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.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

7. Other post-employment benefits (continued)

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, 2012 asset figure of \$2,344,114.

Summary of significant accounting policies

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

The Trust does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or of another entity.

8. Rate setting

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

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Change in net position – per financial statements	\$ 4,171,729	\$ 4,720,522
Add:		
Depreciation – facilities	3,543,001	3,136,164
Less:		
Principal payment on capital debt	(2,965,390)	(2,637,754)
Repayment of internal pension loan	(113,092)	(113,092)
Meter costs	-	(48,407)
Capital contributions	<u>(1,086,717)</u>	<u>(3,017,866)</u>
Excess or (deficiency) of revenue over expenses – rate-setting method	<u>\$ 3,549,531</u>	<u>\$ 2,039,567</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

9. Risk management

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

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During FY 2013 and FY 2012, MetCom paid premiums of \$100,337 and \$97,196, 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. In August 2013, MetCom awarded a construction contract for the ENR project and fully expects to meet this requirement.

MetCom participates in state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. The audits for the year ended June 30, 2013 have not yet been completed. Accordingly, MetCom's compliance with applicable grant requirements will be verified in connection with performing MetCom's Single Audit. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although MetCom expects such amounts, if any, to be immaterial.

ST. MARY'S COUNTY METROPOLITAN COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

11. Subsequent events

In preparing these financial statements, MetCom has evaluated events and transactions for potential recognition or disclosure through September 26, 2013, the date the financial statements were available to be issued.

On October 3, 2013 MetCom expects to close on a bond issued by the Maryland Community Development Administration (CDA) in the amount of \$15,948,168 at an average interest rate of 4.399%.

REQUIRED SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY METROPOLITAN COMMISSION

INFORMATION ABOUT OTHER POSTEMPLOYMENT BENEFIT PLAN

JUNE 30, 2013 AND 2012

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

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

Schedule of Funding Progress for the MetCom Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
07/01/07	\$ -	\$ 4,331,000	\$ 4,331,000	0.00%	\$ 3,400,838	127.35%
07/01/09	\$ 1,219,000	\$ 3,989,000	\$ 2,770,000	30.56%	\$ 3,670,430	75.47%
07/01/10	\$ 1,563,818	\$ 4,476,000	\$ 2,912,182	34.94%	\$ 3,851,158	75.62%
07/01/11	\$ 2,054,000	\$ 5,920,000	\$ 3,866,000	34.70%	\$ 4,162,094	92.89%
07/01/12	\$ 2,344,114	\$ 6,518,000	\$ 4,173,886	35.96%	\$ 4,319,527	96.63%

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Annual OPEB Cost	Percentage Contributed
06/30/08	\$ 801,984	\$ 518,000	154.82%
06/30/09	514,000	514,000	100%
06/30/10	405,000	405,000	100%
06/30/11	431,000	431,000	100%
06/30/12	538,000	538,000	100%
06/30/13	596,404	580,000	102.83%

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, 2013

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Operating revenue:				
Service charges	\$ 8,143,671	\$ 4,796,068	\$ 367,486	\$ 13,307,225
Miscellaneous	<u>54,168</u>	<u>206,420</u>	<u>29,107</u>	<u>289,695</u>
Total operating revenue	<u>8,197,839</u>	<u>5,002,488</u>	<u>396,593</u>	<u>13,596,920</u>
Operating expenses:				
Direct operating expenses	4,126,874	2,197,843	483,992	6,808,709
Administrative expenses	<u>2,528,202</u>	<u>1,476,956</u>	<u>338,831</u>	<u>4,343,989</u>
Total operating expenses	<u>6,655,076</u>	<u>3,674,799</u>	<u>822,823</u>	<u>11,152,698</u>
Operating income (loss) before depreciation	1,542,763	1,327,689	(426,230)	2,444,222
Depreciation	<u>(2,656,938)</u>	<u>(1,292,140)</u>	<u>(54,694)</u>	<u>(4,003,772)</u>
Operating income (loss)	<u>(1,114,175)</u>	<u>35,549</u>	<u>(480,924)</u>	<u>(1,559,550)</u>
Allocable nonoperating revenue (expense):				
Interest income	801	200	-	1,001
Debt service charges	3,845,075	2,030,053	-	5,875,128
House connection charges - net	-	(3,146)	-	(3,146)
Debt service - interest and finance charges	<u>(674,275)</u>	<u>(683,982)</u>	<u>-</u>	<u>(1,358,257)</u>
Total allocable nonoperating revenue	<u>3,171,601</u>	<u>1,343,125</u>	<u>-</u>	<u>4,514,726</u>
Total allocable net income (loss)	<u>\$ 2,057,426</u>	<u>\$ 1,378,674</u>	<u>\$ (480,924)</u>	<u>2,955,176</u>
Nonallocable revenue:				
Interest income				19,432
Other fees				<u>110,404</u>
Total nonallocable revenue				<u>129,836</u>
Capital contribution				<u>1,086,717</u>
Change in fund net position				<u>\$ 4,171,729</u>

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 position				<u>\$ 4,720,522</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

SCHEDULE OF SERVICE CHARGES AND DIRECT OPERATING EXPENSES

YEAR ENDED JUNE 30, 2013

	<u>Sewer</u>	<u>Water</u>	<u>Engineering</u>	<u>Total</u>
Service charges:				
Service charge - metered	\$ 1,282,744	\$ 4,342,646	\$ -	\$ 5,625,390
Service charge - nonmetered	6,720,497	314,226	-	7,034,723
Service charge - ready-to-serve	-	79,881	-	79,881
Septage haul revenue	140,430	-	-	140,430
Water meter installation	-	18,300	-	18,300
Review fees	-	-	126,320	126,320
Inspection fees	-	-	239,666	239,666
Residential tap fee sewer	-	-	1,500	1,500
Cut-on cut-off fees	-	41,015	-	41,015
Total service charges	<u>\$ 8,143,671</u>	<u>\$ 4,796,068</u>	<u>\$ 367,486</u>	<u>\$ 13,307,225</u>
Direct operating expenses:				
Salaries	\$ 2,116,155	\$ 972,736	\$ 572,375	\$ 3,661,266
Chemicals	205,055	104,683	-	309,738
Contractual employees	-	321	111,160	111,481
Employee physicals/uniforms	20,245	4,645	4,357	29,247
Employee training	18,112	4,242	1,447	23,801
Lab/soil testing	8,777	-	-	8,777
Leonardtown - treatment plant	128,295	-	-	128,295
Maintenance	414,537	174,316	641	589,494
Major system repair cost	170,917	167,044	-	337,961
Materials and supplies	97,647	67,991	15,108	180,746
Meter reading expense	-	85,650	-	85,650
Miscellaneous	15,990	9,522	1,496	27,008
Oil and gas	113,508	10,737	608	124,853
Power	468,845	489,472	5,624	963,941
Professional fees	1,153	-	5,856	7,009
Safety supplies	12,012	6,649	-	18,661
Sludge removal	143,162	-	-	143,162
Telephone	41,078	10,205	10,448	61,731
Tools purchased	14,273	7,683	-	21,956
Vehicle operating and mileage	164,703	68,455	23,116	256,274
Water testing	-	15,601	-	15,601
Recovery of costs	<u>(27,590)</u>	<u>(2,109)</u>	<u>(268,244)</u>	<u>(297,943)</u>
Total direct operating expenses	<u>\$ 4,126,874</u>	<u>\$ 2,197,843</u>	<u>\$ 483,992</u>	<u>\$ 6,808,709</u>

ST. MARY'S COUNTY METROPOLITAN COMMISSION

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	-	<u>32,525</u>	-	<u>32,525</u>
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	<u>(70,322)</u>	<u>(10,151)</u>	<u>(258,072)</u>	<u>(338,545)</u>
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

SCHEDULES OF ADMINISTRATIVE EXPENSES

	<u>Years ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Administrative expenses:		
Accounting	\$ 17,225	\$ 16,500
Advertising	19,551	21,860
Bond fees	1,500	1,500
Commissioners' salaries	14,542	14,500
Computer services	65,490	63,318
Consulting	17,198	9,508
Contractual employees	82,858	127,478
Depreciation	118,650	152,338
Dues and subscriptions	9,806	10,279
Electric	11,584	12,418
Employee training	26,373	65,639
Hospitalization and disability	1,437,276	1,260,930
Insurance	209,645	175,075
Legal	57,772	43,634
Mileage and travel	3,665	4,519
Miscellaneous	7,532	6,925
Office and administrative salaries	1,234,875	1,140,132
Office supplies and expenses	104,102	86,213
Payroll taxes	392,159	388,459
Postage expense	103,697	102,851
Retirement	383,616	425,888
Telephone and fax	43,099	45,123
Temporary labor	-	2,406
Tuition reimbursement	2,787	5,816
Recovery of costs	<u>(21,013)</u>	<u>(27,364)</u>
Total administrative expenses	<u>\$ 4,343,989</u>	<u>\$ 4,155,945</u>
Allocated to services as follows:		
Sewer 58.2% and 57%	\$ 2,528,202	\$ 2,368,889
Water 34% and 35%	1,476,956	1,454,581
Engineering 7.8% and 8%	<u>338,831</u>	<u>332,475</u>
	<u>\$ 4,343,989</u>	<u>\$ 4,155,945</u>



Murphy & Murphy, CPA, LLC
Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the St. Mary's County Metropolitan Commission, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the St. Mary's County Metropolitan Commission's basic financial statements, and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland
September 26, 2013