



ANNUAL
REPORT
2014



MARYLAND
ENVIRONMENTAL
SERVICE



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Elementary school students planting wetland grasses at Masonville Cove Environmental Education Festival

Director's Letter

Throughout the economic recovery and continuing during FY14, MES has remained focused on operating as a well-managed, efficient business. Our affordable services have helped our customers - at all levels of government and in the private sector, to continue strong environmental efforts, even in the face of low revenues and budget restrictions.

While times have been difficult for State and Local governments, MES financial results remain solid. In 2014, our net assets increased \$976 thousand. Revenue was up over \$16 million, a 17% increase over FY13. Large projects continued moving forward, including growth of the Masonville Dredged Material Containment construction project for the Port of Baltimore and the single-stream recycling facility project in Baltimore County.

Midshore II Landfill in Caroline County struck gold - winning the highest achievement award from the Solid Waste Association of North America. The project also began construction on Cell 2, and a bank placement for bonds was completed for funding.

The continued success of MES is a testament to the value of providing low-cost solutions for our customer's environmental issues. Our employees understand the important role they play in protecting Maryland's land, air and water. Their dedication to creative problem solving, excellent customer service and workplace safety keeps our agency strong.





Bald Eagle on Poplar Island Dike

WHO WE ARE

In 1970, Maryland's Governor and legislators created Maryland Environmental Service to protect the State's air, land and water resources. Today, our independent State agency continues to fulfill this vital directive.

We have no regulatory authority and we receive no direct appropriations. Our agency is a self-supporting, not-for-profit public corporation, combining the public sector's commitment to environmental protection with the private sector's flexibility and responsiveness.

MES provides services at competitive rates to government and private sector clients and works on projects including water and wastewater treatment, solid waste management, composting, recycling, dredged material management, hazardous materials cleanup, storm water services and renewable energy. We provide expert engineering, monitoring and inspection services.

With 849 diverse projects located in three states, ranging in cost from \$100 to \$7.9 million, we couple operational expertise with a commitment to strict environmental compliance and safe work practices.

Today, Maryland Environmental Service remains focused on finding innovative solutions to our region's most complex environmental challenges and preserving our region's natural resources for generations to come.

MISSION

To provide operational and technical services to protect and enhance the environment for the people of Maryland.

VISION

Maryland Environmental Service: an innovative and leading edge solver of environmental problems; a responsible and successful manager of environmental operations; and a great place to work.



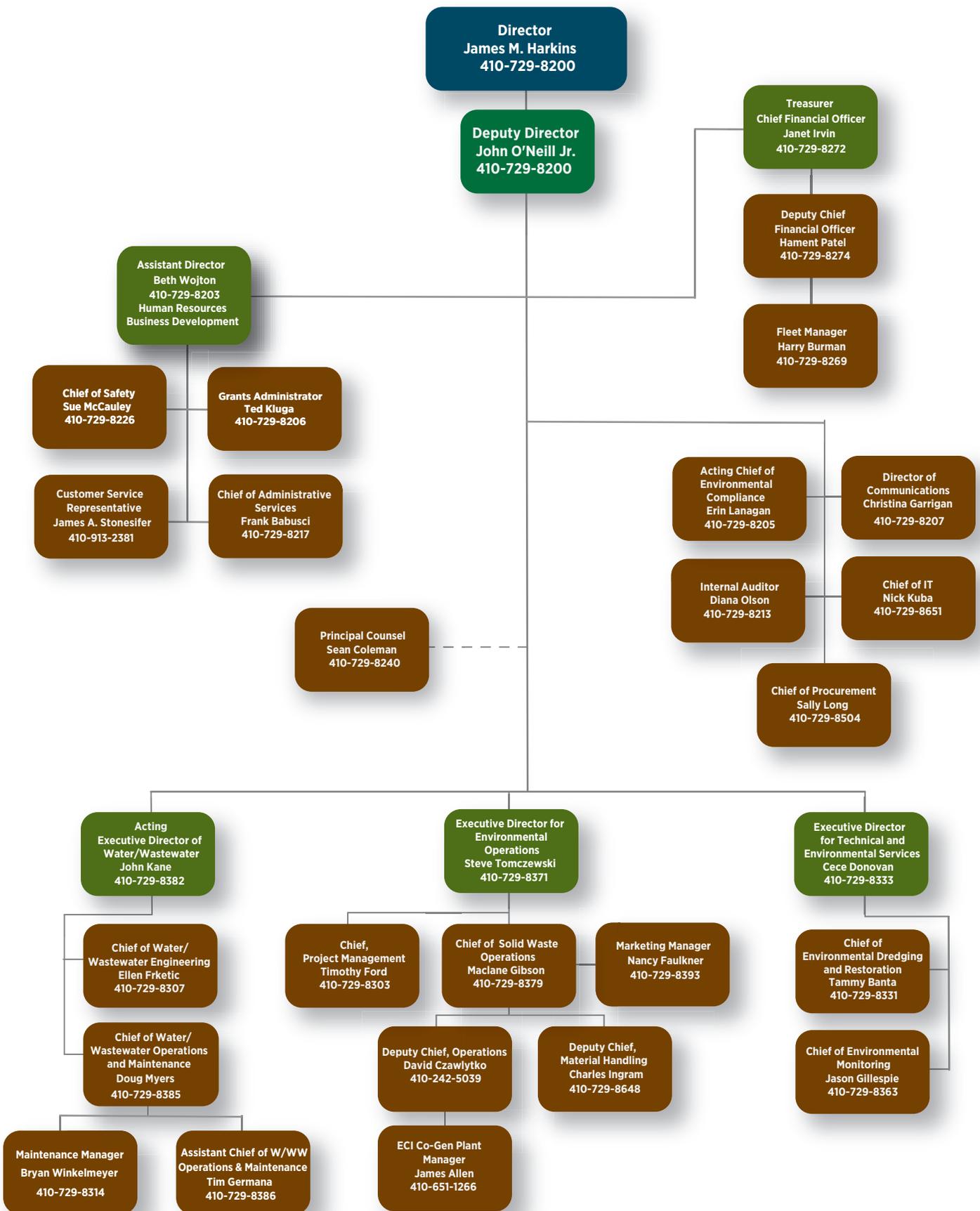
The LEED Program - Leadership in Energy and Environmental Design - emphasizes state-of-the-art strategies for sustainable site development, water savings, energy efficiency, materials selection and indoor environmental quality. As part of our commitment to the environment, MES chose the LEED criteria as the guideline for construction of our headquarters.

The building was designed to fully integrate the structure and site. This integration of built and natural environments was accomplished using bioswales, rooftop rainwater for landscape irrigation and xeriscape landscape practices. Our headquarters boasts a wide range of sustainable features that include commercially available materials and technologies to maximize energy and water conservation. In 2010, parking was expanded using permeable pavers.

In 2008, MES partnered with Constellation Energy to host a grid-connected solar power facility. The project includes over 1,500 crystalline photovoltaic solar cell panels adjacent to the building and flexible thin panels attached to the building's rooftop. The solar array generates the equivalent of 50 percent of our building's energy needs from renewable sources.



In 2011, the U.S. Green Building Council designated the MES Headquarters Building as LEED Gold certified, making us Maryland's first State government building with operations and maintenance practices certified to LEED standards. The building was recertified Gold in 2013.





Restoring Poplar Island with dredged materials. MES is the largest creator of wetlands in Maryland.

TECHNICAL AND ENVIRONMENTAL SERVICES

ENVIRONMENTAL DREDGING AND RESTORATION

The Maryland Port Administration (MPA) is responsible for ensuring placement capacity for the material dredged from the shipping channels running through the Chesapeake Bay, the Patapsco River and Baltimore Harbor. Regular dredging is required to provide safe and clear passage for cargo vessels. The MES Environmental Dredging & Restoration Division supports the Port's mission by providing dredged material management services including planning, permitting, monitoring, reporting, operating and maintaining dredged material containment facilities (DMCF), with an emphasis on environmental restoration and the innovative reuse of dredged material. MES also provides public outreach services related to these projects.

In addition, MES provides hazardous material and site management support for MPA and Honeywell at the Hawkins Point Hazardous Waste Landfill and for MPA at the Dundalk Marine Terminal. MES also provides environmental management system services and environmental compliance for the MPA at the Dundalk Marine Terminal.

MES also provided environmental support in 2014 to the Maryland Department of Natural Resources Fisheries Service, Boating Service and Watershed Service, the Maryland Department of Agriculture and the USACE Philadelphia District.

MES continued to perform wetland delineation, wetland mitigation, and wetland permitting and forest conservation planning services throughout the year to the MPA and internally to the Environmental Operations Group for the Boehm Tire Cleanup Project in Crownsville, Md. MES also provided an Advisors Report to the Maryland Board of Public Works to assist them with a Tidal Wetlands application for the Dominion Cove Point Project in Calvert County.

MES works directly with Eastern Shore schools through the TERP Program (Terrapin Education and Research on Poplar) to raise diamondback terrapins in classrooms. The terrapins, raised through Arlington Echo, the National Aquarium and MES' TERP program, are released on Poplar Island.



From 2013 through October 2014, 6118 students, learned about the Port of Baltimore, the importance of dredging and environmental restoration work through MES outreach events.



Swan Creek habitat restoration project at Cox Creek DMCF

COX CREEK

After the closing of Hart-Miller Island on December 31, 2009, the Cox Creek and Masonville Dredged Material Containment Facilities (DMCF) became the remaining two options for placement of Harbor dredged material. MES operates the 133-acre Cox Creek site for MPA. Cox Creek received its second large federal contract of approximately 598,523 cubic yards of Harbor dredged material in May 2014. To date, Cox Creek has received 2.1 million cubic yards of material.

MES also manages the Swan Creek wetlands adjacent to Cox Creek. This wetland is an 11.13-acre habitat restoration project that includes vegetated wetlands, shallow water and a special cobble riffle for fish passage. This restored area has become an urban habitat for wildlife, including ibis, heron, eagles and waterfowl. Submerged aquatic vegetation has colonized the area and increased fish diversity has also been found in the area where MES installed 143 reef balls, an artificial marine habitat built from concrete. At the request of MPA, MES completed a Forest Stewardship Plan for the adjacent 115 acre forest

conservation easement for the Maryland Environmental Trust.

As placement facilities reach capacity, innovative reuse of dredged material gains importance. Cox Creek is a potential future home for innovative reuse activities for MPA.

COX CREEK EXPANDED

To meet future needs, MPA needs additional dredged material placement capacity. On MPA's behalf, MES is leading the feasibility study for the expansion of the Cox Creek DMCF. The proposed expansion includes the MPA-owned 93-acre parcel of upland area adjacent to the DMCF, 130 acres of adjacent property owned by Cristal USA, Inc., and a ten-acre parcel owned by the Kemira Corporation.

392
acres of
wetlands
created



Restoring Poplar Island with dredged materials. MES, on behalf of MPA, is the largest creator of wetlands in Maryland.

The feasibility study, which began in FY 2014, will be executed in two steps. Stage 1 is focusing on the MPA owned upland property (excluding wetlands) and Stage 2 will focus on the Cristal USA property. Stage 1 is 35% complete with the initial environmental characterization of upland and initial geotechnical field work completed. Total cost of the feasibility study including both phases is \$4 Million.

As the feasibility study progresses in FY 2015, MES will develop a MOU between MES and MPA to provide engineering, construction and technical services for Cox Creek Expanded including demolition of existing structures,

POPLAR ISLAND

MES operates the Paul S. Sarbanes Ecosystem Restoration Project at Poplar Island for MPA and their Federal partner, the U.S. Army Corps of Engineers. Poplar Island was once a 1,000-plus acre island with a thriving community. Over the years the island slowly eroded away, leaving only three small remnant islands.

Today, clean dredged materials are used to rebuild the island and its upland and wetland habitats. To date, more than 24.6 million cubic yards of dredged material has been deposited in the island. Poplar Island is now recognized as a valuable nesting and nursery area for many species of wildlife, including osprey, egret, and diamondback terrapins, while providing millions of cubic yards of dredged material placement capacity.

In 2014, the Poplar Island Restoration Project did not receive an inflow of dredged material, but continued with wetland construction. In August 2014, the inlet pipes and dike section to Cell 4DX were removed creating the first “tidal breach” into a wetland cell. In October 2014, Cell 3A opened to tidal flow, resulting in a total of almost 210 acres of developed wetlands habitat onsite.

**10,961
MD Students
and Birders
have visited
Poplar**



Work on Hart-Miller Island

Work continues on the design phase of the Poplar Island expansion, which was initiated in 2012. Upon completion, the expanded ecosystem restoration project in Talbot County will be approximately 1,715 acres in size, with 776 acres of wetland, 829 acres of upland and 10 acres of open-water embayment habitat. MES operations, maintenance, monitoring and development at Poplar are expected to continue through 2040.

HART-MILLER ISLAND

MES has operated and maintained Hart-Miller Island (HMI), a 1,140-acre DMCF, since 1984. HMI, a project that began in controversy, has become a model of successful collaboration between government and citizens. HMI now serves as a valuable habitat for shore and water birds and an outstanding recreational site for boaters.

Over 25 years, more than 100 million cubic yards of dredged material was placed at HMI; the last placement occurred in 2009. MES will continue to provide operations, maintenance and environmental monitoring support to the project. MES works with MPA, DNR and the design team to develop cost effective approaches to transform

HMI's North Cell into viable wildlife habitat.

MASONVILLE

MES continued management of the \$153 million Masonville DMCF construction, mitigation and enhancement project for MPA. MES completed the exterior dike construction in 2010 and the interior landside dike construction in early 2012. Masonville is a 141-acre facility partially bordered by fringe wetlands with 130 acres of open water contained by sand dikes, interior leachate barrier, exterior armor stone and a cofferdam cell bulkhead. To date, the facility has received over 388,787 cubic yards of harbor material.

As part of the DMCF construction project permitting, MES is designing and constructing the mitigation elements of the project, including enhancement of the 52-acre Masonville Cove area adjacent to the DMCF facility with wetlands, living shorelines, a community environmental

27,096
Students
reached through
Terrapin
Outreach



Masonville Cove Urban Wildlife Refuge; Volunteers plant grasses on the Masonville shoreline.

education center and walking trails. Enhancement of the central portion of the Cove uplands was completed in 2012 and opened to the public in October of that year. Local residents now have access to the Patapsco River at Masonville Cove via two new piers constructed in 2011 including a fixed boat pier and a floating pier for kayaks and canoes. Uplands enhancement continued in 2013 in the second phase of the Cove and the third phase of the uplands enhancement began in 2014. The overall uplands enhancement is expected to be complete by the end of 2016.

The first phase of Cove substrate improvement was completed in 2010 and 635 reef balls produced by MES were placed in the completed areas in 2012. The second phase of substrate improvement is anticipated to be complete by the end of 2014.

In 2013, MES applied on behalf of MPA for the Maryland Department of Natural Resources Natural Filters Grant. In the spring of 2015, 14.5 acres of Masonville Cove will be planted with native tree species funded by the award of this grant. MPA will be able to account for these trees

In 2013, The U.S. Fish and Wildlife Service designated Masonville Cove in Baltimore as the nation's first Urban Wildlife Refuge Partnership. With 80 percent of Americans living in cities, the Service's new Urban Wildlife Refuge Initiative will forge connections between the National Wildlife Refuge System, natural resource conservation, and people living in metropolitan areas.

"National wildlife refuges are the best of American's wild places, but they are mostly in rural areas. Too many Americans have grown up without a real connection to the outdoors and wildlife. This initiative gives us the chance to change that," said U.S. Fish and Wildlife Service Director Dan Ashe in his announcement.

The U. S. Fish and Wildlife Service, National Fish and Wildlife Foundation and The Chesapeake Bay Trust will dedicate a total of \$55,000 in support of the partnership.

The Urban Wildlife Refuge Initiative grows out of the Service's Conserving the Future vision, which set a strategic path for the National Wildlife Refuge System for the next decade and beyond.





Masonville Environmental Education Center; piers at Masonville welcome boats, kayaks, fishermen, and outdoor enthusiasts.

under credits needed for Total Maximum Daily Load (TMDL) offsets.

The Masonville Cove Environmental Education Center hosts a variety of programs to enrich the community. The Center is a near-zero net energy building with a ground source HVAC system and solar energy power. The center, constructed by MES and their subcontractor, Baltimore Green Construction, was built green, incorporating features such as fresh air energy recovery, recyclable materials and efficient building standards with minimal energy input. The Living Classrooms Foundation and the National Aquarium conduct education programs at the center. These activities expanded into the Masonville Cove campus area in fall 2012, following the grand opening to the public, and continued through 2014.

PEARCE CREEK

MES has provided technical support to the Maryland Port Administration for the reactivation of the Pearce Creek Disposal site in Cecil County. Technical services have included: permitting investigations, public outreach support, sediment data compilation and review, residential groundwater well data review and assessment report, and governmental and regulatory agency coordination. MES provided conceptual water system designs and costs, and provided a water system alternatives evaluation and summary report. MES also is managing a contract with the Town of Cecilton to implement the preliminary design, planning and engineering for the water system through their subcontractor, URS.



Rendering of planned Coke Point DMCF.

COKE POINT

As part of MPA's planning for the next phase of dredged material management, MPA has asked MES to manage the National Environmental Policy Act (NEPA) processes and environmental permitting for a new dredged material containment facility at Coke Point in Baltimore. MPA is currently negotiating to access the Coke Point property. Completion of the NEPA requirements will culminate in permitting what MPA hopes to become the next facility in their long-term plan for dredged material management. Coke Point will require on-site remediation in addition to the construction and development of the facility. MES anticipates maintaining and advancing our service to MPA at this important site.

SEAGIRT-DUNDALK ACCESS CHANNEL DREDGING

On MPA's behalf, MES has solicited bids and will manage construction activities on the widening of the Seagirt-Dundalk Access Channel, specifically the Dundalk West Access Channel and the Seagirt-Dundalk Connecting Channel. Due to the expansion of the Panama Canal, this berthing channel will need to be widened to accommodate

the larger size ships able to navigate the Canal when calling on the Port of Baltimore. It is estimated that 890,000 cubic yards of dredged material will be removed for this operation. Additionally, the MPA has located an area within the Dundalk Marine Terminal Berth 1 access channel which requires dredging to maintain vessel access. The total volume anticipated to be dredged from this area is about 50,000 cubic yards. All material dredged under this contract will be transported to MPA's Masonville Dredged Material Containment Facility.

OUTREACH & DATA TRACKING

MES has created a map viewer application that includes virtual tours of the Dredged Material Containment Facilities for the MPA and is working to create accessibility through the MPA Safe Passage Website so that it is accessible to a wider audience. In addition, MES has been working on creating a web accessible database for tracking public outreach program data including the program schedules, topics, and information about the audience served. This database will be easily updated by the various public outreach contractors and accessed by MES and MPA staff for reporting on the success of MPA's outreach efforts.



Work at Hawkins Point Hazardous Waste Landfill and Dundalk Marine Terminal

DNR FISHERIES MANAGEMENT

MES has provided technical and administrative support to the Maryland Department of Natural Resources (DNR) in several service areas over the last 40 years. MES provides on-site staff to support DNR programs such as the Boating Service. MES has also assisted DNR Fisheries Service by providing technical support for the expanded Maryland Aquaculture Program, the Commercial Fisheries Electronic Reporting Program and the Oyster Restoration Program.

In October 2013, MES executed a MOU with DNR to provide Oyster Restoration Services. This project consisted of the purchase of fossilized oyster shell from a quarry in Florida, the transport of the shell by train to Maryland, and the barge and placement of shell and granite to construct oyster reefs in Maryland. As of September 2014, 80,000 tons of fossil oyster shell and over 80,000 tons of granite have been placed in Maryland oyster reefs.

HAWKINS POINT HAZARDOUS WASTE LANDFILL

MES operates and manages the Hawkins Point Hazardous Waste Landfill, a long-standing project with MPA and Honeywell. Services include: routine post-closure care, leachate management and leachate disposal in accordance with the EPA RCRA Corrective Action Permit and MDE Controlled Hazardous Substance (CHS) permits. Both permits were successfully obtained in 2013. MES also provides routine groundwater monitoring as directed by our CHS permit, report writing and regulatory coordination with EPA and MDE.

In 2014, the 14.5 acre Hawkins Point Dredged Material Containment Facility (DMCF) North Cell was planted with 3,161 native trees to obtain Critical Area credit for the MPA.

DUNDALK MARINE TERMINAL

MES operates and maintains the groundwater treatment plant at Dundalk Marine Terminal (DMT) for MPA; manages all hazardous and non-hazardous waste associated with the chromium contamination at DMT; provides sampling and report writing services for the NPDES permit; and cleans and repairs storm drains.



MES Sub-Surface Investigation Training grads; Wetland delineation services

ENVIRONMENTAL MANAGEMENT SYSTEM SERVICES

MES has assisted the MPA Safety, Environment and Risk Management Department with their Environmental Management Plan (EMS), including ISO 14001 certification, since 2007 by providing on-site staff to implement and maintain the MPA EMS and assist with regulatory compliance. Our services include asbestos management, industrial hygiene support, assistance with MPA air quality initiatives, stormwater pollution prevention inspections and reporting, TMDL planning and implementation assistance and EPA grant assistance to reduce diesel emissions at the Port of Baltimore.

WETLAND AND FOREST STAND SERVICES

MES has provided wetland and forest services for the MES Environmental Operations Division and MPA. The services include wetland delineation, wetland mitigation monitoring, wetland mitigation planning, forest stand delineation, forest conservation planning, and forest mitigation monitoring. MES provided an Advisors Report to the Maryland Board of Public Works to assist

them with a Tidal Wetlands application for the Dominion Cove Point Project in Calvert County.

ENVIRONMENTAL MONITORING

Expert environmental monitoring protects our air, land and water. It also ensures our clients comply with complicated regulations and avoid costly violations. The TES Environmental Monitoring Division provides comprehensive water quality laboratory, sampling and reporting services; environmental compliance program management; facility and systems operations and maintenance; geospatial and hydrologic/hydraulic engineering services to preserve these resources for the residents of Maryland.

Environmental Monitoring Division services include:

- Laboratory Analysis
- Sample Collection and Tracking
- Groundwater Monitoring
- NPDES/SDWA Compliance Reporting
- Compliance Focused Environmental Management System Development



MES samplers travel the State collecting water samples for approximately 180 water and wastewater facilities. We sample over 1000 monitoring wells per year.

- Energy Audits
- Renewable Energy Project Development
- Lead and Asbestos Abatement
- Environmental Audits
- Sustainability Planning
- Geotechnical Inspections
- NEPA Compliance
- Archaeological and Architectural Historian Review
- Public Outreach and Environmental Training
- Stormwater Inspections, Maintenance & Reporting
- Airport Operations & Maintenance Support
- Facility, Structure & Equipment Inspections & Maintenance
- UST/AST Inspections
- GPS Enabled Environmental Data Collection
- Environmental Database Management and MappingWebsite/Tablet Environmental Compliance Application Development
- Hydraulic Modeling
- Floodplain Community Outreach Support including FEMA Community Rating System Support Services
- Hazard Mitigation Risk Analysis

ENVIRONMENTAL POLICY & REGULATORY COMPLIANCE

Across Maryland, MES performs field inspections, monitoring, operations and maintenance and provides regulatory reporting services for all federal and state environmental requirements. MES currently documents NPDES and SDWA compliance for 73 wastewater treatment plants, 15 industrial discharges and 163 permitted drinking water facilities. MES tracks and reports data for hundreds of thousands of individual parameters annually on behalf of our clients.

In 2012 it became mandatory for all State agencies to consider the risk of coastal flooding and sea level rise for any new capital projects for new State structures or the reconstruction/rehabilitation of existing State structures. MES is currently helping SHA by performing condition inspections and gathering horizontal location and elevation data for all SHA maintained stormwater infrastructure on the Maryland Eastern Shore. SHA, through partnership with Salisbury University, is using this data to develop a sea level rise vulnerability assessment.



Stormwater projects for the Maryland Department of Transportation

RENEWABLE ENERGY PROGRAM

MES helps with a full range of energy services including energy audits, feasibility studies, energy use footprint analyses, technology assessments and the design, installation and operation of wind energy, solar, geothermal and biomass processes.

We are helping State agencies explore options for expanding renewable energy use, including expansion of plug-in electric vehicle (PEV) charging at the Maryland Transit Administration's (MTA) park and ride facilities. MES is providing management of a \$1M grant from the Maryland Energy Administration (MEA) to more than double the PEV charging capacity at MTA's stations.

Other energy projects include a solar feasibility assessment for installation of cantilevered solar in the parking lot at the MES Headquarters facility and development of a standing solar array at Aberdeen Proving Ground. In Harford County, MES is working with the Agricultural Co-op to install and monitor anemometers on area farms to determine the feasibility of wind turbine installation.

FLOODPLAIN MANAGEMENT SERVICES

The Maryland Emergency Management Agency ensures Maryland families, communities and key Agencies have the tools they need to prepare for, respond to and recover from the consequences of emergency and disaster events. MES Geospatial and Engineering Services staff provide a variety of technical and consulting services as directed by MEMA, including the facilitation of hazard mitigation grant application submissions, development of an online grant management system, conducting preliminary damage assessments, development of a Maryland flood forecasting system and GPS mapping for repetitive flood loss.

Through efforts with the Maryland Department of the Environment (MDE), MES also provided bridge and culvert flood zone studies, community hazard mitigation plan updates, and dam breach analysis.



Baltimore/Washington International Thurgood Marshall Airport

BALTIMORE/WASHINGTON INTERNATIONAL THURGOOD MARSHALL AIRPORT

MES provides the Maryland Aviation Administration with around the clock coverage and emergency response at BWI Thurgood Marshall Airport and Martin State Airport. Our employees help keep both airports operational on a daily basis, including weather and other emergencies.

Through its collection and processing of the de-icing fluids during the winter months, MES has significantly reduced the amount of de-icing material reaching streams near BWI. MES collects glycol runoff and provides maintenance of the airport's de-icing fluid collection system and collects stream samples continuously during the de-icing season to ensure Maryland Aviation Administration environmental compliance. FY14 proved to be a particularly hard winter with 18 de-icing events declared as compared to the normal year average of seven events.

MES employees also inspect and maintain water, wastewater and stormwater systems at both BWI and Martin State Airport.

A three inch mistake can be costly. During the record-setting snowfalls of 2010, snow measurement errors by a contractor at BWI Airport threatened to cost local governments millions in lost Federal Disaster Aid. To correct the problem, the Maryland Aviation Administration turned to MES. With employees based at the airport, a reputation for accuracy, and a willingness to take on this simple, yet critical task at a reduced cost to the client, MES took over snow measuring duties at BWI. Today, the client relies on MES for high-quality data that is accepted by FAA and NOAA's National Weather Service.

DEPARTMENT OF TRANSPORTATION (MDOT) MODALS

MES provides comprehensive program management, technical and scientific consulting and field-based services to many MDOT Modals. Services include environmental spill/leak investigations, sampling, compliance assistance, remediation, NPDES and TMDL assistance, maintenance, underground storage tank removal and inspections, above-ground storage tank installations, fueling facility



Stormwater maintenance - before and after

upgrades, asbestos and lead paint monitoring, large stormwater programs, invasive species control, oil/water separator inspection and maintenance and environmental management system development.

As part of its services to the MDOT Modals, MES is developing and administering an expanding environmental program with SHA's Office of Environmental Design. The Service has assisted multiple SHA Divisional Offices with compliance, organization and expansion of its environmental programs since 2003.

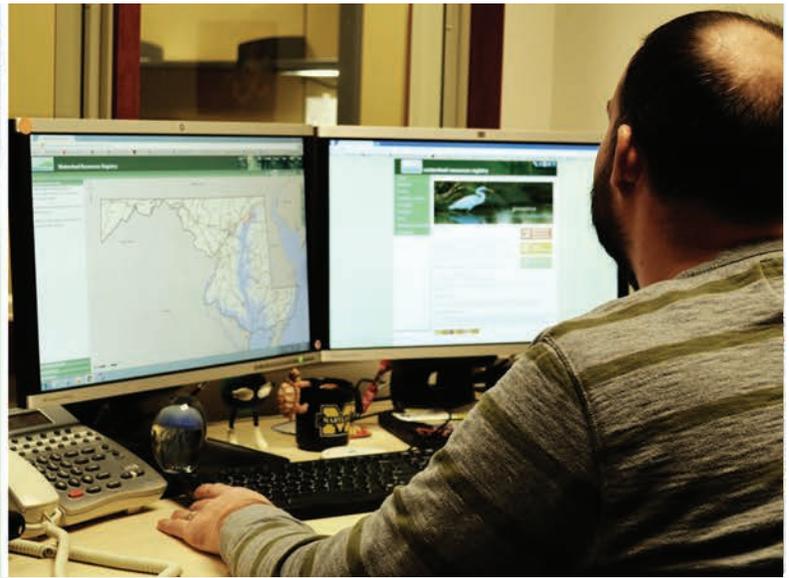
MES supports SHA with a variety of new services that include Chesapeake Bay Total Maximum Daily Load (TMDL) Implementation, Stormwater Management Pond Sediment Sampling and Stormwater Management Pond Boring Installation, IDDE Sampling and Investigations, Geotechnical Assessments and Geophysical Assessments.

MES continues to perform stormwater inspection and maintenance services at MDOT, MAA, MVA and MDTA Facilities across the State. The required maintenance ranges from vegetation control and grading to the installation of required stormwater structures.

MES actively supports the extensive stormwater programs for each agency, providing services ranging from inspections and the creation of Best Management Practices (BMPs) to rehabilitation, traffic control and corrective actions. MES has also created stormwater inventory maps of several State Agency Facilities using GIS technology.

By acquiring additional training and certification, Environmental Monitoring staff are expanding MES services available to the Maryland Department of Transportation. MES employees attended Sub-Surface Investigation (SSI) Certification training in 2013. Taught by instructors approved by the National Highway Institute (NHI), the course is intended for drillers, drilling inspectors, engineers, geologists and technicians involved in field data collection and quality assurance of subsurface investigations.

The course follows Federal Highway Administration (FHWA) guidelines and practices for subsurface investigations and many states now require this qualification to work on U.S. Department of Transportation (DOT) projects. A partial



Geospatial and Engineering Services support cross-agency environmental projects

list of topics addressed in the course include exploration equipment and methods; safety; borehole sealing; drilling and sampling requirements and criteria; proper soil and rock visual classification and descriptions; common drilling errors; and dealing with difficult subsurface site conditions. A two-hour qualification exam is administered at the end of the course. All eight MES employees passed the course and are now NHI Certified.

GEOSPATIAL and ENGINEERING SERVICES

MES services help the State government efficiently organize, plan and implement multi-agency environmental efforts.

With continually expanding capabilities and technological improvements, including enhanced data collection and data sharing services (particularly between agencies), interactive mapping and customized reporting, MES is a leading resource in Maryland for environmental application development.

MES is currently working with the Maryland Department of the Environment to improve National Pollutant Discharge and Elimination System (NPDES) reporting and data submission processes. This effort will help MDE assess MS4 permit compliance, better model Total Maximum Daily Loads (TMDLs) and monitor Chesapeake Bay Program progress and stormwater Wasteload Allocations (WLAs).

As a part of this project, MES is helping MDE develop a new GIS-based submittal process that includes: new geodatabase design, tools to assist permit holders with data submission and review, as well as tools to assist MDE with reporting and data management. This project will enable MDE to seamlessly integrate the NPDES Annual Report and associated information into a single, comprehensive data format.



Maryland Correctional Institution, Hagerstown

WATER AND WASTEWATER

At parks, hospitals, prisons and other institutions, MES serves as the water and wastewater operator for the State of Maryland. We operate and maintain 138 private, municipal and county plants; several shared-use facilities, as well as 88 state-owned plants at correctional facilities, health facilities, rest areas and State parks. Throughout the State, we provide service 24/7 to correct treatment plant problems.

In parts of Maryland located outside of incorporated areas served by public water and sewer, MES provides high quality drinking water and wastewater treatment to protect the public health and the environment. We use our resources to work with local health departments, school systems, developers and homeowner associations to insure that small-scale treatment systems meet the most current treatment and regulatory requirements and that they are staffed by qualified licensed operators.

With years of experience in the operation of all types of facilities, we understand the administrative and technical requirements necessary to provide a safe water supply and keep wastewater discharge meeting federal and State requirements.

WATER TREATMENT AT PUBLIC SCHOOLS

Among our water and wastewater clients are public and private schools and colleges across the State. As schools face more stringent environmental regulations during a time of shrinking budgets, more facilities are turning to MES for reliable service at a reasonable cost.

The Anne Arundel Public School system had only one Certified Operator to check thirteen separate facilities. Their operator was challenged to visit all the facilities along with his other plumbing and maintenance work and facility janitors were responsible for many water treatment duties. The School System was concerned that their water treatment needed more attention.

MES put together a proposal for limited inspections. MES employees would visit the facilities once per week on varying days and check the chlorine residuals, iron levels,

**MES treated
4.3 Billion
gallons of
wastewater
in FY2014**



Dorsey Run Wastewater Treatment Plant

pH and the chemical feed vats and pumps and report any deficiencies to the AACPS Supervisor of Operations. With all identified issues immediately addressed by the AACPS, the program successfully stops potential problems before they become water quality issues.

Our services to Wicomico County began in 2011, when MES received a call from the Director of Facility Services with an urgent request for a Wastewater Operator for Mardela High School. Their only Certified Operator was leaving to take another job and they did not have a qualified person to run their Sequencing Batch Reactor, used to treat both the high school and a nearby elementary school's wastewater.

MES flexibility allowed us to begin operations immediately while an Intergovernmental Agreement was developed. Wicomico County Schools then asked MES to run an additional five school drinking water plants.

Good word of mouth on the Eastern Shore about MES service and professionalism continues to grow on the Eastern Shore and throughout Maryland. Recently, MES began work at two plants for Worcester County Public Schools.

SOLVING PROBLEMS, SAVING DOLLARS

Our broad experience at facilities throughout the State helps MES save our clients money.

For example, MES operates the Groundwater Remediation Plant for the Maryland Port Administration at the Dundalk Marine Terminal (DMT). We also operate water and wastewater plants for the Town of LaPlata in Charles County.

At the LaPlata wastewater plant, wastewater first passes through a Parkson bar screen, designed to catch paper and plastic debris and send it to a dumpster. The plant had been having trouble with debris coming off the screen during windy conditions. MDE had noted the problem on an inspection report. The Town was looking for an affordable solution to the problem.

An MES employee had previously worked at DMT and knew that DMT had removed two screw conveyors and four dumpsters from the outfalls and were going to scrap them. The screw conveyors were in great shape, just were not the right application for DMT. He suggested the Town look to purchase these conveyors and dumpsters as they would be a good fit for the headworks at LaPlata.



Rocky Gap pump station intake pipe excavation; Greenbrier State Park Treatment Plant

Recognizing that this could solve the problem, LaPlata approved the purchase of the conveyers and dumpsters. MES helped our two clients work out the purchase. DMT recouped dollars for equipment it planned to scrap. The town of LaPlata paid a total of \$6,000 for two conveyors and four dumpsters. If new, the package would have cost over \$150,000. Environmental problem solved, and taxpayer dollars saved.

ENHANCED NUTRIENT REMOVAL UPGRADES

MES Engineering staff manages upgrades to several major WWTPs to attain an Enhanced Nutrient Removal level of treatment and reduce nitrogen and phosphorus loadings to the Chesapeake Bay. Current projects include:

- *Freedom District WWTP in Carroll County* – Design is complete; construction anticipated to begin in early 2015;
- *Maryland Correctional Institution WWTP in Hagerstown* –Design is 75% complete; anticipate construction starting by the second quarter of 2015;
- *Eastern Correctional Institution WWTP in Somerset County*: under design, with construction anticipated to start in FY 2016. This upgrade is adding processes to go beyond the ENR level of treatment to meet an extremely stringent discharge permit.

NEW STORMWATER PERMIT REQUIREMENTS

MDE has reissued General Permit No. 12-SW for Stormwater Discharges from Industrial Facilities, which became effective January 1, 2014. There are many changes from the previous permit, 02-SW. W/WW Engineering staff have been assisting our clients meet the new permit requirements by:

- Preparing Stormwater Pollution Prevention Plans (SWPPP) using the new guidelines;
- Discussing the changes from the previous permit and SWPPP with the clients to help them understand their options;
- Updating the stormwater facility map to meet current MDE standards utilizing MES CADD services;
- Submitting plans along with the required Notice of Intent (NOI) electronically to MDE.

Clients included Piney Orchard; Town of Perryville; Town of LaPlata; Burris Logistics (Federalsburg, MD); Maryland-Virginia Milk Cooperative (Landover, MD); and the Maryland Department of Public Safety and Correctional Services.



Cambridge Wastewater Treatment Plant

ST. MARY'S COUNTY STORMWATER SERVICES

MES W/WW Engineers have been providing stormwater inspection services to St. Mary's County for many years. We maintain a Stormwater System database which includes information such as the location, property owner, and pertinent design information. Annual field inspections are performed on an estimated 20 new and 200 existing facilities. MES records the results of the inspections in the database and sends out notification letters to the owners informing them of the inspection results and any maintenance needed. MES staff follows up with owners as requested to clarify inspection findings and/or maintenance requirements and perform limited re-inspections.

BIOSOLIDS MANAGEMENT

MES Water/Wastewater staff provides technical assistance and expertise in the area of biosolids management for a number of municipalities in the State and the DC Water Blue Plains Wastewater Treatment Plant. These services include planning, development of nutrient management

plans, inspections, regulatory permitting and reporting functions on a customized basis for individual wastewater facilities.

New State sludge regulations were promulgated in May 2014. These comprehensive regulatory changes include new provisions for permitting and more stringent oversight of biosolids treatment processing prior to beneficial reuse. In 2014, MES provided support services and prepared permit applications for facilities, including the City of Bowie, the Town of Grantsville, and Mount St. Mary's University.

DC WATER GRIT INSPECTIONS

DC Water owns and operates the world's largest advanced wastewater treatment plant, the 370 million gallon per day Blue Plains regional facility located in Southwest D.C. MES provides inspection services for a variety of functions at Blue Plains, including a new project where we inspect the preliminary treatment facilities at the plant for grit and screenings removal.



Elk Neck State Park; Susquehanna State Park

ROCKY GAP STATE PARK

MES is responsible for the water and wastewater systems that serve Rocky Gap State Park and the Casino. The W/WW Engineering staff has been managing capital improvements projects at both the water and wastewater treatment plants at the Park.

With an obsolete water treatment plant at the Park and increased water demand since the opening of the Casino, new facility and raw water intake were needed to ensure reliability. W/WW Engineering staff recommended that the new plant be built on the other side of the lake, allowing construction of a new water intake structure in deeper water, where the water quality is more consistent year-round. The design of the new, expanded membrane filtration system was completed this year. The construction of a larger-diameter water distribution line began in Spring, 2014.

The wastewater treatment plant was receiving increased flows due to the Casino facilities. MES W/WW Engineers determined a flow equalization (EQ) tank would help

buffer the high flows and reduce the likelihood of plant overflowing. New screens were also needed to reduce the amount of inert solids going into the process tanks. Construction of these improvements began in May and should be completed by January 2015.

PARK MAINTENANCE PROJECTS

The Department of Natural Resources programmed six water and wastewater projects into their FY-14 Program Open Space projects listing and decided to use the services of MES W/WW Engineering staff to complete the construction and modifications of the sites.

Park maintenance projects included the installation of a new well at Point Lookout State Park; improvements to the RV dump station at Susquehanna State Park; painting water treatment tanks at Sandy Point State Park; rehab of the water treatment facilities at Greenwell and Bay Breeze State Parks; design/construction of a new water line at Greenwell State Park; and repairs to the wastewater plant influent line at Swallow Falls State park.



VideoRay equipment allows remote water tank inspections

STATEWIDE WATER/WASTEWATER MAINTENANCE

MES Maintenance employees are strategically located throughout Maryland, ready to quickly respond to emergencies. In addition to providing repair and maintenance services for water and wastewater equipment, MES also has a generator repair and service program, as well as an expert water tank team who can provide complete tank services, including:

- Performing tank inspections and evaluations and submitting a report that describes the condition of the tank and the needed repairs and rehabilitation,
- Preparing tank repair and reconditioning specifications,
- Performing metal thickness testing,
- Underwater dive and robotic inspections with VideoRay, a remote operated vehicle,
- Paint failure analysis,
- Lead paint and hazardous material testing,
- Disinfection and chlorination,
- Testing for levels of volatiles organic compounds (VOCs) and other bacteria and water quality testing,
- Inspection and quality assurance of repair, cleaning and painting operations and
- New tank design, bidding and construction management.



Montgomery County Recycling Facility; Yard Waste Composting

ENVIRONMENTAL OPERATIONS

From our cost-effective regional landfill on the Eastern Shore to a state-of-the-art recycling center in Montgomery County, MES project managers and operators work to meet the solid waste disposal needs of Maryland communities

RECYCLING

MONTGOMERY COUNTY

In Montgomery County, MES operates a national award-winning recycling facility that processed 29,858 tons of commingled recyclables in FY 2014. MES also provides recycling tours and educational programs for school children and citizens.

BALTIMORE COUNTY

In November 2013, MES completed the installation of a new state-of-the-art, single-stream recycling process designed by Bollegraaf Technologies located at the Baltimore County Central Acceptance Facility. MES purchased the equipment and provided the construction management for this \$16 million project. The facility has the capacity

to process 42 tons per hour and handles all of Baltimore County and Harford County's single-stream recycling material. The system processed a total of 43,251 tons of material in FY 2014.

A unique feature of this facility is its reliance on pre-release prisoners to provide the majority of the processing personnel. MES provides for the marketing of all recycled commodities from this operation.

MIDSHORE RECYCLING

MES manages the Midshore Recycling Program for Caroline, Kent, Queen Anne's and Talbot Counties. Since beginning management of the program, MES has built commodity consolidation bunkers at Midshore II Landfill, optimized collection routes for maximum efficiency, instituted improved safety procedures, and competitively bid the recyclable commodities.

In FY 2014, MES purchased an additional

**73109 Tons
of Recyclables
Processed at
MES Operated
Facilities**



Single-stream Recycling at Baltimore County's Central Acceptance Facility

50 new eight-yard recycling containers, for a total of 150 eight-yard containers, to replace aging collection “igloos,” as well as two new front-end collection vehicles to collect cardboard, paper, plastics and cans from the 43 Midshore Recycling sites.

This new equipment has served to increase collection efficiency as well as minimize collection site issues, i.e. limited availability, with the old igloo collection crane trucks.

RECYCLING PROGRAM EVALUATION AND TRAINING

For agencies and organizations seeking to improve recycling rates, MES provides program evaluation and training. MES recycling experts have worked with customers including the Maryland Aviation Administration at BWI Thurgood Marshall and Martin State Airports, Maryland Port Administration, Maryland Department of General Services and the Maryland Stadium Authority.

SOLID WASTE TRANSFER STATIONS

BALTIMORE COUNTY CENTRAL ACCEPTANCE FACILITY

MES has operated the Central Acceptance Facility (CAF), formerly known as Baltimore County Resource Recovery Facility (BCRRF), in Cockeysville since 1990. The facility serves the needs of Baltimore County residents in the areas of solid waste transfer and single-stream recycling processing and provides a convenient homeowner drop-off center for general solid waste and recyclable materials.

At the end of FY 2013, MES opened a new \$8 million open-top transfer trailer system at the CAF; MES was responsible for the design, construction and management of the project. This two-tunnel transfer station is more efficient than the former transfer station, accommodating two tractor-trailer trucks simultaneously. Each tunnel used for loading residential and municipal solid waste is equipped with in-ground axle scales. Fourteen MES employees staff the facility. In FY 2014, a total of 202,022 tons of trash was transferred through the CAF.



Food composting pilot project at Western Branch Composting Facility



BALTIMORE COUNTY WESTERN ACCEPTANCE FACILITY

MES continues to operate the Western Acceptance Facility (WAF) for Baltimore County using a single tunnel Open Top Transfer Trailer loading system which was installed in 2005. The WAF handles the Baltimore County residential waste collected in the southwest area of the County as well as commercial waste collected by Republic Waste. MES provides all waste loading operations and transfers the Baltimore County residential waste to the Wheelabrator Baltimore (BRESKO) facility. All Republic Waste deliveries are loaded on 3rd party transfer trailers and transferred to Republic Waste's Virginia landfills. Total Baltimore County waste transferred was 88,431 tons in FY 2014; total Republic Waste tons transferred was 184,308 tons in FY 2014. MES also operates a home owner drop-off center at the WAF for Baltimore County residents.

COMPOSTING

MES is one of the largest composters in the State of Maryland. The agency operates yard waste composting facilities in both Prince George's and Montgomery County.

MONTGOMERY COUNTY DICKERSON FACILITY

MES began operating the Montgomery County Yard Trim Waste Facility in 1983. This national award winning facility processes approximately 77,000 tons of grass, leaves and small branches annually. The material is composted and sold in bulk and bags as Leafgro®. In FY 2014, 491,350 bags of Leafgro®, and 42,051 yards of bulk Leafgro® were sold from this facility.





Garner scrap tire clean-up, before and after

PRINCE GEORGES COUNTY COMPOSTING FACILITY AT WESTERN BRANCH

In Prince George's County, the Western Branch Composting Facility located near Upper Marlboro processes yard waste, including grass, leaves, brush and Christmas trees, from approximately 158,000 households. At the site, the yard waste is placed in windrows and processed into compost. The compost is sold to wholesalers in bulk and is available to residents from various retailers. In FY 2014, MES processed more than 35,981 tons of yard waste through this facility, resulting in the sale of 33,977 yards of Leafgro® leaf soil conditioner product.

FOOD WASTE COMPOSTING AT WESTERN BRANCH

MES contracted with Sustainable Generation to conduct a test pilot demonstration of the Gore™ cover composting technology. This allowed for the addition of food waste to the yard waste available for composting. The system provides an accelerated processing time to generate compost, as well as elimination of any odors which may result from the addition of food waste. In FY 2014, a total of 1,509 tons of pre-consumer food wastes were

successfully composted at the Western Branch facility using the Gore™ Cover System. Prince George's County has indicated a desire to expand this process to the entire Western Branch site after the test demonstration is over.

POULTRY LITTER COMPOSTING DEMONSTRATION PROJECT

In cooperation with the Maryland Department of Agriculture, MES completed the first phase of a poultry litter compost pilot demonstration on Twin Maples Farm in Caroline County. The pilot used an in-vessel rotary drum composter on loan from BW Organics of Sulfur Springs Texas.

The demonstration used poultry litter as the primary feedstock producing a compost and organic fertilizer. The finished compost can be directly land applied or cured to obtain mature compost. The compost contains plant nutrients and can be considered a pathogen-free, slow release organic fertilizer. The composted poultry litter can also be blended with other composted materials to produce a value-added soil amendment suitable for horticultural applications.



Hobbs Road Landfill closure project

The next component of the composter pilot is to identify potential target markets which would transfer the composted litter from areas where there is excess nutrients to areas where the compost can be safely applied. This phase of the project will consider blending the composted litter with other soil amendments to create a product especially for the Horticulture and Green Industry. Potential markets may include potting mixes, organic fertilizer for certified organic vegetable farmers and uses on turf grass such as golf courses.

Another phase of the project is to study the feasibility of using a larger in-vessel rotary drum composter which would provide economies of scale of operation. This model would operate from a central location and serve several poultry growers providing a source for their excess poultry litter. The larger scale operation would free the individual grower from the concern of dealing with the excess litter.

MIDSHORE REGIONAL LANDFILL

As part of an 80-year solution to solid waste management, the four Midshore Counties - Caroline, Kent, Queen Anne's and Talbot - formed a unique partnership where each county hosts a solid waste facility for 20 years. The first project, constructed in 1991, was the Midshore I Regional Solid Waste Facility located in Talbot County.

In addition to the disposal of solid waste, Midshore I also provided disposal of household hazardous waste, pesticides, motor oil, antifreeze, wood waste processing and refrigerant recovery. After 20 years of operation, Midshore I Landfill was closed on December 31, 2010, ending Talbot County's commitment to providing a disposal site for the Midshore Counties.

Midshore II Regional Landfill

Construction of the next regional landfill in Caroline County - Midshore II - began in June 2009 and the facility opened in 2010. MES also operates an adjacent homeowner drop-off site. In FY 2014, Midshore II accepted 105,084 tons of trash for disposal.



Midshore II Landfill won the 2013 Solid Waste Association of North America's GOLD Award, their highest honor.

A major design project was initiated in FY 2013 involving the construction of the next landfill cell, Cell #2, at Midshore II. This project design was completed in mid - FY 2014 and construction started in April 2014. The completion of Cell #2 is scheduled for late December 2014. Anticipated cost of this project will be approximately \$6.5 million.

Midshore II Landfill received a GOLD Excellence Award for Landfill Operations in 2013 from SWANA, North America's largest solid waste association.

Midshore I Regional Landfill

Under a separate new agreement with Talbot County, MES began operation of a transfer station and homeowner drop-off at the Midshore I Landfill site in Easton. All solid waste delivered to Midshore I is transferred to the new Midshore II Facility for disposal, thus reducing truck traffic into Midshore II and saving fuel costs for Talbot County haulers. In FY 2014, a total of 31,745 tons of solid waste was transferred to Midshore II from Midshore I.

In addition, design work began in FY 2013 for the final capping of Midshore I Landfill utilizing an innovative

exposed geomembrane capping system. This design will significantly reduce the cost to cap the landfill as a result of eliminating the need to place thousands of yards of cover dirt onto the landfill. The total anticipated cost of this capping system will be approximately \$54 million and is planned to begin in the spring of 2015.

EXPANDED WORK ON THE EASTERN SHORE

MES work has expanded at other Eastern Shore landfill sites. Work on the permanent closure of the existing Hobbs Road Landfill near Denton in Caroline County was initiated in July 2010. This closure activity is a requirement of MES to perform as part of the revised service agreement between MES and Caroline County associated with the Midshore II project. The state-of-the-art design included a geomembrane liner, geocomposite drainage layer, 18" drainage cap and 6" vegetative cover.

In Dorchester County, MES completed the design of a Landfill Capping System for the County's Old Beulah Landfill. MES also continues to provide a Landfill Manager for the Dorchester County Beulah Landfill in Hurlock.



Farm Tire Collection Days 2014

SCRAP TIRES

In coordination with Maryland Department of the Environment, MES manages the large scale Scrap Tire Cleanups and various other scrap tire related activities funded through the State's Scrap Tire Fund.

SCRAP TIRE COLLECTIONS

In FY 2014 MES conducted the 10th Citizen Drop-Off Day Event. This statewide event conducted in conjunction with the 22 Counties and the City of Baltimore is a popular and much anticipated opportunity for citizens to dispose of up to 10 used tires at no cost. This event diverted 1174 tons of used tires to environmentally responsible processing and disposal. Since the initial event in 1998 MES has collected and managed the processing, recycling and disposal of the equivalent of 1,137,107 passenger car tires.

MES and MED in partnership with the Maryland Farm Bureau conducted an Agricultural Scrap Tire Collection Event. Ten Counties volunteered to participate, and the Farm Bureau sponsored collections in four additional counties, using Farm Bureau member farms as host locations in Frederick, Harford, Montgomery Counties and the Timonium State Fair Grounds in Baltimore County.

The state farming community enthusiastically supported this first ever AG Tire collection, turning in more than 3,725 tons of AG Tires from farms throughout the state.

SCRAP TIRE DUMP CLEANUPS

Since the MDE/MES Scrap Tire Program began in 1994, MES has managed the cleanup of 27 sites, removing and properly disposing of approximately 3.5 million tires.

The Garner/Brandywine Scrap Tire Cleanup Project, thought to be the largest remaining illegal tire dump in Maryland, contained more than a million tires covering over 15 acres of ravines not far from a stream. The first phase of the cleanup began in FY 2010. In 2012, after the removal of 1,132,000 tires, the Garner site has been restored to pre-dump natural conditions, including restoration of non-tidal wetlands and native trees.

In 2013, MES continued to monitor the stabilization and reforestation of the recently completed Garner/Brandywine Scrap Tire Clean-Up. This monitoring requirement will continue thru 2016 in accordance with the original project approval and permitting.

Additionally, MES began the planning phase of the 30th Large Scale Scrap Tire Dump Cleanup. The Boehm/Crownsville dump



ECI co-generation facility, Landfill gas flare at Midshore I

located on a closed landfill is expected to yield over 215,000 illegally dumped tires when restoration activities are completed in FY 2016-2017.

MES is also working closely with MDE in the development of a feasibility study to address the potential clean up of tires that have found their way into the waters of the Chesapeake Bay.

USED OIL PROGRAM

This program, administered by MES on behalf of the Maryland Department of the Environment, remains a popular recycling initiative for automotive and boating enthusiasts. MES provides contractual collection, hauling, maintenance and administrative services to support do-it-yourself used oil collection centers. 132 collection locations statewide accept used oil.

MES also conducts audits of the existing collection locations to determine site viability and pollution prevention improvements recommended for each site. MES also continued with its routine inspections and cleaning of all 132 sites across the state. In FY 2014, MES contractors collected 488,429 gallons of used oil and 26,898 gallons of antifreeze.

BENEFICIAL USE OF LANDFILL GAS

MES purchased the remaining interest in a central flare station from C2i-Methane (formerly Blue Source) on the Midshore I Landfill in FY2014. MES continues to explore the possibility of negotiating a power purchase contract with Easton utilities but in the meantime, has entered into a contract with C2iMethane to purchase carbon credits generated by the continued operation of the central flare station. The sale of those credits will continue independent of any future agreement to generate electricity from Midshore landfill gas.

EASTERN CORRECTIONAL INSTITUTION

MES operates and maintains a wood fired co-generation facility at the Eastern Correctional Institution in Westover, MD generating steam, high temperature hot water and electricity for use by the Institution which houses approximately 3,400 inmates. The facility combusts approximately 55,000 tons per year of de-barked wood chips. MES provides approximately 85 percent of the electrical and 100 percent of the thermal needs for this facility from the co-generation facility. In FY 2014 MES began planning for an upgrade to the power system controls at ECI and expect that those upgrades will be completed in FY2015.



Midshore II Landfill in Ridgely, Maryland

FINANCIAL SECTION

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Concrete reef balls create a marine habitat at the Swan Creek wetlands, adjacent to the Cox Creek Dredged Material Containment Facility





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EXPERIENCE • QUALITY • CLIENT SERVICE

Report of Independent Public Accountants

To the Board of Directors
Maryland Environmental Service

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and fiduciary funds of the Maryland Environmental Service (the Service), a component unit of the State of Maryland, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Service's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Service as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows 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 Discussion and Analysis and Required Supplemental Information for Other Postemployment Benefit Plan on pages 3-11 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2014, on our consideration of the Service'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 the Service's internal control over financial reporting and compliance.

Hunt Valley, Maryland
September 29, 2014

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Maryland Environmental Service
Management's Discussion and Analysis
June 30, 2014 and 2013
(In thousands except where noted)

Overview of Financial Statements

Maryland Environmental Service (Service) is an independent agency of the State of Maryland that provides environmental services to both the public and private sectors on a fee for service basis. Substantially all the Service's revenue is derived from the delivery of technical and operational environmental services. The Service is organized into four basic groups: Environmental Operations, Water/Wastewater Operations, Technical and Environmental Services and Administration. The financial statements present a report and use accounting methods similar to those employed by private sector companies.

The purpose of the discussion and analysis that follows is to provide an understanding of the financial performance and activities of the Service as of and for the fiscal years ended June 30, 2014 and 2013. As required supplementary information, the accompanying analysis of financial information should be used in conjunction with the financial statements and related notes thereto included elsewhere to assess the overall financial condition and reported operating results of the Service.

The following table presents condensed financial information about the Service's net position as of June 30, 2014, 2013 and 2012:

Net Position
(Expressed in Thousands)

	2014	2013	2012
Current and other assets	\$ 75,980	\$ 73,678	\$ 64,435
Capital assets	14,479	15,466	15,775
Total assets	90,459	89,144	80,210
Current and long-term debt and capital leases	5,868	6,429	7,241
Other liabilities	64,024	63,115	54,240
Total liabilities	69,892	69,544	61,481
Net position:			
Net investment in capital assets	8,611	9,037	8,157
Restricted	11	11	11
Unrestricted	11,945	10,552	10,561
Total net position	\$ 20,567	\$ 19,600	\$ 18,729

**Maryland Environmental Service
Management's Discussion and Analysis
June 30, 2014 and 2013
(In thousands except where noted)**

Fiscal Year 2014

Net position represents the difference between total assets and total liabilities.

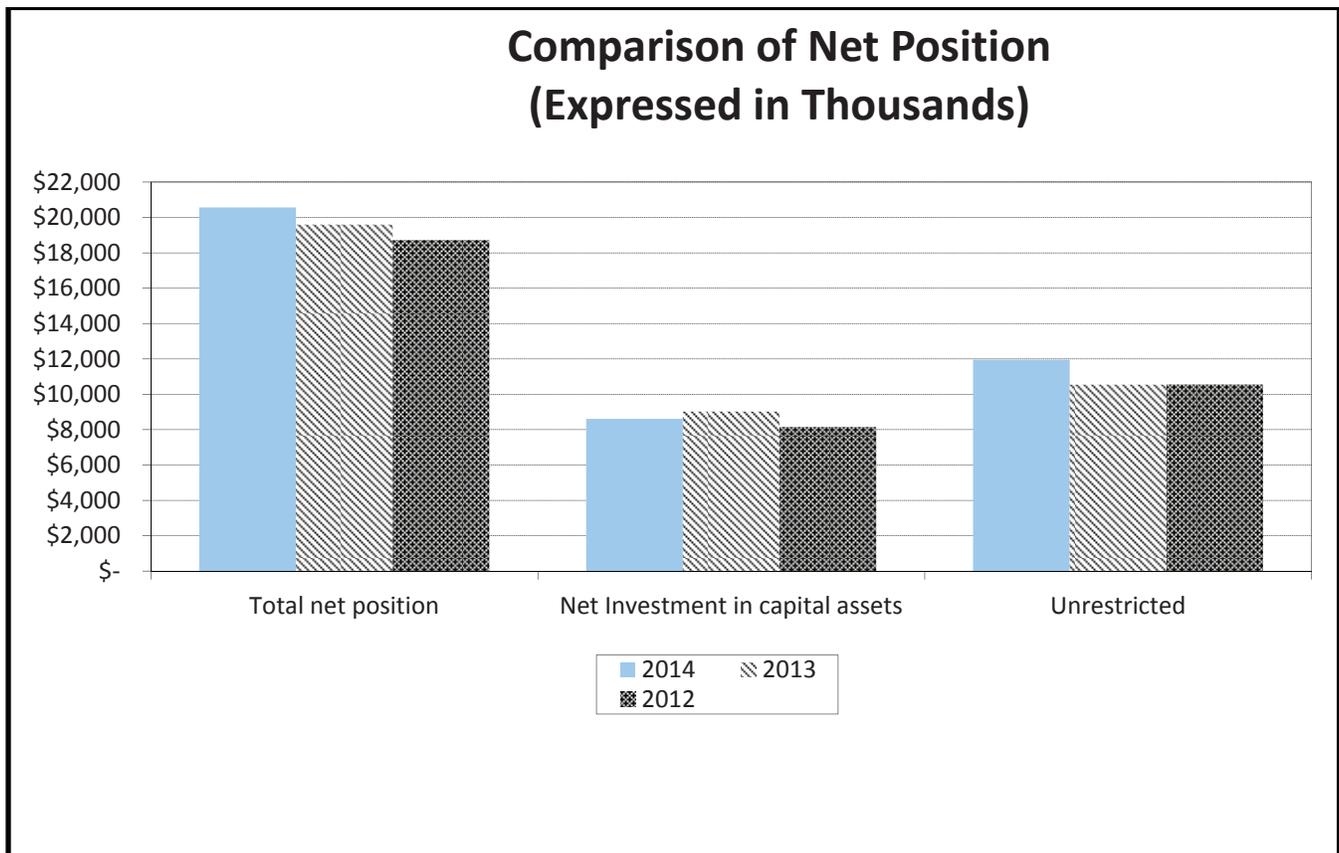
Total net position increased \$967 thousand in 2014 which is related to the excess of revenue over expenses. Net investment in capital assets decreased \$426 thousand from the payment of debt, net of depreciation. The remaining components, restricted and unrestricted net position of \$11,956 thousand, represent funds available for future expenditures. Over time, increases and decreases in net position provide an indicator of improving or deteriorating financial position.

Fiscal Year 2013

Net position represent the difference between total assets and total liabilities.

Total net position increased \$871 thousand in 2013 which is related to the excess of revenue over expenses. Net investment in capital assets increased \$880 thousand from the payment of debt, net of depreciation. The remaining components, restricted and unrestricted net position of \$10,563 thousand, represent funds available for future expenditures. Over time, increases and decreases in net position provide an indicator of improving or deteriorating financial position.

A comparison of years ended June 30, 2014, 2013 and 2012, are presented graphically below:



Maryland Environmental Service
Management's Discussion and Analysis
June 30, 2014 and 2013
(In thousands except where noted)

The following table presents condensed financial information about the Service's revenue, expenses and changes in net position for the years ended June 30, 2014, 2013 and 2012:

Changes in Net Position <i>(Expressed in Thousands)</i>			
	2014	2013	2012
Total operating revenue	\$ 110,317	\$ 93,923	\$ 105,904
Operating expenses			
Salaries and benefits	42,421	39,545	40,270
Other	53,859	41,312	50,995
General and administrative	12,676	11,859	11,928
Total operating expenses	108,956	92,716	103,193
Operating income	1,361	1,207	2,711
Nonoperating expense, net	(394)	(336)	(492)
Change in net position	967	871	2,219
Net position, beginning of year	19,600	18,729	16,510
Net position, end of year	\$ 20,567	\$ 19,600	\$ 18,729

The following table presents revenue by business type activity for the years ended June 30, 2014, 2013 and 2012:

Revenue by Business Type Activity <i>(Expressed in Thousands)</i>			
	2014	2013	2012
Environmental Dredging & Restoration	\$ 31,222	\$ 20,816	\$ 23,924
Water/Wastewater Operations	22,753	21,839	21,920
Recycling	12,599	12,139	16,817
Solid Waste Management	15,831	12,118	11,363
Energy Co-Generation	6,264	6,162	6,666
Environmental Engineering	2,048	2,244	2,303
Environmental Monitoring	12,879	11,888	15,015
Hazardous Waste Treatment	5,175	4,881	5,846
Grants	1,050	1,215	1,666
Other	496	621	384
Total Revenue	\$ 110,317	\$ 93,923	\$ 105,904

**Maryland Environmental Service
Management's Discussion and Analysis
June 30, 2014 and 2013
(In thousands except where noted)**

Revenue by Business Type Activity

Fiscal Year 2014

The total increase in operating revenue for the year ended June 30, 2014 was \$16,394 thousand over June 30, 2013. The change represents an increase of 17% in operating revenue. There were increases in Environmental Monitoring of \$991 thousand, Environmental Dredging and Restoration of \$10,406 thousand, Solid Waste Facility operations of \$3,713 thousand and Water/Wastewater plant construction of \$914 thousand.

The largest increase for Environmental Monitoring and other projects was the Oyster Restoration Project undertaken for Maryland Department of Natural Resources. Other projects included a Poplar Island outreach program and the Dundalk Marine Terminal project. Environmental Dredging and Restoration revenue was higher mainly due to the increase to the Masonville Dredged Material Containment Facility construction project. The Solid Waste Management revenue increase was related to the construction completion and subsequent operation of the Single Stream Recycling Facility in Baltimore County as well as services for Prince George's County on a temporary limited basis. The Water/Wastewater construction projects included upgrades to the Freedom District plant and other smaller plants throughout the state.

Fiscal Year 2013

Total operating revenue for the year ended June 30, 2013, decreased \$11,981 thousand from 2012. The change represents a decrease of 11% in operating revenue. The most significant areas of change were decreases in Recycling of \$4,678 thousand, Environmental Dredging and Restoration of \$3,108 thousand, Environmental Monitoring of \$3,127, and Grant revenue of \$451 thousand. There was an increase in Solid Waste Management of \$755 thousand.

Recycling was lower as a result of the completion of the Garner/Brandywine Scrap Tire Cleanup in 2012. Environmental Dredging and Restoration revenue was lower mainly due to the tapering off of the Masonville Dredged Material Containment Facility construction project. The decrease to Environmental Monitoring was due to the expiration of several Memorandums of Understanding (MOU) with Department of Transportation modals. Federal grants with the Environmental Protection Agency, and Department of Transportation Maritime Administration had reduced expenditures in 2013 as projects near completion. Solid Waste Management revenue increase was related to design work and a slight increase in demand at the Baltimore County Resource Recovery Facility.

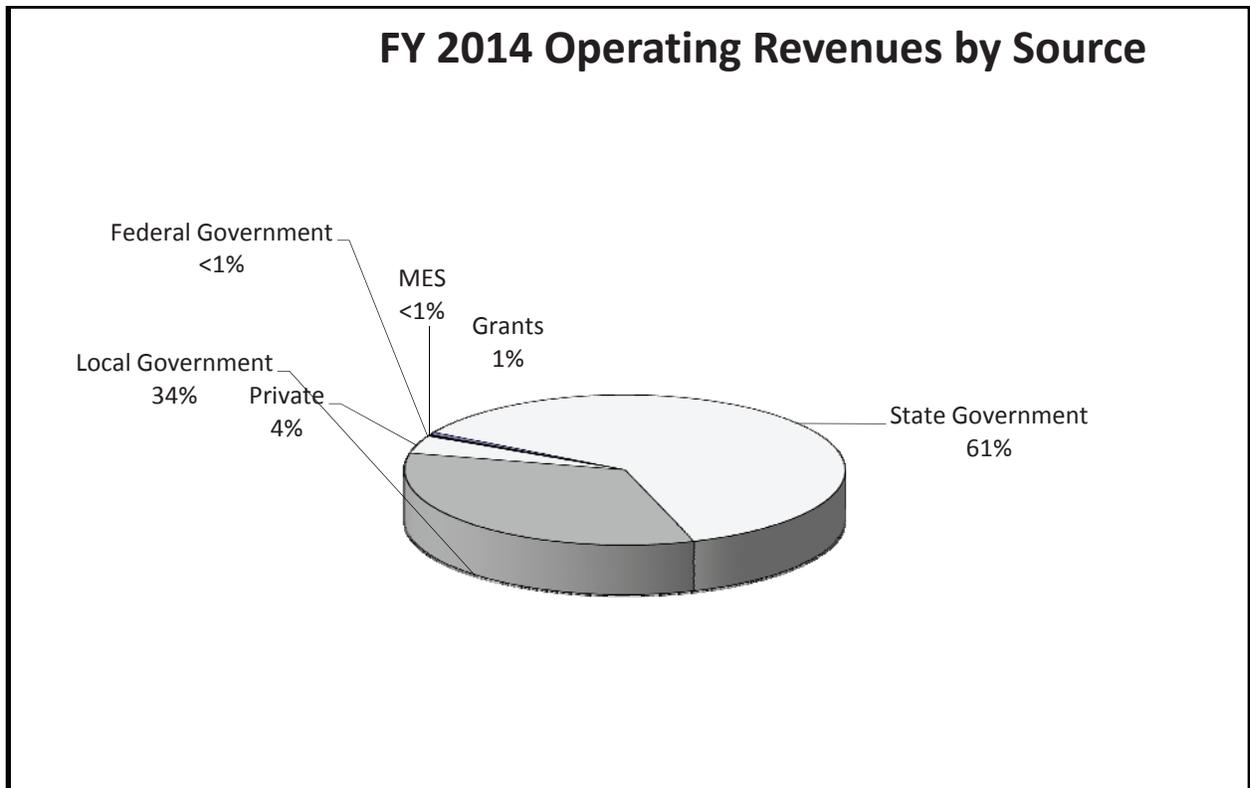
**Maryland Environmental Service
Management's Discussion and Analysis
June 30, 2014 and 2013
(In thousands except where noted)**

The following table presents revenue by source for the years ended June 30, 2014, 2013 and 2012:

**Revenue by Source
(Expressed in Thousands)**

	2014	2013	2012
State government	\$ 67,471	\$ 55,317	\$ 66,813
Local government	37,124	32,999	32,590
Private	4,243	3,838	4,293
Federal government	160	207	270
MES product revenues	269	347	272
Grants	1,050	1,215	1,666
Total Revenue	\$ 110,317	\$ 93,923	\$ 105,904

The following graph presents revenue by source for the year ended June 30, 2014:



**Maryland Environmental Service
Management's Discussion and Analysis
June 30, 2014 and 2013
(In thousands except where noted)**

Fiscal Year 2014

State government revenues increased by \$12,154 thousand in 2014, while local government revenue increased by \$4,125 thousand. All other sources of revenue increased by \$115 thousand.

The Oyster Restoration Project and the Masonville Dredged Material Containment Facility construction project were the two large projects that contributed to the State revenue increases. The local government revenue increase was related to the Baltimore County Single Stream Recycling Facility completion and limited solid waste management operations in Prince George's County.

Fiscal Year 2013

State government revenues decreased by \$11,496 thousand in 2013, while local government revenue increased by \$409 thousand. Grant revenue declined by \$451 thousand.

State revenue reductions were attributable to the Masonville Dredged Material Containment Facility construction project wrap up, and the expiration of several MOUs with the Maryland Department of Transportation. Federal grants with the Environmental Protection Agency, and Department of Transportation Maritime Administration had reduced expenditures in 2013 as the Garner/Brandywine Scrap Tire Cleanup was completed, and environmental review services work ended.

Operating Expenses

Operating expenses are predominantly related to those classified as cost of goods and services, general and administrative, and depreciation on capital assets. Operating expenses were 99%, 99%, and 97% of revenue in 2014, 2013 and 2012, respectively.

Operating Income

Fiscal Year 2014

Operating income reported in 2014 was \$1,361 thousand compared to \$1,207 thousand in 2013, an increase of \$154 thousand. The principal reason for the increase in operating income from the previous fiscal year was an increase in the project variances, particularly the GIS services and the Used Oil Recovery program.

Fiscal Year 2013

Operating income reported in 2013 was \$1,207 thousand compared to \$2,711 thousand in 2012, a decrease of \$1,504 thousand. The factors affecting the change are a combination of lower overhead recovery and project variances.

**Maryland Environmental Service
Management's Discussion and Analysis
June 30, 2014 and 2013
(In thousands except where noted)**

Non-operating Revenue (Expense), Net

Fiscal Year 2014

Non-operating expenses, (net) increased \$58 thousand to \$394 thousand in 2014. Non-operating items primarily include interest income and interest expense. For 2014, interest income decreased by \$6 thousand and interest expense increased by \$68 thousand.

Fiscal Year 2013

Non-operating expenses, (net) decreased \$156 thousand to \$336 thousand in 2013. Non-operating items primarily include interest income and interest expense. For 2013, interest income increased by \$12 thousand and interest expense decreased by \$167 thousand.

Grants

Fiscal Year 2014

Operating grants in 2014 totaled \$1,050 thousand compared to \$1,215 thousand in 2013. A few small grants from the Environmental Protection Agency pertaining to Chesapeake Bay efforts and Garner/Brandywine and Federal Emergency Management funding remain.

Fiscal Year 2013

Operating grants in 2013 totaled \$1,215 thousand compared to \$1,666 thousand in 2012. Federal grants with the Environmental Protection Agency, and Department of Transportation Maritime Administration had very little activity as projects were completed.

**Maryland Environmental Service
Management's Discussion and Analysis
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(In thousands except where noted)**

Investment in Capital Assets

The following tables present capital assets, net of depreciation as of June 30, 2014, 2013 and 2012, and capital expenditures for the years ended June 30, 2014, 2013 and 2012:

**Capital Assets, Net of Depreciation
(Expressed in Thousands)**

	2014	2013	2012
Land and improvements	\$ 1,040	\$ 1,040	\$ 1,223
Buildings and improvements	7,483	7,909	8,337
Infrastructure	240	293	424
Machinery and equipment	5,716	6,224	5,791
Total	\$ 14,479	\$ 15,466	\$ 15,775

**Capital Expenditures
(Expressed in Thousands)**

	2014	2013	2012
Autos and trucks	\$ 413	\$ 1,151	\$ 728
Construction and production equipment	177	84	782
Computer hardware/software	294	381	1,325
Tools/machinery/equipment	65	132	-
Leasehold improvements	-	-	70
Total	\$ 949	\$ 1,748	\$ 2,905

Fiscal Year 2014

As of June 30, 2014, the carrying value of capital assets, net of depreciation was \$14,479 thousand, a decrease of \$987 thousand from 2013. The decrease is comprised of capital additions of \$949 thousand, net disposals of \$65 thousand, and depreciation of \$1,871 thousand. The capital additions for the year were fleet vehicle replacements, JD Edwards ERP system, and construction equipment.

Fiscal Year 2013

As of June 30, 2013, the carrying value of capital assets, net of depreciation was \$15,466 thousand, a decrease of \$309 thousand from 2012. The decrease is comprised of capital additions of \$1,748 thousand, net disposals of \$795 thousand, and depreciation of \$1,262 thousand. The capital additions for the year were fleet vehicle replacements, JD Edwards ERP system, and construction equipment.

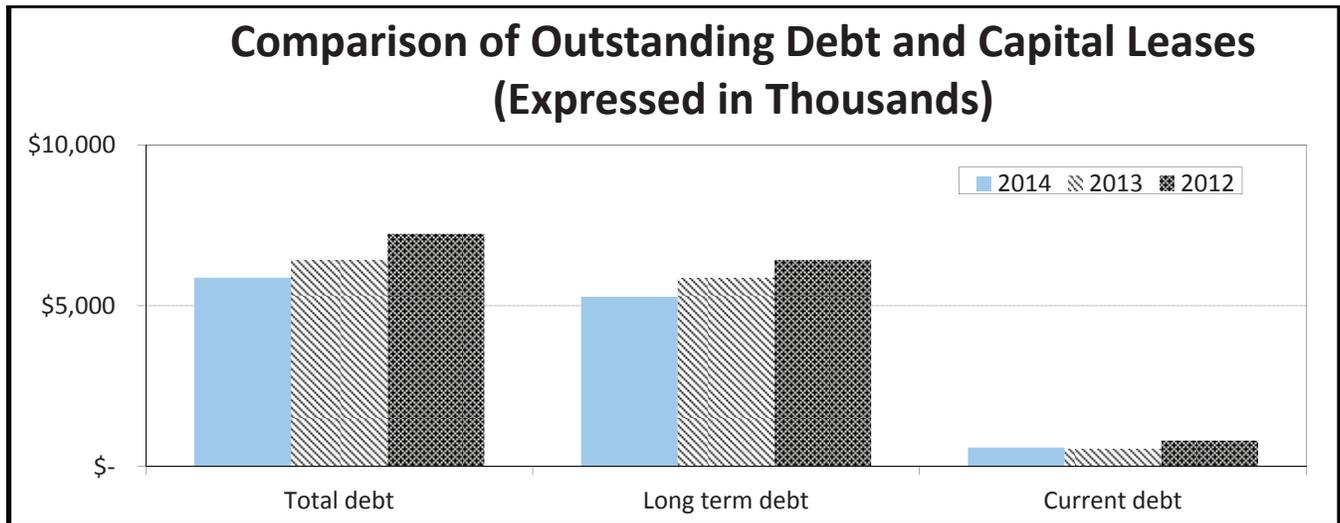
**Maryland Environmental Service
Management's Discussion and Analysis
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Outstanding Debt

The following table and graph present outstanding debt as of June 30, 2014, 2013 and 2012:

**Outstanding Debt and Capital Leases
(Expressed in Thousands)**

	2014	2013	2012
Capital leases	\$ 5,514	\$ 6,037	\$ 6,813
General obligation bond / note	354	392	428
Total	\$ 5,868	\$ 6,429	\$ 7,241



Fiscal Year 2014

As of June 30, 2014, outstanding debt was \$5,868 thousand, representing a net decrease in borrowing of \$561 from 2013. The net decrease consists of principal payments.

Fiscal Year 2013

As of June 30, 2013, outstanding debt was \$6,429 thousand, representing a net decrease in borrowing of \$812 from 2012. The net decrease consists of principal payments.

**MARYLAND ENVIRONMENTAL SERVICE
FINANCIAL STATEMENTS**

Maryland Environmental Service
Statements of Net Position
As of June 30, 2014 and 2013
(Expressed in Thousands)

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$43,254	\$44,388
Investments	8,168	11,186
Accounts receivable (net of allowance of \$50)	17,625	11,494
Unbilled project costs accrued	3,795	3,457
Other	231	83
Total current assets	73,073	70,608
Other assets:		
Restricted cash	176	345
Due from project participants	2,731	2,725
Capital assets, net of accumulated depreciation:		
Land	1,040	1,040
Buildings and improvements	7,483	7,909
Infrastructure	240	293
Machinery and equipment	5,716	6,224
Total capital assets	14,479	15,466
Total other assets	17,386	18,536
Total assets	90,459	89,144
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	9,691	8,833
Accrued annual leave	2,804	2,650
Due to Midshore and other projects	14,627	14,221
Advances from project participants	34,207	33,868
Current portion of long-term debt and capitalized leases	590	561
Accrued workers' compensation costs	418	422
Total current liabilities	62,337	60,555
Other liabilities:		
Advances from project participants	-	818
Long-term debt and capitalized leases, net of current portion and bond discount	5,278	5,868
Accrued workers' compensation costs	2,277	2,303
Total other liabilities	7,555	8,989
Total liabilities	69,892	69,544
Net Position		
Net investment in capital assets	8,611	9,037
Restricted net position	11	11
Unrestricted net position	11,945	10,552
Total net position	\$20,567	\$19,600

The accompanying notes are an integral part of these financial statements.

Maryland Environmental Service
Statements of Revenue, Expenses and Changes in Net Position
For the years ended June 30, 2014 and 2013
(Expressed in Thousands)

	2014	2013
Operating revenue:		
Charges for services	\$109,267	\$ 92,708
Operating grants	1,050	1,215
Total operating revenue	110,317	93,923
Operating expenses:		
Salaries and benefits	42,421	39,545
Contractual services	17,845	14,752
Technical fees	9,797	6,747
Utilities	4,590	4,550
Repairs and maintenance	4,166	4,464
Materials and supplies	9,668	5,831
Land, structures and equipment	5,674	2,918
Depreciation	1,871	1,732
General and administrative	12,676	11,859
Other	248	318
Total operating expenses	108,956	92,716
Operating income	1,361	1,207
Nonoperating revenue (expenses):		
Investment income	17	23
Interest expense	(428)	(360)
Gain on sale of equipment, net	17	1
Nonoperating expenses, net	(394)	(336)
Change in net position	967	871
Net position, beginning of year	19,600	18,729
Net position, end of year	\$ 20,567	\$ 19,600

The accompanying notes are an integral part of these financial statements.

Maryland Environmental Service
Statements of Cash Flows
For the years ended June 30, 2014 and 2013
(Expressed in Thousands)

	2014	2013
Cash Flows From Operating Activities		
Receipts from customers	\$ 103,848	\$96,148
Payments to suppliers	(62,922)	(52,629)
Payments to employees	(43,148)	(39,545)
Payments to/from project participants	(516)	9,976
Other payments project Midshore	406	(75)
Other	(33)	119
Net cash from operating activities	(2,365)	13,994
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(949)	(1,473)
Principal paid on capital debt	(561)	(812)
Interest paid on capital debt	(428)	(360)
Increase on lease	-	10
Other receipts/disbursements	(17)	1
Net cash from capital and related financing activities	(1,955)	(2,634)
Cash Flows From Investing Activities		
Purchases of investments	(2,000)	(6,000)
Sales and maturities of investments	5,000	4,039
Interest and dividends	186	24
Net cash from investing activities	3,186	(1,937)
Net changes in cash and cash equivalents	(1,134)	9,423
Cash and cash equivalents - beginning of the year	44,388	34,965
Cash and cash equivalents - end of the year	\$ 43,254	\$44,388
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,361	\$ 1,207
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,871	1,732
Loss on disposal	(31)	-
Change in assets and liabilities:		
Receivables, net	(6,131)	1,935
Other assets	(344)	244
Accounts and other payables	1,012	(1,191)
Due to project participants	(479)	10,059
Net change due to/from Midshore	406	(75)
Accrued workers compensation	(30)	83
Net cash from operating activities	\$ (2,365)	\$13,994

The accompanying notes are an integral part of these financial statements.

Midshore Regional Landfill Private Purpose Trust Fund
Statements of Net Position
As of June 30, 2014 and 2013
(Expressed in Thousands)

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 112	\$ 71
Due from MES	14,627	14,221
Accounts receivable	437	429
Other	-	2
Total current assets	15,176	14,723
Other assets:		
Restricted investments	6,710	2,144
Bond issuance cost	-	100
Capital assets not depreciated	2,682	1,864
Capital assets being depreciated, net	17,832	18,751
Total capital assets	20,514	20,615
Total other assets	27,224	22,859
Total assets	42,400	37,582
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	874	194
Advances from project participants	483	483
Current portion of long-term debt and capitalized lease	995	732
Total current liabilities	2,352	1,409
Other liabilities:		
Long-term debt and capitalized leases, net of current portion and bond discount	22,084	18,593
Accrued landfill closure & postclosure care costs	9,818	9,792
Total other liabilities	31,902	28,385
Total liabilities	34,254	29,794
Net Position		
Invested in capital assets, net of related debt	1,324	1,290
Net assets designated-closure/post closure	5,408	5,282
Net assets designated-Easton	867	870
Unrestricted net position	547	346
Total net position	\$ 8,146	\$ 7,788

The accompanying notes are an integral part of these financial statements.

Midshore Regional Landfill Private Purpose Trust Fund
Statements of Revenue, Expenses and Changes in Net Position
For the years ended June 30, 2014 and 2013
(Expressed in Thousands)

	2014	2013
Operating revenue:		
Charges for services	\$ 5,687	\$ 5,160
Operating expenses:		
Salaries and benefits	1,234	1,093
Contractual services	206	149
Technical fees	187	57
Utilities	34	36
Operations and maintenance	410	505
Materials and supplies	136	174
Land, structures and equipment	106	78
Depreciation	943	1,050
Closure/post closure	890	598
General and administrative	386	342
Other, net	24	79
Total operating expenses	4,556	4,161
Operating income (loss)	1,131	999
Nonoperating revenue (expenses):		
Interest income	44	49
Interest expense	(819)	(828)
Gain sale of equipment, net	2	-
Nonoperating expenses, net	(773)	(779)
Change in net position	358	220
Net position, beginning of year	7,788	7,568
Net position, end of year	\$ 8,146	\$ 7,788

The accompanying notes are an integral part of these financial statements.

*Maryland Environmental Service
Other Post Employment Benefit Plan
Statement of Plan Net Position
As of June 30, 2014
(Expressed in Thousands)*

Assets		
Cash and short-term investments	\$	141
Investments:		
Equities		1,861
Fixed income		80
Real estate		111
Other		72
Total investments		2,124
Total assets		2,265
Net position held in trust for other postemployment benefits	\$	2,265

The accompanying notes are an integral part of this financial statement.

*Maryland Environmental Service
Other Post Employment Benefit Plan
Statement of Changes in Plan Net Position
For the year ended June 30, 2014
(Expressed in Thousands)*

Additions	
Employer contributions	\$ 308
Investment Income:	
Net appreciation in fair value of investments	293
Interests and dividends	37
	330
Less investment expense	6
Net investment income	324
Total additions	632
Deductions	
Benefits paid	68
Net increase	564
Net position held in trust for other postemployment benefits	
Net position, beginning of year	1,701
Net position, end of year	\$ 2,265

The accompanying notes are an integral part of this financial statement.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(1) Organization and Summary of Significant Accounting Policies

(a) Reporting Entity

The General Assembly created Maryland Environmental Service (the Service) in 1970 as an agency of the Maryland State Department of Natural Resources. Major activities of the Service include the provision of water supply and wastewater treatment, sewage sludge management, recycling assistance, solid waste management, and resource recovery from waste and dredging services. Services are provided to State of Maryland owned facilities, local communities, political subdivisions, Federal facilities, and the private sector.

Pursuant to Chapter 196 of the 1993 Acts of the Maryland General Assembly, effective July 1, 1993, the Service was established as an instrumentality of the State and a public corporation independent of the Department of Natural Resources. Chapter 196 also expanded the Service's Board of Directors from seven to nine members; provided for the appointment of the Deputy Director, Secretary and Treasurer by the Director, with the approval of the Governor; provided for the appointment of the remaining Board members by the Governor, with the advice and consent of the Senate; exempted the Service from most provisions of the State Procurement Law; established the retirement and health benefits available for certain employees of the Service; authorized the Service to create a new personnel system; exempted the Service from most provisions of the State Merit System Law effective January 1, 1995; authorized the Service to create private corporations; authorized the Service to exercise the corporate powers granted Maryland corporations under the Maryland General Corporation Law; and made other changes to the law governing the Service. For financial reporting purposes, the Service is considered a component unit of the State of Maryland.

The Service operates public and private water and wastewater treatment plants throughout the State of Maryland. Licensed and certified personnel operate and maintain the facilities. Projects range in size from basic pumping stations to advanced wastewater treatment facilities. Capabilities include laboratory testing, operations oversight, and management, operations, maintenance and plant supervision.

In the area of solid waste management, the Service operates state-of-the-art waste facilities including municipal solid waste and rubble landfills, incinerators, resource reclamation facilities in Baltimore and Montgomery Counties, and transfer stations in Baltimore County.

The Service has the capabilities to provide site analysis, planning, engineering, design and construction services, and the resources to finance and build water, wastewater and solid waste projects. The Service operates the Hart-Miller Island, Poplar Island, and Cox Creek Dredge Disposal Facilities as well as provides technical support for the Maryland Port Administration.

The Service produces and sells yard waste compost for Montgomery, Baltimore, Anne Arundel, Howard and Prince George's Counties under the registered trademark Leafgro[®].

Certain employees of the Service are eligible to participate in the Retiree Medical Reimbursement Plan (OPEB Plan), which is a single employer defined benefit plan administered by the Service. The plan is considered part of the Service's financial reporting entity. A separate report for the OPEB Plan is prepared.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(1) Organization and Summary of Significant Accounting Policies (continued)

(b) Measurement focus, basis of accounting, and financial statement presentation

The accompanying financial statements, which are all business type activities, present the financial position and results of operations of all of the Service's activities. The Service utilizes the accrual basis of accounting and the economic measurement focus in preparing its financial statements wherein revenues are recognized when earned and expenses are recognized when incurred.

The Service also reports a private purpose trust fund. The purpose of this fund is to account for the operations of the Midshore Regional Landfills. The landfills, located in Talbot County, Maryland and Caroline County, Maryland, are operated for the benefit of the governments of Caroline, Kent, Queen Anne's and Talbot Counties. The counties have the ultimate responsibility for payment of operating expenses and debt of the facility.

(c) Revenue Recognition

The Service distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenue of the Service are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. Interest income is recognized as nonoperating revenue as earned. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

(d) Cash Equivalents

The Service's cash is considered to be cash on hand and demand deposits. Cash equivalents include overnight investment funds.

(e) Investments

Investments are recorded at fair value, which is based on quoted market prices.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(1) Organization and Summary of Significant Accounting Policies (continued)

(g) Capital Assets

Capital assets are stated at cost and consist primarily of Service-owned assets related to projects operated for participants. Certain contracts contain provisions whereby the participants have the option to purchase certain equipment during the terms of the contracts.

The Service defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded to thousands) and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an assets' life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred net of interest earned during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized in fiscal year 2014 and 2013.

Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets, which range from 3 to 40 years. For purposes of the statements of revenue, expenses and changes in net position, the depreciation on assets, which are not directly related to projects, are included in general and administrative expenses and product costs.

Certain contracts contain provisions whereby the Service purchases equipment or constructs assets for clients. These expenses are recorded as land, structures and equipment in the statements of revenue, expenses and changes in net position and are not capitalized.

(h) Compensated absences

Employees of the Service based on time in service earn vacation benefits. The rights to such benefits are vested and recorded as earned. Sick leave is also earned and accumulated by employees based on time in service. However, such benefits do not vest and are not paid or recorded unless sickness causes employees to be absent.

(i) Other Post-Employment Benefits (OPEB)

Plan Description. The Service provides a self-funded medical reimbursement plan to eligible employees not covered under the State Retiree Medical Plan. To be eligible, employees must retire at age 60 or older and have 16 years of employment with the Service. Retired employees or their spouses ages 60 and over can be reimbursed up to \$3,600 per calendar year for medical expenses. Retirees are not required to contribute to the plan.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(1) Organization and Summary of Significant Accounting Policies (continued)

(i) Other Post-Employment Benefits (OPEB) (continued)

Funding Policy. The Service has an irrevocable trust, the Maryland Environmental Service OPEB Trust Fund, for the sole purpose of funding post-employment benefits for current and future retirees. Contribution requirements are determined according to actuarial valuations. The Service contributed \$308 thousand in 2014 and \$288 thousand in 2013. Total reimbursement of medical expenses was \$68 thousand in 2014 and \$55 thousand in 2013.

Annual OPEB Cost and Net Obligation. The Service'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 not to exceed thirty years. For the fiscal years ended 2014 and 2013, the Service's annual OPEB cost was \$232 thousand and \$224 thousand, respectively.

The following table shows the components of the Service's annual OPEB cost for the year.

OPEB Cost (In Thousands)	<u>2014</u>	<u>2013</u>
Normal cost	\$ 120	\$ 109
Minimum amortization of UAL	96	107
Interest adjustment to year- end	<u>16</u>	<u>8</u>
Annual required contribution / OPEB cost	232	224
Contributions made	<u>(308)</u>	<u>(288)</u>
Increase in net OPEB assets	(76)	(64)
Actuarial change in methods and adjustments	76	69
Net OPEB asset - beginning of year	<u>-</u>	<u>(5)</u>
Net OPEB asset - end of year	<u>\$ -</u>	<u>\$ -</u>

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(1) Organization and Summary of Significant Accounting Policies (continued)

(i) Other Post-Employment Benefits (OPEB) (continued)

Funding Status and Funding Process. The funded status of the plan as of July 1, 2013, was as follows:

Actuarial valuation date	<u>7/01/2013</u>
Actuarial value of assets	\$ 1,702
Actuarial accrued liability	3,399
Unfunded actuarial liability	1,698
Funded ratio	50.1%
Annualized covered payroll	\$33,973
Ratio of unfunded actuarial liability to annual covered payroll	5.0%
Net OPEB liabilities as of the valuation date	\$ 0
Actuarial cost method	Entry age

As of the valuation date, the plan was 50.1% percent funded. The actuarial accrued liability for benefits was \$3,399 thousand resulting in an unfunded actuarial accrued liability of \$1,698 thousand.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Service are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the July 1, 2013, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5% estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits, which are the assets held in the trust.

A minor number of Service employees are enrolled in the State of Maryland's Retirement and Pension plans. These employees are eligible to receive medical coverage under the same conditions as State employees. Costs are billed by the State as a percentage markup of health insurance costs for current employees participating in the State Retirement and Pension plans. Total costs were \$81 thousand in 2014 and 2013.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(1) Organization and Summary of Significant Accounting Policies (continued)

(j) *Advances from Project Participants*

Advances from project participants are received by the Service as provided for under contracts and are generally for working capital purposes. Such advances are recorded as a liability and are generally refunded to project participants at the end of the related contracts.

(k) *Bond Discount*

Bond discount is amortized to interest expense using the effective interest method over the contractual term of the bonds.

(l) *Arbitrage*

The U.S. Treasury has issued regulations on calculating the rebate due to the Federal government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the Service temporarily invests the proceeds of tax-exempt debt in securities with higher yields. The Service treats the estimated rebate payable as a reduction of any interest income earned. As of June 30, 2014 and 2013, there were no arbitrage rebate liabilities.

(m) *Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

(n) *Recent Pronouncements*

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. The Service has implemented the above GASB statement, and they have no material effects on the financial position of the Service. In June 2012, Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective for periods beginning after June 15, 2014, respectively. The Service will implement these statements as of their effective dates. The Service is still in the process of determining the effect of implementing these GASB statements.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(2) Cash and Cash Equivalents and Investments

State statutes require that deposits and investments with financial institutions be fully collateralized. The investment policies for all of the Service's funds are the same as those of the State of Maryland Treasurer (Financial Procurement Article 6-222). The Service's cash is considered to be cash on hand and demand deposits. Cash and cash equivalents totaled \$43,254 thousand and \$44,388 thousand as of June 30, 2014 and 2013, respectively. Included, as cash equivalents for financial statement presentation, were certain overnight investments of \$45,246 thousand and \$45,120 thousand, respectively, as of June 30, 2014 and 2013, which are included in the investment discussion below. Investments are valued at fair value, which is based on quoted market prices.

The Finance and Procurement Article 6-222 defines the types of securities authorized as appropriate investments for the Service and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. The National Resource Article 3-126 authorizes the investment in obligation as described in the Finance and Procurement Article 6-222.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Service policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State. The Service intends to hold investments until maturity to reduce adverse affect of changes in interest rates.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Service's policy for reducing its exposure to credit risk is to comply with the State, which states that investments with financial institutions must be fully collateralized.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(2) Cash and Cash Equivalents and Investments (continued)

As of June 30, 2014, the Service had the following investments and quality ratings:

Investment Type	Ratings by Organization Moody's	Fair Value (In Thousands)	Investment Maturities (in Years)				
			Less than 1	1-5	6-10	11-15	More than 15
Bank of America FNMA	Aaa	\$ 8,168	\$ 8,168	\$ -	\$ -	\$ -	\$ -
Total		\$ 8,168	\$ 8,168	\$ -	\$ -	\$ -	\$ -

As of June 30, 2014, the Midshore Regional Landfill had the following investments and quality ratings:

Investment Type	Ratings by Organization Moody's	Fair Value (In Thousands)	Investment Maturities (in Years)				
			Less than 1	1-5	6-10	11-15	More than 15
Money Market Funds	Aaa	\$ 1,586	\$ 1,586	\$ -	\$ -	\$ -	\$ -

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Service's policy for reducing this risk of loss is to comply with State regulation.

The issuance of debt is authorized by National Resource Article 3-112. Each Bond issue includes a Tax and Section 148 Certificate, which specifies the investment type and yield requirements.

Restricted cash and investments include deposits and investments that relate to the bond indentures and restricted project funds, which are not available to pay the general operating expenses of the Service.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(2) Cash and Cash Equivalents and Investments (continued)

The restricted cash and investments are comprised of the following funds as of June 30, 2014 and 2013:

Maryland Environmental Service:

	(In Thousands)	
	2014	2013
Service held:		
Project restricted	\$ 176	\$ 345

Midshore Regional Landfill:

	(In Thousands)	
	2014	2013
Trustee held:		
Interest	\$ 4	\$ 4
Closure Fund	759	759
Construction Funds	5,125	559
Service held:		
Liability Fund	822	822
	\$ 6,710	\$ 2,144

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(2) Cash and Cash Equivalents and Investments (continued)

OPEB Trust:

All investments are valued at fair value. Fair value for investments is determined using quoted market value of securities. Assets held in trust are held in a custodial account for which the custodian makes no investment decisions. PNC Institutional Investments is the advisor that provides investment management services.

The Service follows the asset allocation policy adopted by the State of Maryland for the Post-Retirement Health Benefits Trust (the Plan).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increases interest rates.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan would not be able to recover the value of its investments that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the Plan's name. Investments of \$2,124,479 are uncollateralized and exposed to credit risk as of June 30, 2014.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in the securities of a single issuer. As of June 30, 2014, the Plan had the following investments, which represented 5% or more of total investments:

Issue	Fair Value	Percentage
Vanguard Total Stock Market ETF	\$ 458,474	22%
DWS Sector TR	110,317	5
Dodge & Cox International Stock Fund	472,749	22
iShares MSCI EAFE Index Fund	446,524	21
Vanguard Total Bond Index Fund	300,279	14
T Rowe Price Real Estate Fund	110,920	5

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(3) Capital Assets (In Thousands)

The tables below represent the changes in capital assets for the years ended June 30, 2014 and 2013:

Maryland Environmental Service:

2014	Balance			Transfers	Balance
	06/30/13	Additions	Deletions	In/Out	06/30/14
Capital assets, not depreciated					
Land and improvements	\$ 1,040	\$ -	\$ -	\$ -	\$ 1,040
Capital assets, being depreciated					
Structures and improvements	30,410	-	-	5	30,415
Equipment	15,672	949	(507)	-	16,114
Total capital assets being depreciated	46,082	949	(507)	5	46,529
Less: accumulated depreciation for					
Structures and improvements	21,754	479	-	459	22,692
Equipment	9,902	1,392	(442)	(454)	10,398
Total accumulated depreciation	31,656	1,871	(442)	5	33,090
Total capital assets, net	\$ 15,466	\$ (922)	\$ (65)	\$ -	\$ 14,479
2013	Balance			Transfers	Balance
	06/30/12	Additions	Deletions	In/Out	06/30/13
Capital assets, not depreciated					
Land and improvements	\$ 1,223	\$ -	\$ (183)	\$ -	\$ 1,040
Capital assets, being depreciated					
Structures and improvements	30,900	-	(490)	-	30,410
Equipment	14,452	1,748	(528)	-	15,672
Total capital assets being depreciated	45,352	1,748	(1,018)	-	46,082
Less: accumulated depreciation for					
Structures and improvements	21,686	474	(406)	-	21,754
Equipment	9,114	1,258	(470)	-	9,902
Total accumulated depreciation	30,800	1,732	(876)	-	31,656
Total capital assets, net	\$ 15,775	\$ 16	\$ (325)	\$ -	\$ 15,466

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(3) Capital Assets (In Thousands) (continued)

Midshore Regional Landfill:

2014	Balance			Transfers		Balance
	06/30/13	Additions	Deletions	In/Out		06/30/14
Capital assets, not depreciated						
Land and improvements	\$ 1,690	\$ -	\$ -	\$ -		\$ 1,690
Construction in progress	174	818	-	-		992
Total capital assets, not depreciated	<u>1,864</u>	<u>818</u>	<u>-</u>	<u>-</u>		<u>2,682</u>
Capital assets, being depreciated						
Structures and improvements	33,402	-	-	-		33,402
Equipment	5,002	60	(86)	-		4,976
Total capital assets being depreciated	<u>38,404</u>	<u>60</u>	<u>(86)</u>	<u>-</u>		<u>38,378</u>
Less: accumulated depreciation for						
Structures and improvements	15,451	522	-	-		15,973
Equipment	4,202	421	(50)	-		4,573
Total accumulated depreciation	<u>19,653</u>	<u>943</u>	<u>(50)</u>	<u>-</u>		<u>20,546</u>
Total capital assets, net	<u>\$ 20,615</u>	<u>\$ (65)</u>	<u>\$ (36)</u>	<u>\$ -</u>		<u>\$ 20,514</u>

2013	Balance			Transfers		Balance
	06/30/12	Additions	Deletions	In/Out		06/30/13
Capital assets, not depreciated						
Land and improvements	\$ 1,690	\$ -	\$ -	\$ -		\$ 1,690
Construction in progress	-	174	-	-		174
Total capital assets, not depreciated	<u>1,690</u>	<u>174</u>	<u>-</u>	<u>-</u>		<u>1,864</u>
Capital assets, being depreciated						
Structures and improvements	33,423	4	(25)	-		33,402
Equipment	4,992	10	-	-		5,002
Total capital assets being depreciated	<u>38,415</u>	<u>14</u>	<u>(25)</u>	<u>-</u>		<u>38,404</u>
Less: accumulated depreciation for						
Structures and improvements	14,953	523	(25)	-		15,451
Equipment	3,680	522	-	-		4,202
Total accumulated depreciation	<u>18,633</u>	<u>1,045</u>	<u>(25)</u>	<u>-</u>		<u>19,653</u>
Total capital assets, net	<u>\$ 21,472</u>	<u>\$ (857)</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 20,615</u>

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(4) Construction Commitments

There were no new construction commitments outstanding as of June 30, 2014.

(5) Concentrations of Credit

The Service derived approximately 62% and 59% of its revenue in 2014 and 2013, respectively, from providing services to the State of Maryland.

(6) Leases (In Thousands)

Operating Leases

The Service leases office, warehouse, and parking space under operating leases, which expire over the next twenty years.

Rent expense for operating leases was \$35 thousand for the years ended June 30, 2014 and 2013.

Capital Leases

The Service has entered into several leases for financing the building, furniture, fixtures and equipment used in administration and project operations. These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(6) Leases (In Thousands) (continued)

The future minimum lease obligations from capital leases and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

Years ending June 30:	
2015	\$ 842
2016	842
2017	842
2018	842
2019	842
2020-2024	2,730
2025	77
Total minimum lease payments	7,017
Less: amount representing interest	1,503
Present value of minimum lease payments	5,514
 Less: current portion	 550
 Long-term portion of capital leases	 \$ 4,964

Certain assets acquired using capital leases are held in custody for various customers. Accordingly, such assets are not capitalized by the Service.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(7) Debt (In Thousands)

Long-term debt (including current portion) consists of the following as of June 30:

Maryland Environmental Service:

	2014	2013
Bank of America- General Obligation Bond		
\$354 and \$392 as of June 30, 2014 and 2013, respectively. Interest at 4.05% and principal due in quarterly installments of \$18 through March 31, 2022.	\$ 354	\$ 392
	354	392
Total	40	38
Less: current portion	40	38
Long-term portion of debt	\$ 314	\$ 354

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(7) Debt (In Thousands) (continued)

Future minimum payments for long-term debt at June 30, 2014, were due as follows:

(In Thousands)				
Years ending June 30:	Total	Principal	Interest	
2015	\$ 53	\$ 40	\$ 13	
2016	53	41	12	
2017	53	43	10	
2018	53	45	8	
2019	53	47	6	
2020-2022	147	138	9	
Total	<u>\$ 412</u>	<u>\$ 354</u>	<u>\$ 58</u>	

The Landfill Project Revenue Bonds, 1993 Series, were issued in connection with the acquisition and construction of a sanitary landfill facility in Garrett County and the closure of an existing landfill facility. Garrett County leased the site of the landfill to the Service for a term equal to the term of the bonds and will pay the Service a service fee to cover the costs of financing and operating the landfill, including payment of principal and interest on the bonds. The bonds constitute special obligations of the Service payable solely from revenue from the landfill.

The General Obligation Bond of 2007 was issued to finance the acquisition of property associated with a project in Talbot County. Costs associated with carrying and maintaining the property will be charged to the project, however the debt is payable from Agency resources.

The Master Equipment Lease Purchase Agreements with financing institutions are used to finance the purchase of equipment used to build and operate various project facilities. The Service charges for the use of the construction and operating equipment and the revenues received are used to retire the associated debt and to purchase additional equipment. Substantially, all assets under the agreements serve as collateral under such agreements.

The various trust indentures stipulate that the value of the assets in the debt service reserve funds (recorded as restricted cash or investments) meet the related debt service reserve fund requirements. As of June 30, 2014, such debt service reserve requirements were met, and management believes the Service is in compliance with all other significant requirements of the indentures.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(7) Debt (In Thousands) (continued)

Long-term debt (including current portion) consists of the following as of June 30, 2014:

Midshore Regional Landfill:

Midshore II Regional Landfill Project Revenue Bonds, Series 2011; February 2011

\$16,415 (plus bond premium of \$505); interest at 3.0% to 5.1% paid semiannually on May 1 and November 1; due in annual installments beginning 2013 through 2030 in varying amounts from \$600 to \$1,385.	\$ 16,919
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Midshore II Regional Landfill Project Revenue Bonds, Series 2014

\$4,500 ; interest at 3.14% paid semiannually on May1 and November 1; due in annual installments beginning 2014 trough 2029 in varying amounts from \$247 to \$369	4,500
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Hobbs Road Landfill Closure Project Water Quality Bond, Series 2011A; April 2011

\$1,660; interest at 1.1% paid semiannually in February and August; due in annual installments beginning 2013 through 2031 in varying amounts from \$90 to \$111.	1,660
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Total	23,079
Less: current portion	995

Long-term portion of debt	<u>\$ 22,084</u>
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Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(7) Debt (In Thousands) (continued)

Midshore Regional Landfill:

Future minimum payments for long-term debt as of June 30, 2014, were due as follows:

(In Thousands)				
Years ending June 30:	Total	Principal	Interest	
2015	\$ 1,910	\$ 995	\$ 915	
2016	1,913	1,021	892	
2017	1,913	1,059	854	
2018	1,914	1,098	816	
2019	1,914	1,137	777	
2020-2024	9,563	6,442	3,121	
2025-2029	9,191	7,595	1,596	
2030-2031	3,329	3,227	102	
	<u>31,647</u>	<u>22,574</u>	<u>9,073</u>	
Plus: Unamortized bond premium	<u>505</u>	<u>505</u>	<u>-</u>	
Total	<u>\$ 32,152</u>	<u>\$ 23,079</u>	<u>\$ 9,073</u>	

The Regional Landfill Project Revenue Bonds, 2011 Series, were issued in connection with the construction of the Mid-shore II Landfill Facility. The bonds constitute special obligations of the Service and are payable solely from revenues (tipping fees and supplemental fees) from the project pledged by the Service under the bond indentures. Neither the State of Maryland, nor any political subdivision, nor the Service shall be obligated to pay the bonds or the interest thereon, except from such project revenue. In the event of any participating county's failure to pay any amounts required under the related Waste Service Agreement when due, the Service may accept Acceptable Waste generated outside the Mid-shore Counties. In addition, the State Intercept Provision Section 3-108(b) provides that if a Mid-shore fails to pay the Service within 60 days of the due date as established by contract, all State funds, or that portion of them required, relating to the income tax, the tax on racing, the recordation tax, the tax on amusements and the license tax which would otherwise be distributed to such Mid-shore County by the Comptroller of Maryland shall be paid directly to the Service.

The Maryland Environmental Service Water Quality Bond, Series 2011A, was issued in connection with the closure and capping of the Hobbs Road Landfill. The bond constitutes special obligations of the Service and are payable solely from revenues (tipping fees and supplemental fees) from the project pledged by the Service under the bond indentures. Neither the State of Maryland, nor any political subdivision, nor the Service shall be obligated to pay the bonds or the interest thereon, except from such project revenue. In the event of any participating county's failure to pay any amounts required under the related Waste Service Agreement when due, the Service may accept Acceptable Waste generated outside the Mid-shore Counties. In addition, the State Intercept Provision Section 3-108(b) provides that if a Mid-shore fails to pay the Service within 60 days of the due date as established by contract, all State funds, or that portion of them required, relating to the income tax, the tax on racing, the recordation tax, the tax on amusements and the license tax which would otherwise be distributed to such Mid-shore County by the Comptroller of Maryland shall be paid directly to the Service.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(7) Debt (In Thousands) (continued)

Midshore Regional Landfill: (continued)

The Regional Landfill Project Revenue Bond, 2014 Series, was issued in connection with the construction of a new landfill cell to increase the capacity of the Mid-shore II Regional Landfill. The bond constitutes a special obligation of the Service and is payable solely from revenues (tipping fees and supplemental fees) from the project pledged by the Service under Indenture of Trust. Neither the State of Maryland, nor any political subdivision, nor the Service shall be obligated to pay the bond or the interest thereon, except from such project revenues. In the event of any participating county's failure to pay any amounts required under the related Waste Disposal Service Agreement when due, the Service may accept Acceptable Waste generated outside the Mid-shore Counties. In addition, the State Intercept Provision, Md. NR Code Ann., Section 3-108(b), provides that if any local government fails to pay the Service within 60 days of the due date as established by contract, all State funds, or that portion of them required, relating to the income tax, the tax on racing, the recordation tax, the tax on amusements and the license tax which would otherwise be distributed to such local government, including a Mid-shore County, by the Comptroller of Maryland shall be paid directly to the Service.

The following table represents changes in long-term liabilities for the years ended June 30, 2014 and 2013 (in thousands):

Maryland Environmental Service:

2014	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advances from project participants	\$ 34,686	\$ 26,423	\$ (26,902)	\$ 34,207	\$ 34,207
Capitalized leases	6,038	-	(524)	5,514	550
Long-term debt	392	-	(38)	354	40
Workers' compensation	2,725	-	(30)	2,695	418
Long-term liabilities	<u>\$ 43,841</u>	<u>\$ 26,423</u>	<u>\$ (27,494)</u>	<u>\$ 42,770</u>	<u>\$ 35,215</u>

2013	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advances from project participants	\$ 24,628	\$ 42,077	\$ (32,019)	\$ 34,686	\$ 33,868
Capitalized leases	6,813	-	(775)	6,038	523
Long-term debt	428	-	(36)	392	38
Workers' compensation	2,642	83	-	2,725	422
Long-term liabilities	<u>\$ 34,511</u>	<u>\$ 42,160</u>	<u>\$ (32,830)</u>	<u>\$ 43,841</u>	<u>\$ 34,851</u>

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(7) Debt (In Thousands) (continued)

Midshore Regional Landfill :

2014	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term debt	\$ 19,325	\$ 4,500	\$ (746)	\$ 23,079	\$ 995
Landfill closure & post closure care	9,792	306	(280)	9,818	-
Long-term liabilities	<u>\$ 29,117</u>	<u>\$ 4,806</u>	<u>\$ (1,026)</u>	<u>\$ 32,897</u>	<u>\$ 995</u>

2013	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capitalized leases	\$ 234	\$ -	\$ (234)	\$ -	\$ -
Long-term debt	20,040	-	(715)	19,325	732
Landfill closure & post closure care	9,646	327	(181)	9,792	-
Long-term liabilities	<u>\$ 29,920</u>	<u>\$ 327</u>	<u>\$ (1,130)</u>	<u>\$ 29,117</u>	<u>\$ 732</u>

(8) Unrestricted Net Position

Total unrestricted net position as of June 30, 2014 and 2013, were as of follows:

	<u>2014</u>	<u>2013</u>
Total unrestricted net position	<u>\$ 11,945</u>	<u>\$ 10,552</u>

(a) Business Research and Development/Contingency

The Service has dedicated funds for the furtherance of its program development activities. These uses may include, but are not limited to: developing, supporting, researching, promoting, securing, providing and procuring goods and services for new and proposed projects, experiments, programs and facilities. Additionally, these funds are available for project contingencies.

(b) Equipment

The Service has dedicated funds to facilitate procurement and maintenance of equipment for itself and its clients. The Service charges the appropriate projects for the usage of equipment procured from this reserve and accumulates the costs applicable to that equipment. The operating results of this fund have been restricted for the future use of the fund.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(9) Accrued Workers' Compensation Costs

The accrued workers' compensation costs, applicable to the Service's coverage discussed in note 13, are recorded as a short-term and long-term liability. As these costs are recoverable under the Service's contracts, a receivable from project participants has been recorded to reflect the future funding of this liability.

(10) Pension

Employees of the Service who were members of the State Employees Retirement or Pension systems on June 30, 1993, continue to participate in the Employees' Retirement and Pension Systems. These systems are part of the Maryland State Retirement and Pension System (System), and are cost-sharing multiple employer public employee retirement systems. The System, which is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland, consists of several plans, which are managed by the Board of Trustees for the system. The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completion of five years of service. Members of the Retirement System may retire with full benefits after attaining the age of 60, or completing 30 years of Service Credit, regardless of age. Members of the Pension system may retire with full benefits after attaining the age of 62 or after completing 30 years of Service Credit, regardless of age. The State Employees Retirement and Pension System prepares a separately audited Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202.

Members of the Retirement System are required to contribute to the System either 7% or 5% of their regular salaries and wages depending upon the retirement option selected. Members of the Contributory Pension System are required to contribute to the System 7% of their regular salaries and wages. Employer contribution rates are determined by the State annually. The Service's share of the cost of participation was \$276 thousand and \$237 thousand, for the years ended June 30, 2014 and 2013, respectively.

All other employees of the Service participate in a Vanguard 401(k) Savings Plan. The plan requires the Service to contribute to the fund. The Service's share of the cost of participation for the years ended June 30, 2014 and 2013 were \$2,386 thousand and \$2,214 thousand, respectively. Employees are fully vested when eligible for the plan.

(11) Contingent Liabilities

The Service is involved in litigation arising from the normal course of its operations. In the opinion of management, the amount of liability, if any, resulting from the final resolution of these matters will not be material to the financial position of the Service.

On April 15, 2011, the Maryland Environmental Service issued \$1.5 million of Water Quality Bond, Series 2011B with the Maryland Water Quality Financing Administration (the Administration) in connection with the closure and capping of the Hobbs Road Landfill. Pursuant to the Clean Water Act, the Administration has forgiven the repayment of the principal amount and interest payment of the bond subject to MES continues to perform its other obligations under the agreement. Upon determination by the Administration that any of the other obligations under the agreement have been violated, payment of the principal and interest will be become due and payable on demand. The loan forgiveness has been recognized as capital grant income in the accompanying statement of changes in net position for the year ended June 30, 2012. As of June 30, 2014, management believes it is in compliance with its obligations and has not violated the agreement.

Maryland Environmental Service
Notes to Financial Statements
June 30, 2014 and 2013
(In thousands except where noted)

(12) Landfill Closure and Postclosure Care Costs

State and Federal laws require the Service to cover and to perform certain maintenance and monitoring functions at Midshore I, Easton Landfill, Midshore II and Hobbs Road Landfill sites for 30 years after closure. Although closure and postclosure care costs will be paid near or after the date the landfills stop accepting waste, the Service reports apportionment of these closure and post closure costs as a liability based upon the estimated useful life of the landfills.

Midshore I current cells are approximately 93% filled as of June 30, 2014. The landfill stopped accepting waste on December 31, 2010. Total closure and postclosure care costs for the landfill is currently estimated to be \$10,531 thousand, as determined through engineering studies and \$8,482 thousand and \$8,762 thousand has been recognized as a liability by the Service as of June 30, 2014 and 2013, respectively.

Midshore II current cells are approximately 9% filled as of June 30, 2014, with a remaining life of 39 years. Total closure and postclosure care costs for the landfill is currently estimated to be \$17,531 thousand, as determined through engineering studies, and \$1,336 thousand and \$1,030 thousand has been recognized as a liability by the Service as of June 30, 2014 and 2013, respectively. Costs may be subject to change due to inflation, deflation, technology, and changes in applicable laws and regulations.

Under Federal regulations, the Service satisfied its financial assurance requirements based upon local government financial ratio tests of the project participants as of June 30, 2013. The Service expects to satisfy these requirements as of June 30, 2014 using the same criteria.

The Service as an operator for various landfills throughout the State of Maryland and no liability is recognized in regards to landfill closure and postclosure costs related to these landfills because of the Service's limited role solely as an operator of these facilities.

(13) Risk Management

The Service 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 natural disasters. The Service participates in the State of Maryland's self-insurance program (the program). The program covers general liability, property and casualty, workers' compensation (see note 10), and environmental liabilities, and provides certain employee health benefits. The program allocates its cost of providing claims servicing and claims payments by charging a "premium" to the Service based on a percentage of estimated current payroll or based on average loss experience. The Service's premium for the years ended June 30, 2014 and 2013 were \$4,649 thousand and \$4,247 thousand, respectively.

Maryland Environmental Service
Required Supplemental Information for Other Post Employment Benefit Plan
June 30, 2014 and 2013
(In thousands except where noted)

Schedule of Funding Progress (1)
Other Post Employment Benefits
(In Thousands)

Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2013	\$ 1,702	\$ 3,399	\$ 1,698	50%	\$ 33,973	5.0%
July 1, 2011	1,111	2,995	1,884	37%	32,615	5.8%
July 1, 2009	-	3,015	3,015	-	34,152	8.8%

(1) The Service has chosen to have actuarial valuations performed bi-annually for purposes of calculating the actuarial accrued liability as allowed by GASB Statement No. 45.

Schedule of Employer Contributions
(In Thousands)
Other Post Employment Benefits

Years Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2014	\$ 232	\$ 308	133 %
2013	224	288	128
2012	224	271	120
2011	313	316	101



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
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 Board of Directors
Maryland Environmental Service

Report on the Financial Statements

We have audited in accordance with the auditing standards generally accepted in 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 basic financial statements of the Maryland Environmental Service (the Service) as of and for the year ended June 30, 2014, and have issued our report thereon dated September 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Service'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 the Service internal control. Accordingly, we do not express an opinion on the effectiveness of the Service internal control.

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

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



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Service'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 Service'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 Service's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunt Valley, Maryland
September 29, 2014

SB & Company, LLC



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