Maryland Environmental Service

MOVING FORWARD TO A NEW ERA

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Changing Maryland's Environment for the Better

CONTENTS

Maryland ENVIRONMENTAL SERVICE

WELCOME

I'm happy to report that it's been another incredible year for MES. Fiscal year 2021 was full of challenges and uncertainty as we navigated the ongoing impacts and evolving safety standards of the COVID-19 pandemic. MES staff continued to rise to these challenges and provided support to environmental projects for our many clients and partners throughout the State in areas such as water/wastewater; environmental monitoring; solid waste and recycling; dredging and restoration; and stormwater management.

Our team at MES consists primarily of essential employees who work on environmental projects that provide vital services to Maryland's citizens: safe drinking water; reliable waste management; clear shipping channels; critical inspections and monitoring; and so many other crucial tasks. These team members work in every county across the State and are dedicated and flexible - always ready to find solutions to environmental challenges big and small. I am proud to work alongside such an incredible team.

Despite the challenging year, MES took on new projects and achieved success for our partners because of our team's expertise, professionalism, and commitment. We remain a strong leader in every area of our business and will continue to open doors to new opportunities in FY22.

"MES team members work in every county across the State and are dedicated and flexible - always ready to find solutions to environmental challenges big and small. I am proud to work alongside such an incredible team."

OUR BOARD OF DIRECTORS

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

The Board of Directors are an asset to the agency and its critical work enhancing Maryland's environment. MES' 800+ teammates and the many stakeholders served across the Mid-Atlantic Region benefit from their expertise and ability to deliver strong financial leadership.

DR. CHARLES GLASS, EXECUTIVE DIRECTOR APPOINTED 6/29/20

JUDGE FREDERIC SMALKIN, CHAIR APPOINTED 9/17/20

DR. RICHARD P. STREETT, JR., SECRETARY SERVICE ENDED 8/21/20

LESLIE JACKSON JENKINS, ESQ., BOARD MEMBER SERVICE ENDED 11/1/20

JOSEPH F. SNEE, JR., ESQ., BOARD MEMBER SERVICE ENDED 6/30/21

WILLIAM B.C. ADDISON, JR., BOARD MEMBER SERVICE ENDED 8/27/20

SHELLEY L. HELLER, BOARD MEMBER CHAIR, AUDIT COMMITTEE APPOINTED 11/10/20

J.P. SMITH, JR., BOARD MEMBER SERVICE ENDED 6/30/21

MORGAN HALL, BOARD MEMBER SERVICE ENDED 6/30/21

Sunset on the Chesapeake Bay

WHO WE ARE

MES was established by the Maryland General Assembly in 1970 to assist with the preservation, improvement, and management of the quality of air, land, water, and natural resources, and to promote the health and welfare of the citizens of the State. MES employs over 800 teammates and operates more than 1,000 environmental projects across Maryland and the Mid-Atlantic region. As a non-budgeted instrumentality of the State of Maryland, MES provides multi-disciplinary environmental services to enhance and protect the environment through innovative solutions to the region's most complex environmental challenges.

OUR TEAM

Over 500 of the MES team members work on-site at essential environmental projects throughout the State of Maryland. During the COVID-19 pandemic, these staff members continued to provide the 24/7 service that many of our clients and partners require while meeting rigorous safety requirements with flexibility and commitment.

The other 200+ MES team members work at our headquarters, located in Millersville, MD. These teammates spent much of FY21 teleworking full-time while also continuing to meet the needs of MES' clients and partners.

Blue Heron on Poplar Island

Provided in Tuition Reimbursement

$130,171

Awarded through Inspire & All-Stars Programs

$5,990

Participated in Historically Black Colleges & Universities (HBCU) Virtual Career Fairs

4

Managers & Supervisors who attended Virtual Unconscious Bias Training

90+

Eastern Correctional Institution Ribbon-Cutting Ceremony

MES maintained continuous operations during the pandemic, which included remaining in compliance with regulatory requirements and employee trainings and certifications. The Safety and Environmental Compliance division helped monitor facilities and sites to assure implementation of COVID-19 preventative measures and education of employees on reducing the spread of the virus.

Safety Training Classes Provided

118

Safety Inspections Conducted

54

Environmental Compliance Audits Conducted

34

CPR/First Aid Classes Conducted

23

ENVIRONMENTAL DREDGING AND RESTORATION

Dredging at Lake Linganore

The Lake Linganore project - one of the largest lake dredging projects in the State in recent history - substantially reversed the effects of sediment build-up in the lake, restored water storage capacity in a vital water source for local residents, and improved recreational access for community members.

OUR COMMITMENT TO OUR CLIENTS AND PROJECTS

During the COVID pandemic in FY21, the Environmental Dredging and Restoration field teams provided our clients with uninterrupted services to ensure construction, dredging, and operations continued at Hart-Miller Island; the Cox Creek and Masonville dredged material containment facilities (DMCF); Poplar Island; Dundalk Marine Terminal; Hawkins Point; and Lake Linganore. FY21 was just one more example of MES' commitment to our clients and projects.

Pictured Right, Post-Panamax Cranes Arriving at the Seagirt Marine Terminal.

DREDGING PROJECTS

On behalf of the Maryland Department of Transportation Maryland Port Administration (MDOT MPA), MES completed the 400,000 cubic-yard Seagirt Berth 3 Project, which included planning, permitting, design, procurement, and construction oversight of the dredging of Seagirt Berth 3 with wideners and Seagirt Turning Basin to facilitate larger vessel access. This dredging work was done in coordination with landside improvements at the Seagirt Marine Terminal as part of a Better Utilizing Investments to Leverage Development grant to allow the private-industry partner to receive four new Post-Panamax cranes for the Seagirt Marine Terminal that arrived at the Port in September 2021. MES also facilitated maintenance dredging in front of the berths at South Locust Point to respond to an urgent need by MDOT MPA.

MES successfully completed dredging of approximately 150,000 cubic yards of sediment from Lake Linganore, a 209-acre lake located in central Frederick County. Working with partners from the City of Frederick, Frederick County, and the Lake Linganore Association, along with subcontractors Anchor QEA and Mobile Dredging and Video Pipe, Inc., MES managed all stages of this project, from the alternatives analysis and design to permitting, procurement, and construction. This project - one of the largest lake dredging projects in the State in recent history - substantially reversed the effects of sediment build-up in the lake, restored water storage capacity in a vital water source for local residents, and improved recreational access for community members, while also innovatively reusing the dredged material as landfill cover material for Frederick County.

Cox Creek Operation and Management Complex

COX CREEK

MES continued to successfully manage the ongoing group of projects making up the expansion of the Cox Creek DMCF on behalf of our client, MDOT MPA. Three contracts - the Security System Poles, the Security System, and the Borrow Area Excavation and Base Dike Widening - were completed in FY21. A contract for raising the dikes to elevation +60' Mean Lower Low Water (MLLW) was competitively bid and awarded with construction to be completed in the 2024 calendar year. The expansion of the facility will help to provide the storage capacity needed for MDOT MPA to meet the needs of their 20-year capacity plan.

MES also supported MDOT MPA's Innovative Reuse and Beneficial Use of Dredged Material program with technical, operations, sampling, and outreach services associated with the Ridgley's Cove demonstration project. The Ridgley's Cove demonstration project is part of mitigation for a new Topgolf facility in Baltimore City. 22,000 cubic yards (cy) of material from Cox Creek was provided as remedial capping material that included 14,000 cy of dredged material blended with 8,000 cy of on-site borrow material.

ENVIRONMENTAL DREDGING AND RESTORATION

James Island

The James Island project will restore over 2,000 acres of lost remote-island habitat to support a diverse array of wildlife.

MASONVILLE

MES began preparations to widen the existing dike within the interior of the DMCF, which will form the base for the next phase of dike raising, increasing storage capacity at the facility and allowing MDOT MPA to continue to meet long term Harbor dredging needs and capacity requirements. To facilitate future dike-raising phases of the Masonville DMCF, MES designed a floating weir intake system utilizing a pumped system to provide discharge in a cost-effective manner as dike elevations are increased to the eventual final elevation of +42 MLLW. This system is necessary based upon the need to decommission the existing spillway pipes through the current dikes, which were completed in January 2020.

As part of the mitigation package required for the permit to construct the Masonville DMCF, MDOT MPA provided funding for the construction of a fourth trash wheel, Gwynnda the Good Wheel of the West, located at the mouth of the Gwynns Falls just before the stream enters the Middle Branch of the Patapsco River. The trash wheel was installed in July 2021 and will be operated and maintained by the Baltimore Waterfront Partnership as part of the Healthy Harbor program. Gwynnda is anticipated to divert up to 65% of trash entering the Harbor.

POPLAR AND MID-BAY ISLANDS

MES provided support to MDOT MPA and the U.S. Army Corps of Engineers (USACE) for the expansion of the Paul S. Sarbanes Ecosystem Restoration Project at Poplar Island which was completed in FY21. The first inflow of dredged material into the expansion cells began in April 2021 and was completed in late summer.

The Mid-Bay Island Ecosystem Restoration project, jointly sponsored by the MDOT MPA and USACE Baltimore District, will be the focus for future capacity after the completion of the Poplar Island project. The Mid-Bay project's purpose is to protect and restore aquatic, intertidal wetland, and upland habitat for fish and wildlife at both James and Barren Islands, utilizing dredged material from the Maryland Chesapeake Bay navigation channels. The Barren Island portion of the project will restore a minimum of 72 acres of remote-island habitat, including wetlands, protective sills, and breakwaters. The James Island restoration will restore over 2,000 acres of lost remote-island habitat to support a diverse array of wildlife. The geotechnical borings necessary for design were completed in early 2021, and MES subcontractors completed a majority of the environmental and natural resource studies in FY21, which will be utilized to update National Environmental Policy Act (NEPA) documents for the project. Completion of all remaining surveys and the accompanying summary reports will occur in early FY22. Following design and permitting, construction activities are estimated to begin at Barren Island in 2022 and at James Island in 2024 and will accommodate an estimated 90-95 million cubic yards of dredged sediment, providing a minimum of 30 years of dredged material capacity.

Gwynnda the Good Wheel of the West Trash Wheel

Restoration of Ridgley's Cove

Paul S. Sarbanes Ecosystem Restoration Project at Poplar Island

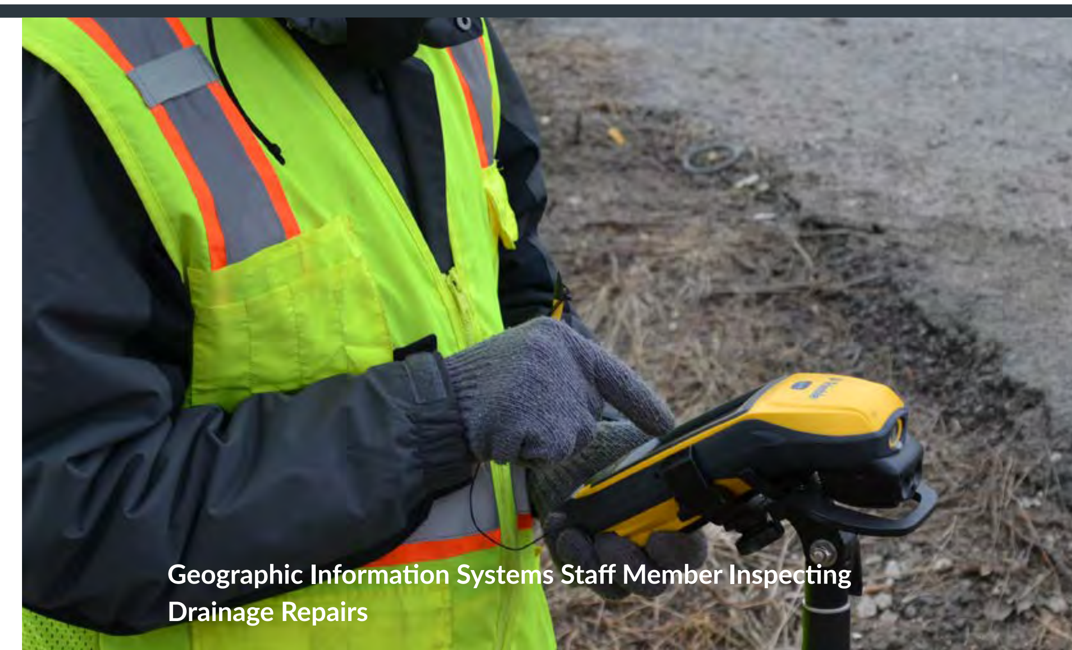
CONOWINGO PILOT PROJECT

MES continued to provide environmental, engineering, and outreach services for the Maryland Department of the Environment (MDE) on the Conowingo Sediment Characterization and Innovative Reuse and Beneficial Use Pilot Project. The project includes both a sediment characterization and a pilot removal/dredging project of up to 1,000 cubic yards of sediment from the Susquehanna River upstream of the Conowingo Dam, along with innovative reuse and/or beneficial reuse of the dredged material. MES performed agency coordination, prepared and submitted non-tidal wetland permits for sediment sampling and dredging, and successfully negotiated a Right of Entry Agreement with Exelon, which allowed sediment sampling and analysis to be performed in the fall/winter of 2020. The Final Sediment and Characterization Report was completed at the end of FY21. MES applied in coordination with Exelon and received approval from the Federal Energy Regulatory Commission for the dredging and innovative reuse/beneficial reuse of the material to occur in the fall of 2021. The completion of this project will allow the State to assess potential solutions for reducing the nitrogen, phosphorus, and sediment inputs to the Chesapeake Bay from the accumulated sediments within the Maryland portion of the Susquehanna River upstream of the Conowingo Dam.

Conowingo Pilot Project

TECHNICAL AND ENVIRONMENTAL SERVICES

The MES Technical and Environmental Services Group supports our partners by providing multi-disciplinary environmental planning, environmental monitoring, environmental systems maintenance, geospatial, and engineering and renewable services throughout the Chesapeake Bay Watershed. Our project teams are involved in the full project life cycle, from planning to permitting, inspection and monitoring, reporting, through to operating and maintaining.



Geographic Information Systems Staff Member Inspecting Drainage Repairs

WORKING TOGETHER TO FUND A MORE RESILIENT MARYLAND

Although it is a common theme to accomplish more with less funding available, FY21 posed unique challenges as many government partners had to cut back on budgets and focus resources in response to COVID-19. Environmental compliance requirements and project needs did not go away. The response of the Technical and Environmental Services Group was to find potential grant funding to help offset some of the cost of the environmental needs of our partners.

In FY21 our GeoSpatial and Engineering Services Division was able to leverage over $2 million in federal grant funding toward the execution of projects for the Maryland Department of the Environment, the Maryland Department of Natural Resources, the Maryland Emergency Management Agency, and the Delaware Department of Transportation. Grant funds also supported projects for floodplain mapping and nuisance flooding projects in local jurisdictions such as Charles County, Baltimore County, and Montgomery County.

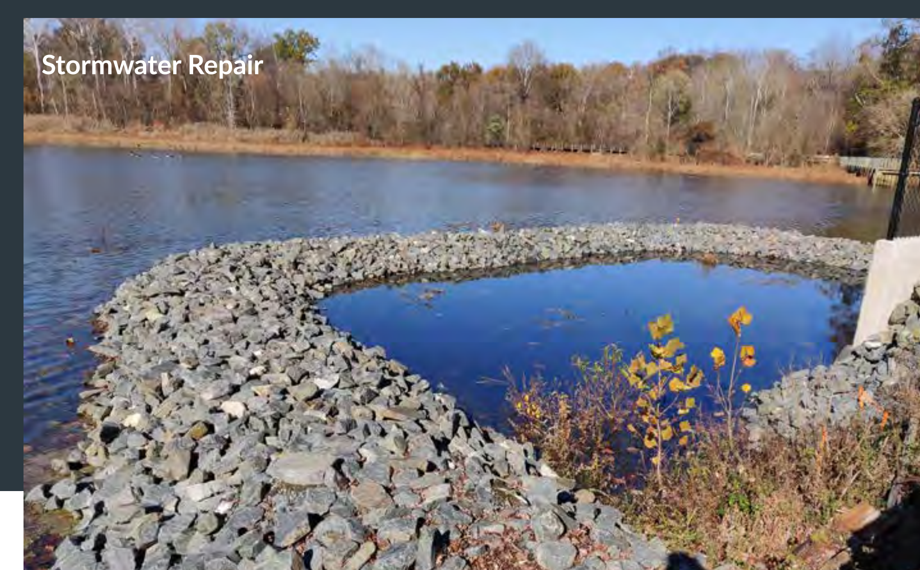
ACHIEVING SUSTAINABLE INFRASTRUCTURE

MES routinely partners with the Maryland Department of Transportation (MDOT) and its Transportation Business Units to minimize “adverse impacts from its activities, products, and services,” and to integrate “an ethic of sustainability” into “transportation planning, design, construction, and day-to-day operations” (MDOT Environmental Policy Statement). This partnership typically results in both mandated environmental compliance and achievement of environmental leadership.

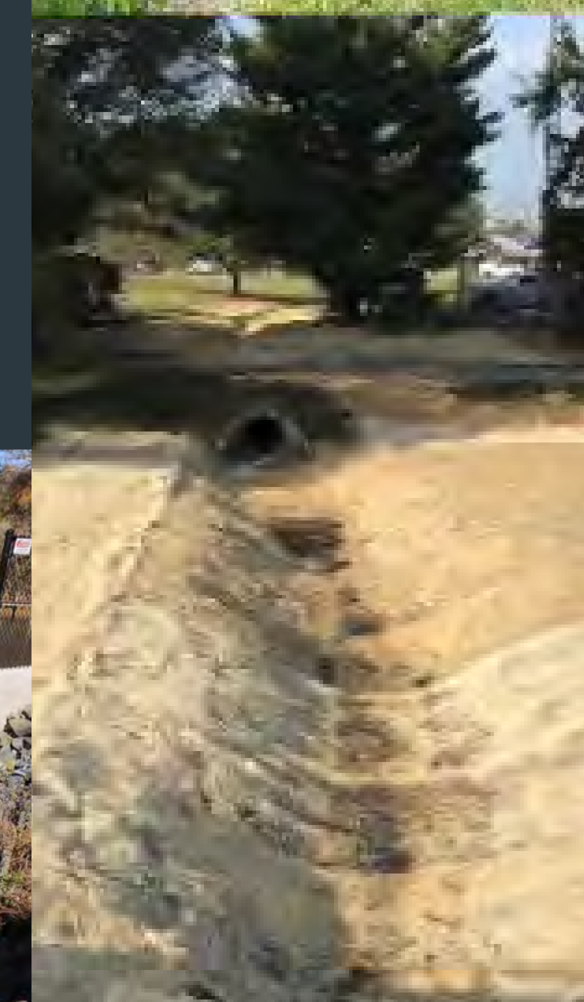
Pictured Above, Technical and Environmental Services Surveyor

During FY21, the MDOT Maryland Transit Administration (MDOT MTA) was recognized at the Maryland Quality Initiative’s annual conference (MdQI). The Northwest Bus Wash Water Reclamation project won the MdQI Green/Sustainability/Environmental Award and, also the MdQI MDOT MTA Modal Award for a project under $5 million. MES is proud to support MTA’s efforts by providing staff to perform energy reviews and input on the schematic study that was used to implement the design.

MES also expanded services to MDOT State Highway Administration (MDOT SHA) during the last fiscal year. At the request of MDOT SHA, MES expanded the scope of emergency drainage repairs for SHA District 3 to also include Districts 4, 5, and 7. This allows MDOT SHA quick access to MES for emergency drainage repairs that pose a potential impact to the safety of the public.



Stormwater Repair



TECHNICAL AND ENVIRONMENTAL SERVICES

Stormwater Inspection at BWI Airport

OPEN FOR BUSINESS

MES provides environmental compliance and environmental systems maintenance support to the Maryland Aviation Administration (MAA) and private vendors operating at the BWI Thurgood Marshall Airport (BWI). While passenger traffic slowed initially during FY21 due to the pandemic, freight and cargo operations showed no signs of slowing and the MES Environmental Monitoring Division was there to help maintain environmentally responsible operations in all weather conditions.

As part of these efforts, MES staff collected over 2.3 million gallons of waste deicing fluid at BWI during the 2020–2021 deicing season, keeping the fluid from reaching nearby streams. In addition, 132,500 gallons of high concentration fluid was collected and recycled. Recycling of the high concentrate fluid (fluid containing 5%-35% glycol) helps reduce overall program cost for the MAA and reduces the chemical and energy cost necessary to treat this additional amount of fluid.

Renewable Energy Solar Field

Gallons of Fluid Collected & Recycled at BWI

132.5K

Gallons of Waste Deicing Fluid Collected at BWI

2.3M

Deicing at BWI Airport

MAINTAINING A BRIGHT FUTURE FOR RENEWABLE ENERGY

During the 2009 Legislative Session, MES' charter was updated to allow for assistance to State, counties, and municipalities with the planning, designing, and construction of renewable energy projects, as well as the production, generation, or distribution of energy from a renewable or other energy source. During FY21, the MES team helped support several significant efforts to advance implementation of renewable energy within the State of Maryland.

MES partnered with Hagerstown Community College to solicit firms for development of on-campus renewable energy such as canopy solar. MES worked with the community college to put out a request for proposals based on the previous renewable energy feasibility study completed by MES, which documented a potential reduction of 94 tons of carbon dioxide annually, 169 kilograms of nitrogen dioxide annually, and 470 kilograms of sulfur dioxide annually.

MES also continued to support the Maryland Energy Administration by implementing and assessing energy policy impacts at the State level. Technical support services included solar consulting and technical services for implementation of rooftop solar on public buildings, and evaluation of the fixed resource required by the Federal Energy Regulatory Commission.

ENVIRONMENTAL OPERATIONS

The MES Environmental Operations Group serves counties, large municipalities, and rural communities which need creative solutions for solid waste challenges and recycling services. We strive to provide our partners and clients with cost-effective and environmentally-responsible solutions such as award-winning landfills; recycling centers that serve millions of Maryland citizens; and composting facilities that turn yard, leaf, and food waste into marketable products such as the widely popular Leafgro® and Leafgro GOLD®. Additionally, we work with the Department of Public Safety and Correctional Services operating an electric generation facility, supplying steam and electricity to a State prison. We assist the Maryland Department of the Environment with used oil and antifreeze collection and operate a mobile chlorofluorocarbon recovery unit and mobile grinding units to service clients. We also work with the Maryland Department of Aging to take what would be discarded durable medical equipment (i.e., would have ended up in a landfill) and refurbish, recycle, and commission it for reuse.

MES operates Prince George's County's 12-bunker food waste compost system to produce Leafgro GOLD®. In FY21, the team processed over 18,000 tons of food waste, thereby diverting material that would have otherwise been landfilled.

Prince George's County Organics Composting Facility.

INNOVATIVE SOLID WASTE MANAGEMENT OPERATIONS

MES is a leader in solid-waste management operations in the state of Maryland. We have the experience and skill to operate large-scale, diversified, and integrated solid waste management systems. We operate a regional landfill for the upper Eastern Shore (Kent, Queen Anne's Talbot, and Caroline Counties). We manage Montgomery County's Dual-Stream Recycling Operations; its state-of-the-art leaf- and yard-waste composting operations; and its program to collect solid waste at County bus stops. Additionally, we fully operate Harford County's solid waste management operations, including engineering, composting, recycling, litter control, and the management of the County's homeowner collection facilities.

In 2021, MES continued its partnership with Prince George's County, serving as general contractor to the Prince George's County Department of the Environment, Resource Recovery Division. Through this unique 5-year agreement, which began in 2020, MES manages consulting and service contracts related to capital improvement projects, and regulatory compliance at multiple facilities, including the Brown Station Road Sanitary Landfill, Sandy Hill Landfill, the Materials Recycling Facility, the Prince George's County Organics Composting Facility, and the residential convenience centers.

Brown Station Road Leachate Pretreatment Facility

Prince George's County Materials Recycling Facility

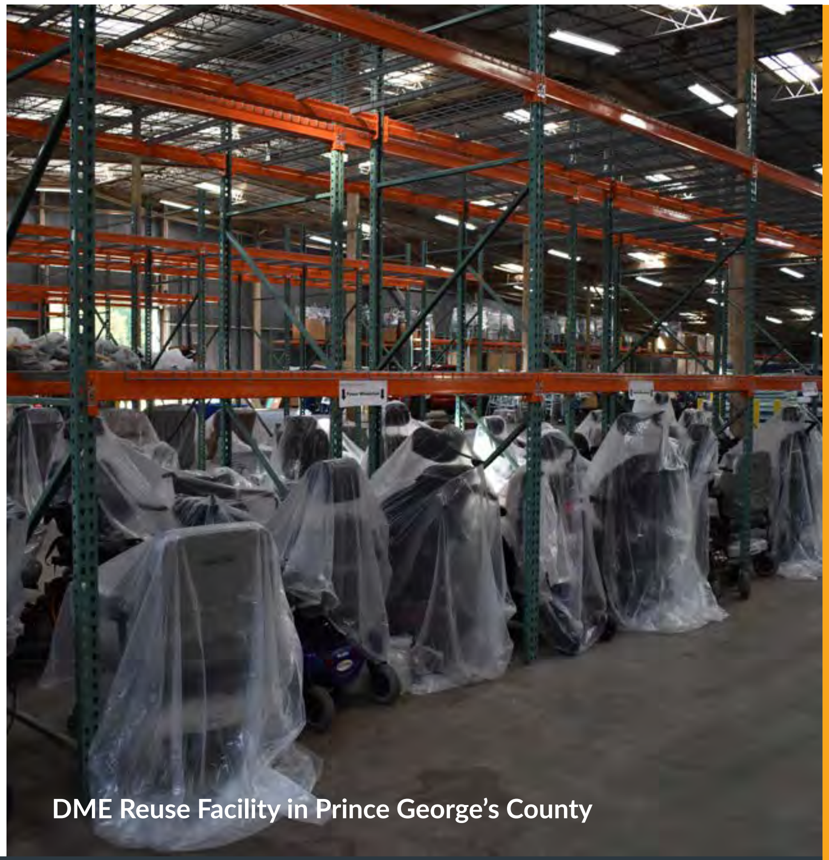
STATE-OF-THE-ART COMPOSTING

MES operates Prince George's County's 12-bunker food waste compost system to produce Leafgro GOLD®. In FY21, the team processed over 18,000 tons of food waste, thereby diverting material that would have otherwise been landfilled.

Over the past year, MES also helped long-time partner, Montgomery County kick off its Commercial Food Scraps Recycling Partnership Program. Since the kickoff, the County has signed up 17 commercial partners and recycled a combined 259.5 tons of food scraps. Those food scraps are then sent to the Prince George's County Organics Compost Facility. In addition to the food waste composting system at Prince George's County, MES also operates leaf and yard waste composting operations for Prince George's, Harford, and Montgomery Counties. In 2021, the team processed 186,794 tons of organic material, producing high quality compost and wood mulch. These are sold commercially (and typically sell out) throughout the Mid-Atlantic region. The Prince George's and Montgomery County Facilities produce the popular Leafgro® compost, while Prince George's County also produces food-waste-derived Leafgro GOLD® compost.

RECYCLING WITH COMPASSION

In partnership with the Maryland Department of Aging (MDoA), our group helped plan and open a unique Durable Medical Equipment (DME) Reuse Program for Maryland residents. MES staff collects DME from donation centers throughout the state and brings the items to the DME Reuse facility in Prince George's County. At the facility, MES staff inspects, cleans and repairs the DME, readying it for distribution by MDoA at their partner facilities throughout Maryland. During the first ten months of operation, this program has recycled more than 3,700 individual items, saving landfill space and resources. In this short time period, we have collected 847 wheelchairs, 374 hospital beds, 227 power wheelchairs, and 99 patient lifts. In FY22, the DME Reuse program looks forward to increasing collections and distribution throughout the state. This service will improve the quality of life for many Maryland residents, regardless of age, income, or location.



DME Reuse Facility in Prince George's County

847
Wheelchairs Collected

374
Hospital Beds Collected

227
Power Wheelchairs Collected

99
Patient Lifts Collected

Pounds of Food Waste Composted	36,486,000
Tons of Recyclables Returned to the Market	140,470
Gallons of Used Oil Recycled	446,177
Number of CFC Units Serviced	28,434
Megawatts of Electricity Generated from Biomass	12,772 enough to power 1,200 homes per year
Gallons of Antifreeze Recycled	31,328

DME Reuse Facility in Prince George's County

WATER AND WASTEWATER SERVICES

Water Treatment Plant in Frostburg, MD

The MES Water and Wastewater Group operates and maintains municipal, county, and privately-owned facilities, as well as State-owned plants at correctional and health facilities, rest areas, and State parks. MES also provides services in areas that do not have access to public water and sewer. Our engineering staff manage the design and construction of capital improvement projects and other public works projects. We help clients determine their water and wastewater needs, assist in selecting the right size facility, the right technology and equipment, prepare specifications, and oversee the construction of new plants.

The biosolids staff work to ensure environmentally acceptable, reliable, and cost-effective methods are used to manage the solid material generated by MES' numerous wastewater treatment plants. Water/Wastewater Treatment Plant (WWTP) Operators, as essential frontline workers, continued to report to their assigned facilities during the pandemic, ensuring essential services for the citizens of Maryland and protecting Maryland's waterways.

FAIR HILL WATER TREATMENT PLANT, DISTRIBUTION SYSTEM, AND WATER STORAGE TANK UPGRADE

The Fair Hill Natural Resources Management Area (NRMA) needed to be updated to provide a new racetrack and equestrian facilities which would allow the State to host 4- and 5-star international events such as Olympic equestrian trials. To accommodate the new facilities, MES had to design and construct a new water treatment plant, water distribution system, and water storage tank, which were needed to replace outdated utilities and provide a reliable source of potable water and fire protection for the NRMA and planned equestrian events.

Pictured Right; Fair Hill Water Treatment Plant and Equestrian Facilities

Dorsey Road Advanced WWTP

Water and Wastewater Facilities Maintained by MES	144 W 89 WW
Gallons of Drinking Water Treated	1.8 Billion
Gallons of Wastewater Treated	6.7 Billion

VALUE-ADDED ENGINEERING SERVICES FOR OUR CLIENTS

The MES Water/Wastewater Engineering Division provides water and wastewater utility support services to the Departments of Natural Resources, Public Safety and Correctional Services, Juvenile Services, Health, Veterans Affairs, and Maryland Military. The Division is responsible for coordination with the agencies to ensure their water and wastewater systems meet agency needs and are compliant with environmental regulations.

MES staff maintain the State Water and Wastewater Utility Master Plan, which is updated every 2-3 years to reflect changes in regulations, population, or use changes at State facilities. The Engineering staff visit facilities throughout the state to talk to Operations staff about their systems; issues or difficulties they may be having with equipment; and possibilities to accommodate expansion or permit changes. They review the laboratory data and note any trends that might predict future compliance permit violations. The entire staff then develop a multi-year capital improvements plan and shares it with the Capital Budget Analyst from the Department of Budget and Management. This prioritized list then becomes the MES Five-Year Plan in the annual Capital Budget Request.

In FY21, MES received an appropriation of total $12,591,657 for 11 projects.

Ribbon Cutting at the Eastern Correctional Institution

EXPANSION AND UPGRADE OF THE ECI WWTP

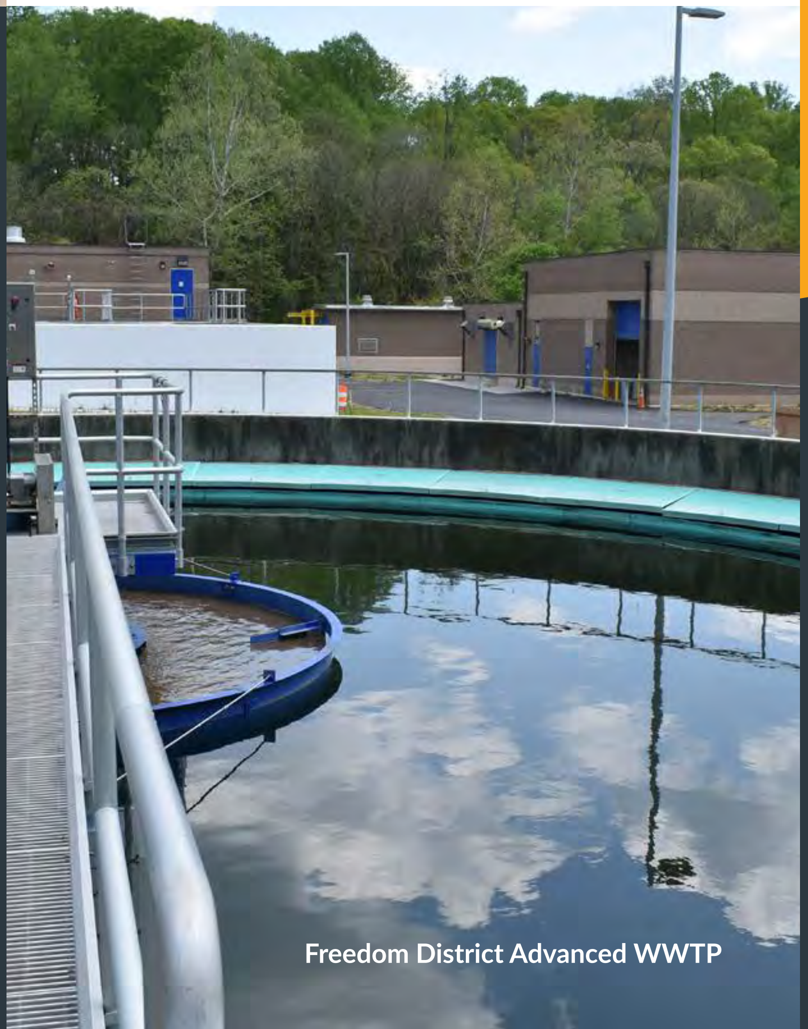
The upgrade to the wastewater plant at Eastern Correctional Institution included the expansion of the WWTP from 0.48 million gallons per day to 0.9 million gallons per day to nearly double the capacity. MES was issued a very stringent discharge permit, which requires treatment beyond enhanced nutrient removal limits. To meet these discharge limits required construction of a new membrane bioreactor wastewater treatment plant, a deep bed filtration facility, a ballasted flocculation CoMag® System, and improvement of the UV disinfection system. Also included in the upgrade were a new administrative and laboratory building, office, control and maintenance buildings, and integration of a new Supervisory Control and Data Acquisition system. The new WWTP is now capable of meeting better-than Enhanced Nutrient Removal treatment parameters and will be operating under one of the most stringent permits issued by the State.

MAKING "THE ROUNDS" TO PROVIDE COST EFFECTIVE SERVICES

Some of MES' clients own small, unattended facilities that do not require 24- or 8-hour per day attendance. While these facilities are monitored remotely for emergencies, they still require periodic, in-person visits by trained MES operators. These "circuit riders," who are not assigned to one location, make their rounds to small facilities every day, allowing MES to provide reliable and cost-effective service to our clients.

KEEPING THE WATER FLOWING

Maintenance of water distribution and sewerage collection are also included with the Water and Wastewater Group's responsibilities. During the afternoon of February 2, 2021, there was a water main break in the distribution system serving the Rocky Gap Casino and Lodge. MES was immediately on the site to locate and repair the leak. Backup systems allowed the casino and lodge to operate with no service interruptions while the repairs were made during the 20-degree weather.



Freedom District Advanced WWTP

BENEFICIAL USE OF THE LEFTOVERS

Water and wastewater facilities operated or supervised by MES generated approximately 30,000 wet tons (3,300 dry tons) of sludge in FY21. Approximately 52% of the material generated in 2021 was beneficially reused, primarily as recycled tonnage that was land applied in Virginia. This mirrors the beneficial reuse rate on a national basis, which is approximately 55%.

Two MES staff members provide daily technical support for 66 facilities. This support includes regulatory permitting and reporting, compliance monitoring, and sludge hauler contract management. The MES staff manage over 198 permits (MDE Sewage Sludge Utilization Permits, pretreatment permits issued by local governments, and others). MES also prepares nutrient management plans for a few land application sites and wastewater spray irrigation fields.

Trucked sludge and other wastes from smaller, satellite facilities are transported to MES-operated regional sludge facilities. MES accepted over 4 million gallons of liquid sludge, landfill leachate, and holding tank wastes at our regional facilities in FY21.

The Water and Wastewater Group provides capital planning for solids processing and treatment, having supported the development of a Master Biosolids Plan. The goal of this planning effort is the long-term implementation of new technologies leading to the production of better quality biosolids for beneficial reuse.

PROVIDING BIOSOLIDS SERVICES TO LOCAL UTILITIES

DC Water's Blue Plains Advanced WWTP and four of Washington Suburban Sanitary Commission's (WSSC) treatment plants produce a treated biosolids material that is land applied by contractors to various agricultural, forestry, and reclamation sites. MES employs a staff of five field inspectors who institute a unique, third-party independent field monitoring program at these land application sites. The goal of the inspection program is to provide an additional layer of compliance oversight of the contractors' activities. We also provide other ancillary services, such as groundwater monitoring of former sludge disposal sites, and a minor public outreach task at an annual agricultural fair in Virginia.

DC Water's Blue Plains Advanced WWTP

Maryland ENVIRONMENTAL SERVICE

259 Najoles Road
Millersville, MD 21108

(A Component Unit of the State of Maryland)

Financial Statements and Reports Required
for Audits Performed in Accordance with
Government Auditing Standards

Fiscal Years Ended June 30, 2021 and 2020

(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

Board of Directors
Maryland Environmental Service

Report on the Financial Statements
We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Maryland Environmental Service (the Service), a component unit of the State of Maryland, as of and for the year ended June 30, 2021 and 2020, 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
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 (GAAP); this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Service'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.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

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Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Maryland Environmental Service as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that *management's discussion and analysis, schedule of changes in net OPEB liability and related ratios, schedule of employer contributions OPEB, schedule of proportionate share of net pension liability, and schedule of required employer pension plan contributions*, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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.

RSM US LLP

Gaithersburg, Maryland
December 9, 2021

Maryland Environmental Service
Management's Discussion and Analysis (unaudited)
June 30, 2021
(In thousands except where noted)

As the management of the Maryland Environmental Service (MES or the Service) we offer the following narrative overview and analysis of the financial activities of the Service for the fiscal years ended June 30, 2021 and 2020. This unaudited management discussion and analysis should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

The 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 three basic groups: Administration, Environmental Operations (recycling and solid waste services), and Environmental Services. The Environmental Services group includes water and wastewater, dredging and environmental monitoring services. The Service also accounts for operations of the Midshore Regional Landfills (Midshore).

Financial Highlights

The Service continues with another year of solid financial performance due to continuing and adding additional projects across the State of Maryland.

- The Service completed the Lake Linganore Dredging Project which started in 2019. The project included dredging of approximately 150,000 cubic yards of sediment from the 209-acre lake located in Central Frederick County. MES managed all stages of this project from the alternatives analysis and design to permitting, procurement and construction. This project, one of the largest lake dredging projects in the state in recent history, substantially reversed the effects of sediment build-up in the lake, restored water storage capacity in a vital water source for local residents, and improved recreational access for community members, while also innovatively reusing the dredged material as landfill cover material for Frederick County.

- The Service completed the Seagirt Berth 3 Project, for the Maryland Department of Transportation (MDOT) Maryland Port Administration (MPA), including planning, permitting, design, procurement, and construction oversight for the 400,000 cubic yard dredging project. This work was done in coordination with landside improvements at the Seagirt Marine Terminal as part of a Better Utilizing Investments to Leverage Development (BUILD) grant to allow the private industry partner to receive four new Post-Panamax cranes for the Seagirt Marine Terminal.

- Continued project planning, engineering, geotechnical, and environmental support for the pre-construction engineering and design phase on the MDOT MPA and U.S. Army Corps of Engineers jointly sponsored Mid-Bay Island Ecosystem Restoration project, which began in 2019. The project's purpose is to protect and restore aquatic, intertidal wetland, and upland habitat for fish and wildlife at both James and Barren Islands utilizing dredged material from the Maryland Chesapeake Bay navigation channels. During fiscal year (FY) 2021, MES subcontractors completed the geotechnical borings and a majority of the environmental and natural resource studies. The Service submitted the Joint Permit Application for the Barren Island portion of the Mid-Bay Project in the last quarter of FY 2021. Following design and permitting, construction activities are estimated to begin at Barren Island in 2022, and at James Island in 2024.

- Continued administration of MDOT MPA's Dray Truck Replacement Program, Dollars for Drays. The program helps truck owners pay for new trucks and remove older diesel models from service. Qualifying truck owner-operators and fleet owners are offered a rebate of 50% (up to a maximum of $30,000) toward the cost of a newer, cleaner truck. Grant funding is provided by the U.S. Environmental Protection Agency's Diesel Emissions Reduction Act Program, and from Maryland's Volkswagen mitigation agreement in coordination with the Maryland Department of the Environment. The program had another successful year, replacing nearly 40 trucks in FY 2021.

- A major equipment upgrade for the Prince George's material recovery facility (MRF) Capital Project. This project included the addition of high-tech optical sorters, which allow sorting by higher commodity value resin type instead of the lower value mixed plastic resin that had been previously produced at the facility.

- The Service expanded the Engineering and Contract Management Services provided to the Prince George's County Department of the Environment. The Service manages consulting and service contracts required to support ongoing operations and capital projects at multiple facilities including the Brown Station Road Sanitary Landfill (BSRSL), Sandy Hill Landfill (SHL), and convenience centers. The Service continued design and permitting work on the important BSRSL Area C Infill project that is expected to add over 50 years of additional landfill capacity to the County, procuring and managing landfill gas, groundwater, and leachate hauling services at BSRSL and SHL. Among other projects, The Service initiated design efforts to upgrade the leachate pre-treatment facility and water distribution line at the BSRSL, contracted the repairs of the perimeter fence at SHL, and began scoping the replacement of a storage barn.

- In partnership with the Maryland Department of Aging (MDoA) The Service opened the Durable Medical Equipment (DME) Refurbishment Center. This program collects DME from collection facilities throughout the state. The equipment is returned to the DME facility where it is cleaned and repaired, then distributed via MDoA to Maryland residents.

- The Service signed an agreement expanding stormwater emergency repair services for Maryland Department of Transportation State Highway Administration. The memorandum of understanding (MOU) modification expands services from District 3 to also include Districts 4, 5 and 7.

- The Service also continued to expand geographic information system (GIS) service offerings to include such projects as development of the Climate Ready Action Boundary (CRAB) in support of the Maryland Coast Smart Council. This mapping effort helps to identify and mitigate future flood risk to the State's existing infrastructure.

Overview of Financial Statements

The basic financial statement for the Service and Midshore are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The Service's financial statements are reported as a special purpose business-type entity. This report includes three basic financial statements: the statement of net position; the statement of revenue, expenses and changes in net position; and the statement of cash flows for each major enterprise fund.

The condensed statements of net position present the financial position of the service as of June 30, 2021, 2020, and 2019. They provide information about the nature and the amount of resources (assets), plus deferred outflows (as applicable), obligations (liabilities), plus deferred inflows (as applicable) and net position.

The statements of revenue, expenses and changes in net position present the changes in net position over the course of the years ended June 30, 2021, 2020, 2019. The change in net position may be useful in assessing whether the financial position improved or deteriorated for the year.

The statements of cash flows present the cash activities segregated by four major cash flow categories; operating activities, noncapital financing activities, capital and related financing activities, and investing activities. These statements may be useful in determining the changes in liquidity and in understanding how cash and cash equivalents were used during the years ended June 30, 2021, 2020, 2019.

Fiduciary Fund

Fiduciary funds are used to account for resources held for the benefit of parties outside the Service. These activities are excluded from the business-type activities because the resources of these funds are restricted and cannot be used to finance the Service's operations. The Service's fiduciary funds include the OPEB Trust Fund.

The fiduciary activities are reported in the Other Postemployment Benefit Plan Statements of Plan Net Position and the Statements of Changes in Plan Net Position.

- The Statements of Plan Net Position present a point-in-time snapshot of the amounts the other postemployment benefit (OPEB) plan has accumulated in net position to pay for future benefits and any liabilities that are owed as of the date of the statements.

- The Statements of Changes in Plan Net Position present the additions and deductions for the fiscal years. Major sources of additions are contributions and net investment income. Major sources of deductions include benefit payments. These statements present how the net position changed from the prior fiscal year.

The fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements can be found on pages 18-50 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the Service's defined benefit pension plan and OPEB plan for its employees.

The required supplementary information can be found on pages 51-53 of this report.

Financial Analysis

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 year ended June 30, 2021, with 2020 and 2019 for comparative purposes. 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 tables present condensed financial information about the Service and Midshore's net position as of June 30.

Maryland Environmental Service:

Condensed Statement of Net Position
(Expressed in Thousands)

	2021	2020	2019
Current and other assets	$ 83,874	$ 81,987	$ 72,429
Capital assets	16,249	17,753	18,386
Total assets	100,123	99,740	90,815
Deferred Outflows related to Pensions and OPEB	1,190	1,374	952
Current and long-term debt and capital leases	1,359	1,827	2,232
Other liabilities	67,356	67,307	58,475
Total liabilities	68,715	69,134	60,707
Deferred Inflows related to Pensions and OPEB	2,114	1,496	1,303
Net position:			
Net investment in capital assets	14,891	15,926	16,154
Restricted	122	122	252
Unrestricted	15,471	14,436	13,351
Total net position	$ 30,484	$ 30,484	$ 29,757

Midshore Regional Landfill:

Condensed Statement of Net Position
(Expressed in Thousands)

	2021	2020	2019
Current and other assets	$ 16,190	$ 15,869	$ 18,569
Capital assets	30,510	31,253	29,401
Total assets	46,700	47,122	47,970
Current and long-term debt and capital leases	23,208	24,963	26,758
Other liabilities	8,493	7,940	7,261
Total liabilities	31,701	32,903	34,019
Deferred inflows related to debt refunding	215	-	-
Net position:			
Net investment in capital assets	7,866	8,068	8,149
Restricted	1,630	1,629	1,606
Unrestricted	5,288	4,522	4,196
Total net position	$ 14,784	$ 14,219	$ 13,951

The statements of net position present the financial position of the Service. Net position represents the difference between the amount of resources (assets), plus deferred outflows (as applicable), obligations (liabilities), plus deferred inflows (as applicable) and net position. Over time, increases and decreases in net position provide an indicator of improving or deteriorating financial position.

Total net position for the Service increased $0 in 2021. Net investment in capital assets decreased $1,035 from the net of depreciation, acquisition of equipment, and payment of debt. The remaining components, restricted and unrestricted net position of $15,593, represent funds available for future expenditures.

Total net position for the Service increased $727 in 2020, which is related to the excess of revenue over expenses. Net investment in capital assets decreased $228 from the net of depreciation, acquisition of equipment, and payment of debt. The remaining components, restricted and unrestricted net position of $14,558, represent funds available for future expenditures.

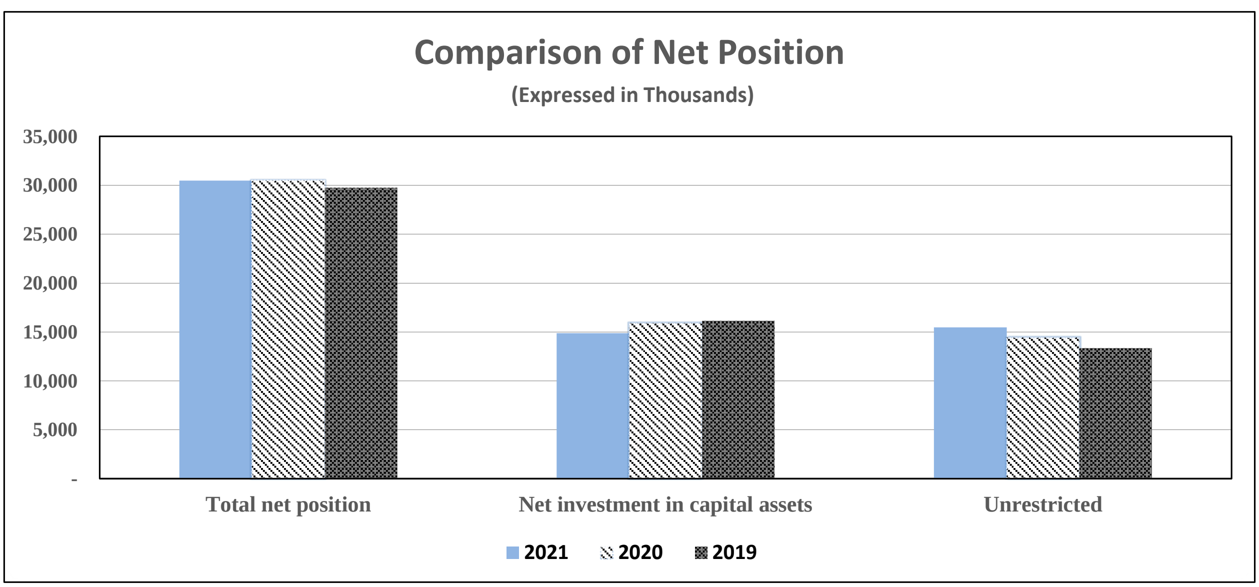
Over time, increases and decreases in net position provide an indicator of improving or deteriorating financial position.

Total net position for Midshore increased $565 in 2021, which is related to the excess of revenue over expenses. Net investment in capital assets decreased $202 from the net of depreciation, acquisition of equipment, and payment of debt. The remaining components, restricted and unrestricted net position of $6,918 represent funds available for future expenditures.

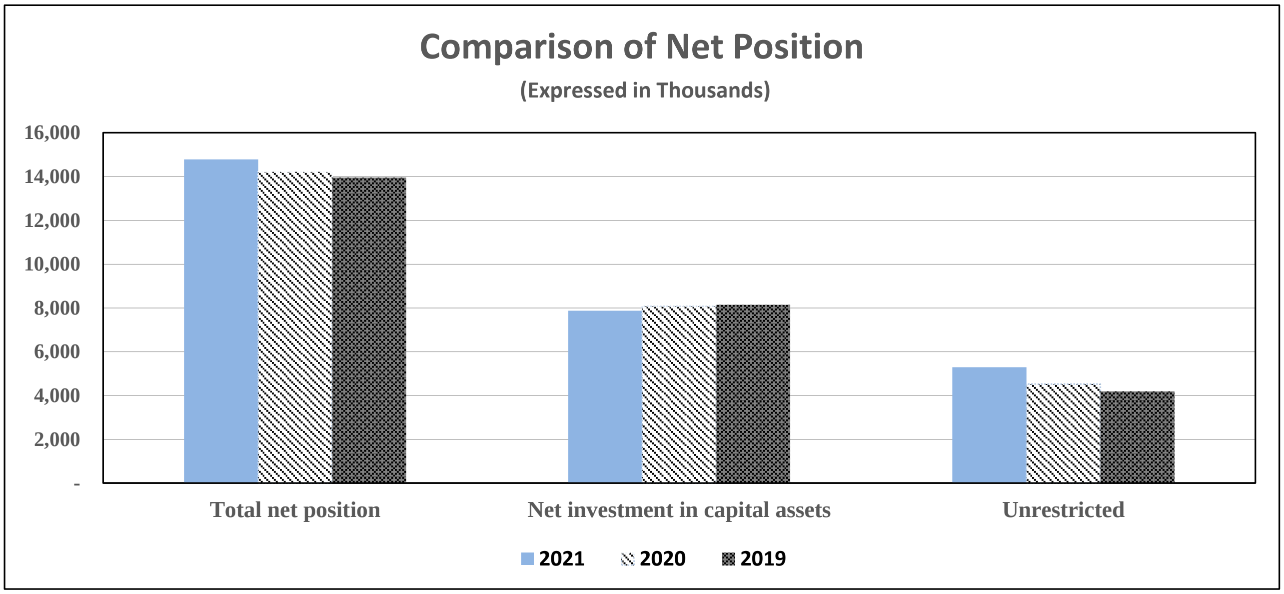
Total net position for Midshore increased $268 in 2020, which is related to the excess of revenue over expenses. Net investment in capital assets decreased $81 from the net of depreciation, acquisition of equipment, and payment of debt. The remaining components, restricted and unrestricted net position of $6,151 represent funds available for future expenditures.

A comparison of years ended June 30, 2021, 2020, and 2019 for the Service and for Midshore are presented graphically below:

Maryland Environmental Service:



Midshore Regional Landfill:



The following table presents condensed financial information about the Service and Midshore revenue, expenses and changes in net position for the years ended June 30, 2021, 2020, and 2019.

Maryland Environmental Service:

Condensed Changes in Net Position
(Expressed in Thousands)

	2021	2020	2019
Total operating revenue	$ 186,529	$ 182,221	$ 161,121
Operating expenses			
Salaries and benefits	56,018	55,801	53,814
Other	113,479	109,418	89,925
General and administrative	16,992	16,381	15,960
Total operating expenses	186,489	181,600	159,699
Operating income	40	621	1,422
Non-operating (expense) revenue, net	(40)	106	261
Change in net position	-	727	1,683
Net position, beginning of year	30,484	29,757	28,074
Net position, end of year	$ 30,484	$ 30,484	$ 29,757

Midshore Regional Landfill:

Condensed Changes in Net Position
(Expressed in Thousands)

	2021	2020	2019
Total operating revenue	$ 8,653	$ 8,392	$ 8,679
Operating expenses			
Salaries and benefits	1,766	1,780	1,582
Other	4,956	5,115	3,620
General and administrative	561	504	476
Total operating expenses	7,283	7,399	5,678
Operating income	1,370	993	3,001
Nonoperating revenue (expense), net	(805)	(725)	(453)
Change in net position	565	268	2,548
Net position, beginning of year	14,219	13,951	11,403
Net position, end of year	$ 14,784	$ 14,219	$ 13,951

The following table presents operating revenue by activity for the years ended June 30, 2021, 2020, and 2019:

Operating Revenue by Activity
(Expressed in Thousands)

	2021	2020	2019
Environmental Dredging & Restoration	$ 63,005	$ 67,646	$ 52,584
Water/Wastewater Operations	27,313	25,402	27,677
Recycling	21,157	19,868	17,989
Solid Waste Management	30,037	24,385	24,316
Energy Co-Generation	8,618	8,173	7,155
Environmental Engineering	4,239	4,518	2,594
Environmental Monitoring	23,017	21,992	20,584
Hazardous Waste Treatment	4,471	4,653	4,994
Grants	4,055	5,123	2,867
Other	617	461	361
Total Revenue	$ 186,529	$ 182,221	$ 161,121

Revenue by Activity

The total increase in operating revenue for the year ended June 30, 2021 was $4,308 compared to the year ended June 30, 2020. The change represents an increase of 2.4% in operating revenue. There was a decrease in Environmental Dredging & Restoration of $4,641; however, the decrease was offset by an increase in Solid Waste Management of $5,652 and an increase in Water/Wastewater Operations of $1,911.

The decrease in Environmental Dredging and Restoration Group is largely attributable to the Cox Creek Expansion project, which included design efforts preparing for the +60 dike construction and continuation of large construction projects: operations complex relocation, base dike widening and upland demolition and remediation in FY 20 which either were completed or winding down in FY 21. This large decrease was offset by increases in FY 21 with the Seagirt Berth 3 Dredging Project which began and was substantially completed in FY 21; and the Mid Bay Design project, which ramped up in FY 21 with extensive geotechnical and environmental investigations. The increase in Recycling is attributable to the Prince George's MRF capital project's major equipment upgrade, allowing the facility to separate plastic recyclables into more marketable commodities.

The total increase in operating revenue for the year ended June 30, 2020 was $21,100 compared to the year ended June 30, 2019. The change represents an increase of 13% in operating revenue. There was an increase in Environmental Dredging & Restoration of $15,062, Recycling increased by $1,879 and Water and Wastewater Operations decreased by $2,275, however this decreased was offset by an increase in Grants of $2,256 for projects related to Water and Wastewater Operations.

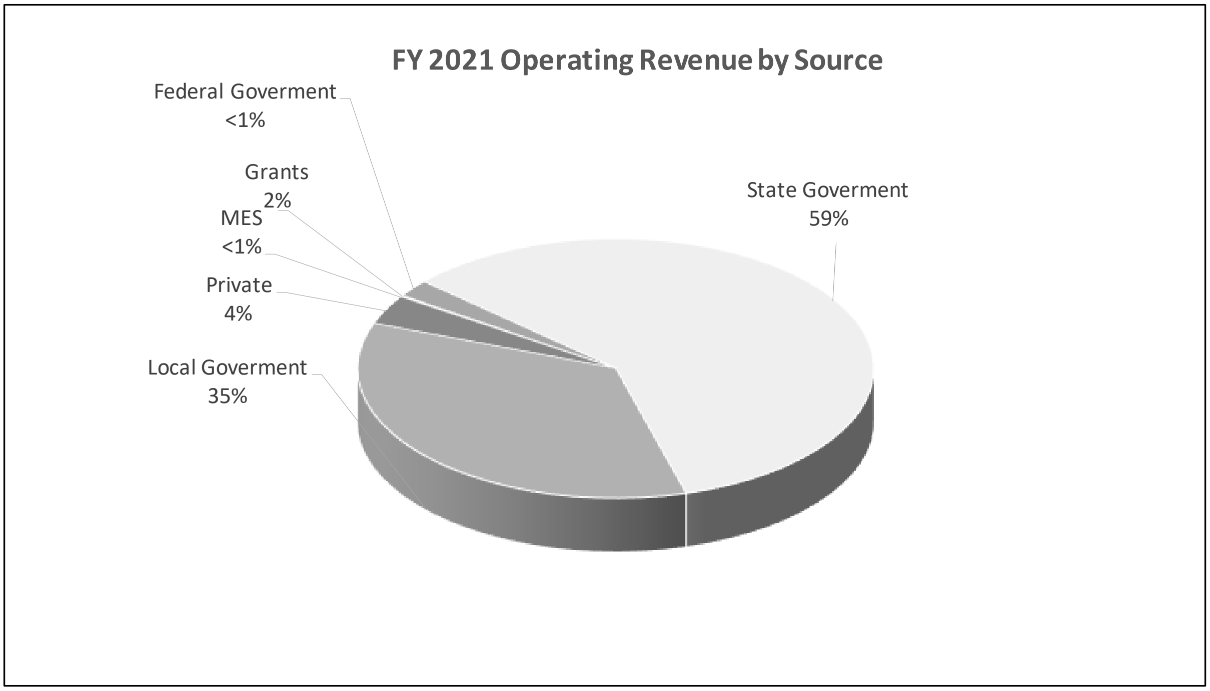
The large increase for Environmental Dredging is attributable to the Cox Creek Expansion, which included three large construction projects in FY 19: operations complex relocation, base dike widening and upland demolition and remediation, offset by substantial completion of several large projects in FY 18 including, the Dundalk Marine Terminal Dredging, the Fairfield Marine Terminal Wet Basin Filling and construction of two trash interceptors and the Masonville Kurt Iron Slip cut-off dike. The large increase in Recycling, is attributable to a new capital project to expand food waste processing capacity at Prince George County's Western Branch Composting Facility, and a new project with Maryland Department of the Environment for Scrap Tire Disposal. The Solid Waste Management decrease is related to the completion of the Mega Heap Bunker System, and the Water and Wastewater Operations decrease is due to the completion of major construction activities at MCI, Freedom and Rocky Gap.

The following table presents revenue by source for the years ended June 30, 2021, 2020, and 2019:

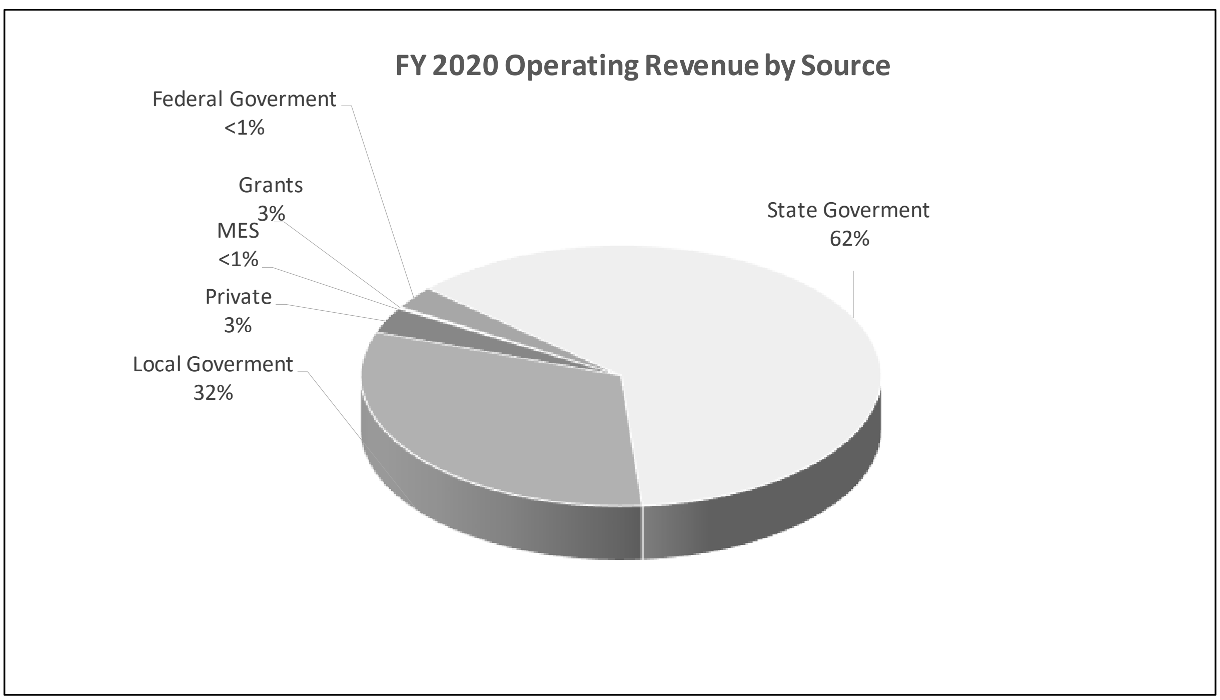
Revenue by Source
(Expressed in Thousands)

	2021	2020	2019
State government	$ 109,933	$ 113,034	$ 104,280
Local government	65,373	57,775	48,061
Private	6,884	5,831	5,541
Federal government	185	169	133
MES product revenues	99	289	239
Grants	4,055	5,123	2,867
Total Revenue	$ 186,529	$ 182,221	$ 161,121

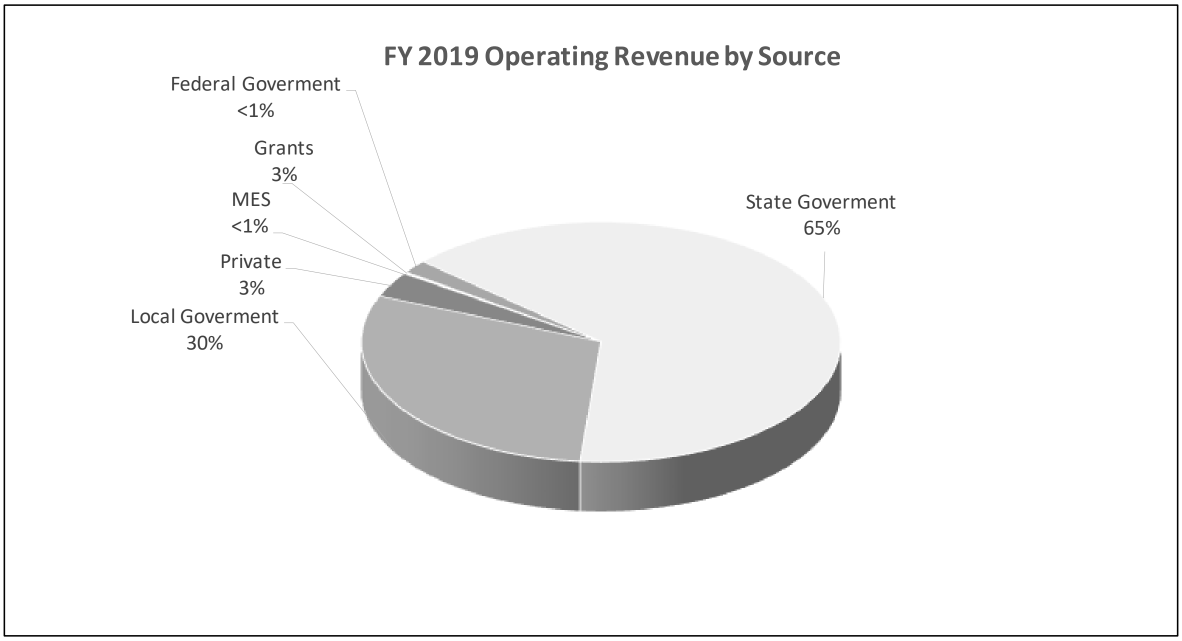
The following graph presents the Service's revenue by source for the year ended June 30, 2021:



The following graph presents revenue by source for the year ended June 30, 2020:



The following graph presents revenue by source for the year ended June 30, 2019:



State government revenues decreased by $3,101 in 2021, and local government revenue increased by $7,598. Grants decreased by $1,068, and all other sources of revenue increased by $879.

The main factor that contributed to the local government increase attributable to the Prince George's MRF capital project's major equipment upgrade, allowing the facility to separate plastic recyclables into more marketable commodities. The main factor for the decrease in state revenues was the completion of the Cox Creek Expansion Project. The main decrease in Grants was due to the completion of the MDE Freedom ENR Construction Upgrade.

State government revenues increased by $8,754 in 2020, and local government revenues increased by $9,714. Grants increased by $2,256, and all other sources of revenue increased by $376.

The main factor that contributed to the State revenue increase was the Cox Creek Expansion Projects, the Lake Linganore dredging project, and Masonville Dredging and Construction projects. The main increase in Grants was due to the completion of the MDE Freedom ENR Construction Upgrade, and the EPA Diesel Emissions Reduction Act for the Dray Truck Replacement Program and Cargo Handling Equipment Rebate Program. Midshore Regional Landfill's revenues were all derived from tipping fees. Midshore revenues decreased $287 in 2020 based on overall level of activity. Midshore revenues increased by $778 in 2019 due to an increase in tipping fees of $1.00 from $66.00 in FY18 to $67.00 in FY19.

Operating Expenses

For both the Service and Midshore, operating expenses are predominantly related to those classified as cost of goods and services, general and administrative and depreciation on capital assets.

Operating Income

Service operating income reported in 2021 was $40 compared to $621 in 2020, a decrease of $581. The decrease was due to an increase in contractual services in 2021.

Service operating income reported in 2020 was $621 compared to $1,422 in 2019, a decrease of $801. The decrease was due to increased personnel costs, including benefit costs, as well as expenses to IT hardware and software upgrades which were necessary for efficient operations and COVID-19 related expenses.

Midshore operating income reported in 2021 was $1,370 compared to $993 in 2020, an increase of $377. This increase was driven by several factors including, primarily, an approximate 3% increase in billable tonnage received at the facility and an approximate 2% decrease in operating expenses.

Midshore operating income reported in 2020 was $993 compared to $3,001 in 2019, a decrease of $2,008. This decrease was due to the Ackerman Wetlands Construction; mainly construction management of the wetlands performed by Geosyntec. Also, depreciation was increased due to Midshore II Regional Landfill Project Cell #3 being placed into service.

Non-Operating Revenue (Expense), Net

Service non-operating revenue (expense), net decreased $146 to $(40) in 2021. Non-operating items primarily include interest income and interest expense. For 2021, investment income decreased by $206.

Service non-operating revenue (expenses), net decreased $155 to $106 in 2020. Non-operating items primarily include interest income and interest expense. For 2020, investment income decreased by $42.

Midshore non-operating expenses, net increased $80 to $(805) in 2021. Non-operating items primarily include interest income and interest expense. For 2021, interest income decreased by $182, and interest expense decreased by $101.

Midshore non-operating expenses, net decreased $272 to ($725) in 2020. Non-operating items primarily include interest income and interest expense. For 2020, interest income decreased by $138, and interest expense increased by $139 thousand due to application of GASB Statement No. 89.

Grants

Operating grants in 2021 totaled $4,055 compared to $5,123 in 2020, and $2,867 in 2019. The main reason for the decrease was the completion of the MDE Freedom ENR Construction Upgrade.

Midshore had $0 grants in 2021, 2020, and 2019.

Capital Assets

The following tables present the Service's capital assets, net of depreciation as of June 30, 2021, 2020, and 2019, and capital expenditures for the years ended June 30, 2021, 2020, and 2019:

Capital Assets, Net of Depreciation
(Expressed in Thousands)

	2021	2020	2019
Land and improvements	$ 4,262	$ 4,262	$ 4,262
Buildings and improvements	5,074	5,058	5,201
Infrastructure	-	194	138
Construction in progress	-	456	2,663
Machinery and equipment	6,913	7,783	6,122
Total	$ 16,249	$ 17,753	$ 18,386

Capital Expenditures
(Expressed in Thousands)

	2021	2020	2019
Autos and trucks	$ 834	$ 430	$ 1,598
Land	-	-	-
Computer hardware/software	103	654	12
Tools/machinery/equipment	-	24	-
Leasehold improvements	-	104	10
Construction in progress	-	507	2,663
Total	$ 937	$ 1,719	$ 4,283

As of June 30, 2021, the carrying value of capital assets, net of depreciation was $16,249, a decrease of $1,504 from 2020. The decrease is comprised of capital additions of $937, net disposals/transfers of $517, and depreciation of $1,924. The capital additions for the year were fleet vehicle replacements, IT equipment.

As of June 30, 2020, the carrying value of capital assets, net of depreciation was $17,753, a decrease of $633 from 2019. The decrease is comprised of capital additions of $1,719, net disposals of $12, and depreciation of $2,340. The capital additions for the year were fleet vehicle replacements, IT equipment tolls, and leasehold improvements.

The following tables present Midshore's capital assets, net of depreciation as of June 30, 2021, 2020, and 2019, and capital expenditures for the years ended June 30, 2021, 2020, and 2019:

Capital Assets, Net of Depreciation
(Expressed in Thousands)

	2021	2020	2019
Land and improvements	$ 1,690	$ 1,690	$ 1,690
Buildings and improvements	27,568	29,097	20,878
Construction in progress	57	242	6,830
Machinery and equipment	1,195	224	3
Total	$ 30,510	$ 31,253	$ 29,401

Capital Expenditures
(Expressed in Thousands)

	2021	2020	2019
Construction in progress	$ 92	$ -	6,355
Tools/machinery/equipment	-	205	-
Leasehold improvements	1,059	2,789	-
Total	$ 1,151	$ 2,994	$ 6,355

As of June 30, 2021, the carrying value of capital assets, net of depreciation was $30,510, a decrease of $743 from 2020. The decrease is comprised of capital additions of $1,151, net transfers of $21, and depreciation of $1,915.

As of June 30, 2020, the carrying value of capital assets, net of depreciation was $31,253, an increase of $1,852 from 2019. The increase is comprised of capital additions of $2,994, net transfers of $30, and depreciation of $1,172.

Additional information on the Service's capital assets can be found in Note 3 to the financial statements.

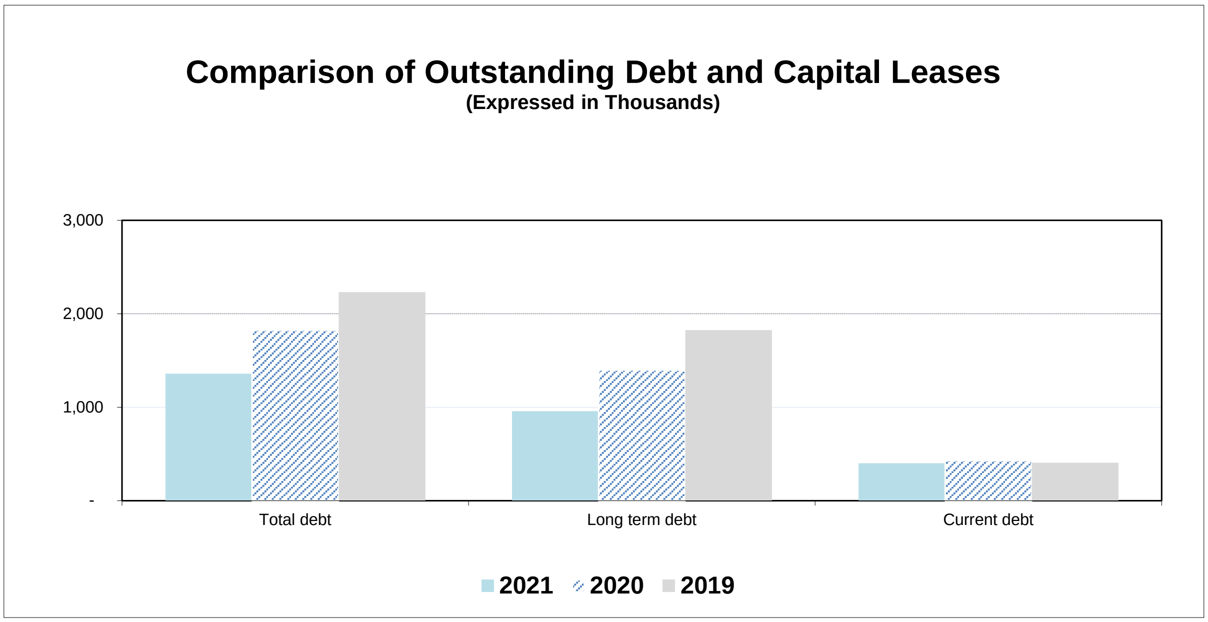
Outstanding Bond and Capital Lease

The following table and graph present outstanding bond and capital lease as of June 30, 2021, 2020, and 2019:

Maryland Environmental Service:

Outstanding Debt and Capital Leases
(Expressed in Thousands)

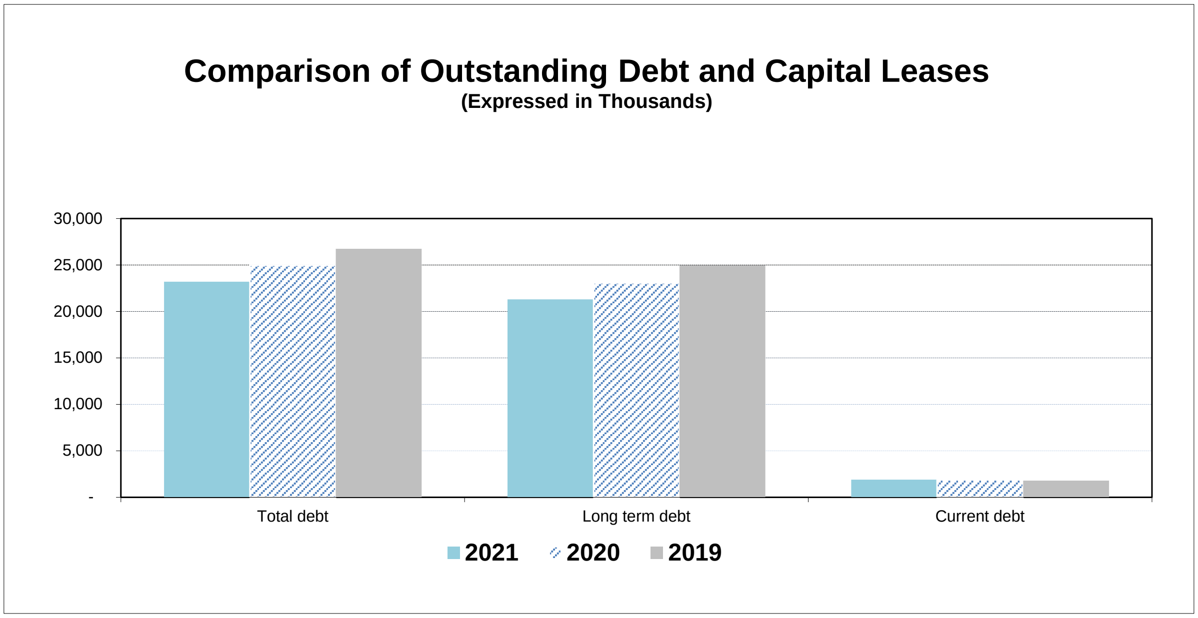
	2021	2020	2019
Capital leases	$ 1,359	$ 1,737	$ 2,093
General obligation bond / note	-	90	139
Total	$ 1,359	$ 1,827	$ 2,232



Midshore Regional Landfill:

Outstanding Debt and Capital Leases
(Expressed in Thousands)

	2021	2020	2019
General obligation bonds	$ 23,208	$ 24,963	$ 26,758
Total	$ 23,208	$ 24,963	$ 26,758



As of June 30, 2021, the Service's outstanding bond and capital lease was $1,359, representing a net decrease in borrowing of $468 from 2020. The net decrease consists of principal payments along with a refund and defeasance of the outstanding revenue bond 2011 series using $9.8 million in tax-exempt bonds issued in September 2020.

As of June 30, 2020, the Service's outstanding bond and capital lease was $1,827, representing a net decrease in borrowing of $405 from 2019. The net decrease consists of principal payments.

As of June 30, 2021, Midshore outstanding bonds was $23,208 representing a decrease in borrowing of $1,755.

As of June 30, 2020, Midshore outstanding bonds was $24,963 representing a decrease in borrowing of $1,795.

Additional information on the Service's debt activity can be found in Note 7 to the financial statements.

Requests for information: To obtain further information regarding current and future programs, prior year financials and contact information for the Service's employees, please refer to our website at: www.menv.com.

MARYLAND ENVIRONMENTAL SERVICE
FINANCIAL STATEMENTS

Maryland Environmental Service
Statements of Net Position
As of June 30, 2021 and 2020
(Expressed in Thousands)

		2021		2020
Assets				
Current assets:				
Cash and cash equivalents	$	30,240	$	27,663
Investments		4,060		6,052
Accounts receivable (net of allowance of $50)		33,696		35,317
Unbilled project costs accrued		6,121		4,160
Other		221		236
Total current assets		74,338		73,428
Non-current assets:				
Restricted cash		110		110
Due from project participants		9,426		8,449
Capital assets, net of accumulated depreciation:				
Land		4,262		4,262
Buildings and improvements		5,074		5,252
Machinery and equipment		6,913		7,783
Construction in progress		-		456
Total capital assets		16,249		17,753
Total non-current assets		25,785		26,312
Total assets		100,123		99,740
Deferred outflows:				
Deferred outflows related to OPEB		774		1,062
Deferred outflows related to pensions		416		312
Total deferred outflows		1,190		1,374
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses		29,796		22,817
Accrued annual leave		2,759		2,679
Due to Midshore and other projects		12,317		11,873
Advances from project participants		11,190		19,627
Current portion of long-term debt and capitalized leases		401		429
Accrued workers' compensation costs		609		426
Total current liabilities		57,072		57,851
Non-current liabilities:				
Advances from project participants		1,120		748
Long-term debt and capitalized leases, net of current portion and bond discount		958		1,398
Accrued workers' compensation costs		3,451		2,416
Accrued annual leave		1,901		1,468
Net OPEB liability		1,630		2,633
Net pension liability		2,583		2,620
Total other liabilities		11,643		11,283
Total liabilities		68,715		69,134
Deferred inflows				
Deferred inflows related to OPEB		1,467		950
Deferred inflows related to pensions		647		546
Total deferred inflows		2,114		1,496
Net Position				
Net investment in capital assets		14,891		15,926
Restricted net position		122		122
Unrestricted net position		15,471		14,436
Total net position	$	30,484	$	30,484

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

Maryland Environmental Service
Statements of Revenue, Expenses and Change in Net Position
For the years ended June 30, 2021 and 2020
(Expressed in Thousands)

	2021	2020
Operating revenue:		
Charges for services	$182,474	$ 177,098
Operating grants	4,055	5,123
Total operating revenue	186,529	182,221
Operating expenses:		
Salaries and benefits	56,018	55,801
Contractual services	38,582	33,374
Technical fees	13,023	12,329
Utilities	6,502	6,989
Repairs and maintenance	3,667	4,756
Materials and supplies	8,722	8,499
Land, structures and equipment	39,378	39,700
Depreciation	1,924	2,340
General and administrative	16,992	16,381
Other	1,681	1,431
Total operating expenses	186,489	181,600
Operating income	40	621
Non-operating revenue (expenses):		
Investment income	9	215
Interest expense	(82)	(124)
Miscellaneous income	33	15
Non-operating expenses, net	(40)	106
Change in net position	-	727
Net position, beginning of year	30,484	29,757
Net position, end of year	$ 30,484	$ 30,484

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

Maryland Environmental Service
Statements of Cash Flows
For the years ended June 30, 2021 and 2020
(Expressed in Thousands)

	2021	2020
Cash Flows From Operating Activities		
Receipts from customers	$ 186,190	$ 175,493
Payments to suppliers	(121,055)	(113,741)
Payments to employees	(56,018)	(55,801)
Payments to project participants	(9,284)	(2,569)
Other payments from project Midshore	445	1,218
Other receipts	1,236	525
Net cash provided by operating activities	1,514	5,125
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(937)	(1,719)
Proceeds from disposal of capital assets	542	-
Principal paid on capital debt	(468)	(405)
Interest paid on capital debt	(82)	(124)
Other receipts	-	28
Net cash used in capital and related financing activities	(945)	(2,220)
Cash Flows From Investing Activities		
Purchases of investments	(4,000)	(12,198)
Sales and maturities of investments	6,000	12,155
Interest and dividends	8	215
Net cash provided by investing activities	2,008	172
Net changes in cash and cash equivalents	2,577	3,077
Cash and cash equivalents - beginning of the year	27,663	24,586
Cash and cash equivalents - end of the year	$ 30,240	$ 27,663
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 40	$ 621
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,924	2,340
Change in non-cash operations:		
Receivables, net	1,621	(7,259)
Other assets	(2,923)	820
Accounts and other payables	7,492	9,718
Due to project participants	(7,263)	(2,686)
Net pension liability	(37)	(640)
Net OPEB liability	(1,003)	875
Net change due to/from Midshore	444	1,218
Accrued workers compensation	1,219	118
Net cash provided by operating activities	$ 1,514	$ 5,125

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

Midshore Regional Landfill
Statements of Net Position
As of June 30, 2021 and 2020
(Expressed in Thousands)

	2021	2020
Assets		
Current assets:		
Due from MES	$ 12,317	$ 11,873
Accounts receivable	535	589
Total current assets	12,852	12,462
Non-current assets:		
Restricted investments	3,338	3,407
Capital assets not depreciated	1,747	1,932
Capital assets being depreciated, net	28,763	29,321
Total capital assets	30,510	31,253
Total other assets	33,848	34,660
Total assets	46,700	47,122
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	1,548	1,224
Advances from project participants	483	483
Current portion of long-term debt and capitalized leases	1,898	1,879
Total current liabilities	3,929	3,586
Non-current liabilities:		
Long-term debt and capitalized leases, net of of current portion and bond discount	21,310	23,084
Accrued landfill closure & postclosure care costs	6,462	6,233
Total non-current liabilities	27,772	29,317
Total liabilities	31,701	32,903
Deferred inflows:		
Deferred inflows related to debt refunding	215	-
Total deferred inflows	215	-
Net Position		
Net investments in capital assets	7,866	8,068
Restricted net position	1,630	1,629
Unrestricted net position	5,288	4,522
Total net position	$ 14,784	$ 14,219

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

Midshore Regional Landfill
Statements of Revenue, Expenses and Change in Net Position
For the years ended June 30, 2021 and 2020
(Expressed in Thousands)

	2021	2020
Operating revenue:		
Charges for services	$ 8,653	$ 8,392
Operating expenses:		
Salaries and benefits	1,766	1,780
Contractual services	584	301
Technical fees	358	246
Utilities	67	34
Operations and maintenance	405	396
Materials and supplies	255	146
Land, structures and equipment	309	1,459
Depreciation	1,915	1,147
Closure/post closure	1,026	1,336
General and administrative	561	504
Other, net	37	50
Total operating expenses	7,283	7,399
Operating income	1,370	993
Nonoperating revenue (expenses):		
Interest income	6	188
Interest expense	(817)	(918)
Miscellaneous income	6	5
Nonoperating expenses, net	(805)	(725)
Change in net position	565	268
Net position, beginning of year	14,219	13,951
Net position, end of year	$ 14,784	$ 14,219

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

Midshore Regional Landfill
Statements of Cash Flows
For the years ended June 30, 2021 and 2020
(Expressed in Thousands)

	2021	2020
Cash Flows From Operating Activities		
Receipts from customers	$ 8,707	$ 8,605
Payments to suppliers	(3,049)	(3,793)
Payments to employees	(1,766)	(1,780)
Payments to project participants	(444)	(1,218)
Net cash from operating activities	3,448	1,814
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt	11,505	-
Purchases of capital assets	(1,151)	(2,994)
Disposal of capital assets	6	-
Principal paid on capital debt	(12,952)	(1,672)
Interest paid on capital debt	(945)	(1,041)
Net cash used in capital and related financing activities	(3,537)	(5,707)
Cash Flows From Investing Activities		
Proceeds from sale of investments	83	3,705
Interest and dividends	6	188
Net cash from investing activities	89	3,893
Net changes in cash and cash equivalents	-	-
Cash and cash equivalents - beginning of the year	-	-
Cash and cash equivalents - end of the year	$ -	$ -
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,370	$ 993
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,915	1,147
Change in non-cash operations:		
Accounts receivables	54	213
Accounts and other payables	324	4
Due from MES	(444)	(1,218)
Accrued landfill closure	229	675
Net cash from operating activities	$ 3,448	$ 1,814

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

Maryland Environmental Service
Other Postemployment Benefit Plan
Statement of Plan Net Position
As of June 30, 2021 and 2020
(Expressed in Thousands)

	2021	2020
Assets		
Cash and short-term investments	$ 502	$ 618
Investments:		
Equities	3,257	2,257
Other	1,912	1,436
Total investments	5,169	3,693
Total assets	5,671	4,311
Net position held in trust for other postemployment benefits	$ 5,671	$ 4,311

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

Maryland Environmental Service
Other Postemployment Benefit Plan
Statement of Changes in Plan Net Position
For the years ended June 30, 2021 and 2020
(Expressed in Thousands)

	2021	2020
Additions		
Employer contributions	$ 541	$ 473
Investment Income:		
Net appreciation (depreciation) in fair value of investments	803	(163)
Interests and dividends	210	155
	1,013	(8)
Less investment expense	14	11
Net investment (loss) income	999	(19)
Total additions	1,540	454
Deductions		
Benefits paid	180	175
Net increase	1,360	279
Net position held in trust for other postemployment benefits		
Net position, beginning of year	4,311	4,032
Net position, end of year	$ 5,671	$ 4,311

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

(1) Organization and Summary of Significant Accounting Policies

(a) Reporting Entity

The General Assembly created Maryland Environmental Service (MES or 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 discrete 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 Montgomery and Prince George's Counties.

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, Cox Creek and Masonville Dredge Material Disposal Facilities as well as provides technical support for the Maryland Department of Transportation Maryland Port Administration.

The Service produces and sells yard waste compost for Montgomery and Prince George's Counties under the registered trademark Leafgro®.

The Service also reports a second major enterprise fund for the purpose to account for 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 facilities.

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

(a) Reporting Entity (continued)

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 in compliance with Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

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

The accompanying financial statements present the financial position and results of operations of all of the Service, Midshore and OPEB Plan activities. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under these standards, 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 GASB requires that resources be classified into three categories of net position. Net position represents the residual interest in the Service's assets plus deferred outflows (as applicable) of resources less liabilities plus deferred inflows (as applicable) of resources and consist of: net investment in capital assets, restricted and unrestricted, as follows:

Net investment in capital assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position.

Restricted: Restricted net position represents the portion of net position that is reported as restricted when there are external third-party limitations (statutory, contractual or bond covenant) on its use.

Unrestricted: Unrestricted net position represents the portion of net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by the Board or may be otherwise limited by contractual agreements with outside parties.

(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 non-operating revenue and expenses. Interest income is recognized as non-operating revenue as earned. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

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

(d) Cash and Cash Equivalents

The Service's cash is considered to be cash on hand and demand deposits and highly liquid interest investments with maturities of three months or less from the date of acquisition.

(e) Investments

The Service's investments are reported at fair value using quoted market price or the best available estimate thereof. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(f) 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 asset's life are not capitalized.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impaired assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used are measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage are measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. The Service did not record any impairment charges as of June 30, 2021 as there were no indicators of impairment.

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 change 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 change in net position and are not capitalized.

(g) Receivables and Payables

During the course of its operations, the Service has numerous transactions with Midshore Regional Landfill to manage operations, provide services, construct assets, and service debt. To the extent that such transactions have not been paid or received as of June 30, the balances of interfund amounts receivable or payable have been reflected accordingly.

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

(h) Receivables and Payables *(continued)*

All receivables are shown net of an allowance for uncollectible accounts. Accounts receivable in excess of 90 days that are not deemed collectible are written off against the allowance for uncollectible accounts.

The Service payables include project related expenses and accruals, personnel related costs, and pass-through product revenues owed to some of its major clients.

(i) Compensated Absences

Employees of the Service earn vacation benefits based on time in service. 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.

(j) Pensions and Other Postemployment Benefits.

Certain employees of the Service are members of the Maryland State Retirement and Pension System. Employees are members of the Employees Retirement System of the State of Maryland (ERS). ERS is part of the State of Maryland Retirement and Pension System, which is considered a single multiple employer cost sharing plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of ERS and additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Service provides certain postemployment benefits to eligible employees. These benefits are paid out of the Service's Retiree Medical Reimbursement Plan (the Plan), a single-employer defined benefit plan. It is offered to eligible employees not covered under the State Retiree Plan. To be eligible, employees must have 30 years of service with the Service, or retire at age 60 or over and have 16 years of employment with the Service. Retired employees or their spouses ages 60 or over can be reimbursed up to $3,600 per calendar year for medical expenses. The net other postemployments benefits (OPEB) liability is calculated as the OPEB liability, as actuarially determined, less the Plan's net position.

<u>Deferred Outflows/Inflows of Resources</u>

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Service's deferred outflows consistent of changes to pension and OPEB expenses. Deferred outflows of resources relating to pension and OPEB are described in Notes 9 and 10, respectively.

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

(j) Pensions and Other Postemployment Benefits *(continued)*

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Service's deferred inflows consisted of items relating to pension and OPEB, as described in Notes 9 and 10, respectively.

(k) 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.

(l) Long Term Obligations and Bond Discount

Long term debt and other long-term obligations are reported as liabilities in the applicable Statements of Net Position. Bond payable is reported net of bond discount, which is recognized during the current period. Bond discount is amortized to interest expense using the effective interest method over the contractual term of the bonds.

(m) 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, 2021, there was no arbitrage rebate liabilities.

(n) 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, deferred outflows, liabilities, and deferred inflows 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.

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

(o) Recent Pronouncements

In June 2017, GASB issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this standard are effective for reporting periods beginning after June 15, 2021. Early adoption is permitted. The Service is currently evaluating the impact this pronouncement will have on the financial statements.

(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 (Finance and Procurement Article 6-222). The Service's cash is considered to be cash on hand and demand deposits. Cash and cash equivalents totaled $30,240 and $27,663 as of June 30, 2021 and 2020, respectively. Included, as cash equivalents for financial statement presentation, were certain overnight investments of $32,552 and $32,398, offset by $3,086 and $5,690 of outstanding checks as of June 30, 2021 and 2020, respectively. Investments are valued at fair value, which is based on quoted market prices.

The State Finance and Procurement Article Section 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 Section 3-126 authorizes the investment in obligation as described in the State Finance and Procurement Article Section 6-222.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Service's 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 effect 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.

The Service categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

The Service has the following recurring fair value measurements as of June 30, 2021:

- Money market funds of $4,060 are valued at quoted market price (Level 1 inputs)

The Service has the following recurring fair value measurements as of June 30, 2020:

- Money market funds of $6,052 are valued at quoted market price (Level 1 inputs)

As of June 30, 2021, 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	$ 4,060	$ 4,060	$ -	$ -	$ -	$ -

As of June 30, 2020, 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	$ 6,009	$ 6,009	$ -	$ -	$ -	$ -

As of June 30, 2021, 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	$ 3,338	$ 3,338	$ -	$ -	$ -	$ -

As of June 30, 2020, 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	$ 7,112	$ 7,112	$ -	$ -	$ -	$ -

(In thousands except where noted)

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

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 Section 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.

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

Maryland Environmental Service:

	2021	2020
Service held:		
Project restricted	$ 110	$ 110

Midshore Regional Landfill:

	2021	2020
Trustee held:		
Closure Fund	$ 795	$ 795
Construction Funds	1,708	1,777
Service held:		
Liability Fund	835	835
	$ 3,338	$ 3,407

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 in interest rates.

(In thousands except where noted)

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

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. Cash and investments of $5,671 and $4,311 were uncollateralized and exposed to credit risk as of June 30, 2021 and 2020, respectively.

The Service has the following recurring fair value measurements as of June 30, 2021 and 2020:

- All investments consist of equities and mutual funds and are valued using quoted market prices (Level 1 inputs)

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, 2021, the Plan had the following investments that represented 5% or more of total investments:

Issue	**Fair Value**		**Percentage**
Vanguard Total Stock Market ETF	$	1,393	25%
Vanguard Total Bond Market Index Fund	$	988	18%
Dodge & Cox International Stock Fund	$	697	12%
iShares MSCI EAFE EFT	$	682	12%
Fidelity Investment MM TSY	$	502	8%
T. Rowe Price Real Estate Fund	$	441	6%

As of June 30, 2020, the Plan had the following investments, which represented 5% or more of total investments:

Issue	**Fair Value**		**Percentage**
Vanguard Total Stock Market ETF	$	877	21%
Vanguard Total Bond Market Index Fund	$	844	19%
iShares MSCI EAFE EFT	$	526	14%
Dodge & Cox International Stock Fund	$	521	14%
T Rowe Price Real Estate Fund	$	497	9%

(In thousands except where noted)

(3) Capital Assets

The tables below represent the changes in capital assets:

Maryland Environmental Service – Year Ending June 30, 2021:

	Balance 06/30/20	Additions	Deletions	Transfers In/Out	Balance 06/30/21
Capital assets, not depreciated					
Land and improvements	$ 4,262	$ -	$ -	$ -	$ 4,262
Construction in progress	456	-	(456)	-	-
Total capital assets not depreciated	4,718	-	(456)	-	4,262
Capital assets, being depreciated					
Structures and improvements	11,615	-	(54)	-	11,561
Equipment	23,802	937	(3,341)	(1,338)	20,060
Total capital assets being depreciated	35,417	937	(3,395)	(1,338)	31,621
Less: accumulated depreciation for					
Structures and improvements	6,362	177	(52)	-	6,487
Equipment	16,020	1,747	(3,282)	(1,338)	13,147
Total accumulated depreciation	22,382	1,924	(3,334)	(1,338)	19,634
Total capital assets, net	$ 17,753	$ (987)	$ (517)	$ -	$ 16,249

Maryland Environmental Service – Year Ending June 30, 2020:

	Balance 06/30/19	Additions	Deletions	Transfers In/Out	Balance 06/30/20
Capital assets, not depreciated					
Land and improvements	$ 4,262	$ -	$ -	$ -	$ 4,262
Construction in progress	2,663	507	-	(2,714)	456
Total capital assets not depreciated	6,925	507	-	(2,714)	4,718
Capital assets, being depreciated					
Structures and improvements	11,511	103	-	-	11,614
Equipment	20,156	1,109	(176)	2,714	23,803
Total capital assets being depreciated	31,667	1,212	(176)	2,714	35,417
Less: accumulated depreciation for					
Structures and improvements	6,027	335	-	-	6,362
Equipment	14,179	2,005	(164)	-	16,020
Total accumulated depreciation	20,206	2,340	(164)	-	22,382
Total capital assets, net	$ 18,386	$ (621)	$ (12)	$ -	$ 17,753

(In thousands except where noted)

(3) Capital Assets (continued)

Midshore Regional Landfill – Year Ending June 30, 2021:

	Balance 06/30/20	Additions	Deletions	Transfers In/Out	Balance 06/30/21
Capital assets, not depreciated					
Land and improvements	$ 1,690	$ -	$ -	$ -	$ 1,690
Construction in progress	242	92	-	(277)	57
Total capital assets, not depreciated	1,932	92	-	(277)	1,747
Capital assets, being depreciated					
Structures and improvements	49,302	-	-	277	49,579
Equipment	3,452	1,059	(1,150)	1,338	4,699
Total capital assets being depreciated	52,754	1,059	(1,150)	1,615	54,278
Less: accumulated depreciation for					
Structures and improvements	20,205	1,806	-	-	22,011
Equipment	3,228	109	(1,171)	1,338	3,504
Total accumulated depreciation	23,433	1,915	(1,171)	1,338	25,515
Total capital assets, net	$ 31,253	$ (764)	$ 21	$ -	$ 30,510

Midshore Regional Landfill – Year Ending June 30, 2020:

	Balance 06/30/19	Additions	Deletions	Transfers In/Out	Balance 06/30/20
Capital assets, not depreciated					
Land and improvements	$ 1,690	$ -	$ -	$ -	$ 1,690
Construction in progress	6,830	-	-	(6,588)	242
Total capital assets, not depreciated	8,520	-	-	(6,588)	1,932
Capital assets, being depreciated					
Structures and improvements	39,925	2,789	-	6,588	49,302
Equipment	3,429	205	(25)	(157)	3,452
Total capital assets being depreciated	43,354	2,994	(25)	6,431	52,754
Less: accumulated depreciation for					
Structures and improvements	19,047	1,133	-	25	20,205
Equipment	3,426	39	(25)	(212)	3,228
Total accumulated depreciation	22,473	1,172	(25)	(187)	23,433
Total capital assets, net	$ 29,401	$ 1,822	$ -	$ 30	$ 31,253

(4) Construction Commitments

The Service entered into construction contracts with unrelated parties in the amount of $92 for the construction of Midshore Cell # 3. As of June 30, 2021, all commitments had been incurred.

(In thousands except where noted)

(5) Concentrations of Credit

The Service derived approximately 59% and 62% of its revenue in the years ended June 30, 2021 and 2020, respectively, from providing services to the State of Maryland.

(6) Leases

Operating Leases

The Service leases office, warehouse, and parking space under operating leases, which expire between fiscal years 2023 and 2025.

Rent expense for operating leases was $292 and $283 for the years ended June 30, 2021 and 2020, respectively.

The future minimum lease obligations from operating leases were as follows as of June 30:

2022	$	200
2023		109
2024		42
2025		42
Total minimum lease payments	$	393

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.

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.

As of June 30, 2021, $6,518 in capital leases were included in capital assets net of $1,661 in accumulated depreciation for a net total of $4,857. As of June 30, 2020 $ 6,518 in capital leases were included in capital assets net of $1,531 in accumulated depreciation for a net total of $$4,987.

(In thousands except where noted)

(6) Leases (continued)

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

2022	$ 472
2023	472
2024	472
2025	79
Total minimum lease payments	1,495
Less: amount representing interest	136
Present value of minimum lease payments	1,359
Less: current portion	401
Long-term portion of capital leases	$ 958

(7) Debt

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

Maryland Environmental Service:

Long-term debt (including current portion) consists of the following as of June 30, 2020 and 2019:

	2021	2020
Bank of America–General Obligation Bond		
Interest at 4.05% and principal due in quarterly installments of $18 through March 31, 2022.	$ -	$ 90
Less: current portion	-	51
Long-term portion of debt	$ -	$ 39

(In thousands except where noted)

(7) Debt (continued)

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 the Service's resources.

The Service paid off the General Obligation Bond remaining balance in April 2021.

Midshore Regional Landfill:

	2021	2020
Midshore II Regional Landfill Project Revenue Bonds, Series 2011 $12,055 (plus bond premium of $216); 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.	$ -	$ 12,287
Hobbs Road Landfill Closure Project Water Quality Bond, Series 2011A; April 2011 $1,087; 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.	987	1,087
Midshore II Regional Landfill Project Revenue Bonds, Series 2014 $2,940 ; 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	2,653	2,940
Midshore II Regional Landfill Project Revenue Bonds, Series 2018 $7,850 (plus bond premium of $793); interest at 3.0% to 5.0% paid semiannually on May 1 and November 1; due in annual installments beginning 2018 through 2030 in varying amounts from $500 to $1,260.	8,063	8,649
Midshore II Regional Landfill Project Revenue Bonds, Series 2020 $9,805 (plus bond premium of $1,700); interest at 3.0% to 4.0% paid semiannually on May 1 and November 1; due in annual installments beginning 2021 through 2030 in vayring amounts from $815 to $1,160.	11,505	-
Total	23,208	24,963
Less: current portion	1,898	1,879
Long-term portion of debt	$ 21,310	$ 23,084

(In thousands except where noted)

(7) Debt (continued)

Future minimum payments for long-term debt as of June 30, 2021 were due as follows:

Years ending June 30:	Total	Principal	Interest
2022	$ 2,490	$ 1,732	$ 758
2023	2,492	1,797	695
2024	2,492	1,868	624
2025	2,493	1,945	548
2026	2,489	2,021	468
2027-2031	12,457	11,422	1,035
	24,913	20,785	4,128
Plus: Unamortized bond premium	2,423	2,423	-
Total	$ 27,336	$ 23,208	$ 4,128

The Regional Landfill Project Revenue Bonds, 2011 Series, were issued in connection with the construction of the Midshore 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 Midshore Counties. In addition, the State Intercept Provision (Md. Natural Resource Article Section 3-108(b)) provides that if a Midshore County 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 Midshore County by the Comptroller of Maryland shall be paid directly to the Service. These bonds were defeased in November 2020.

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 Midshore Counties. In addition, the State Intercept Provision (Md. Natural Resources Article Section 3-108(b)) provides that if a Midshore County 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 Midshore County by the Comptroller of Maryland shall be paid directly to the Service.

(7) Debt (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 Midshore 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 Midshore 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 Midshore County, by the Comptroller of Maryland shall be paid directly to the Service.

MES issued $8.9 million in tax-exempt bonds in July of 2018, for the purpose of financing the cost of the planning, design, construction, equipping and operation of Midshore II Regional Landfill Project Cell #3, located in Caroline County, Maryland, to improve or increase the disposal capacity of the Midshore II Landfill. The Service entered into separate Waste Disposal Service Agreements in 2009 with County Commissioners of Caroline County, County Commissioners of Queen Anne's County, County Commissioners of Kent County and Talbot County, Maryland. Each of the Midshore Counties has agreed to deliver all its Acceptable Waste for disposal at the Regional Landfill, in each year throughout the term of the Series 2018 Bonds and to pay certain disposal fees. The Service Agreements executed by each Midshore County contain substantially similar terms and conditions. Each Midshore County will pay the Service a per-ton disposal fee (or Tipping Fee) for Acceptable Waste deliveries to the Regional Landfill by the Midshore County. The Service will also charge a Tipping Fee for disposal of Acceptable Waste deliveries to the Regional Landfill by persons other than the Midshore Counties. If in any year the Tipping Fees charged to all users of the Midshore II Landfill, other operating revenues of the Midshore II Landfill, including, but not limited to, charges for services or use of property or equipment, proceeds from the sale of recovered materials and revenues from gas, steam, or electricity, and interest earnings on money held by the Service in the Special Purpose Fund are insufficient to pay the total costs, defined in the Service Agreements and including but not limited to the costs of financing and operating the Regional Landfill, then each County will pay the Service a fee equal to its share based on its population compared to the population of all Midshore Counties of such deficiency.

MES issued $9.8 million in tax-exempt bonds in September 2020 with a premium of $1.7 million, for the purpose of refunding Midshore's outstanding revenue bond 2011 series. This funding, along with $1.1 million in debt service reserve fund sources, was used to defease the 2011 Series and the Service has removed the liability from its accounts. The advance refunding reduced total debt service payments over the next 10 years by nearly $2.25 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $2.5 million. A deferred gain on refunding of $0.2 million was recorded as a result of the refunding.

(In thousands except where noted)

(7) Debt (continued)

The Service entered into separate Waste Disposal Service Agreements in 2009 with County Commissioners of Caroline County, County Commissioners of Queen Anne's County, County Commissioners of Kent County and Talbot County, Maryland. Each of the Midshore Counties has agreed to deliver all its Acceptable Waste for disposal at the Regional Landfill, in each year throughout the term of the Series 2020 Bonds and to pay certain disposal fees. The Midshore counties have agree to pay a Tipping Fee for each ton of acceptable waste delivered to the Service by or for the account of the Midshore Counties. The Tipping Fee might be adjusted by the Service. The Midshore Counties have also agreed in each fiscal year to pay a supplemental fee equal to the amount by which total costs exceed revenues in such fiscal year.

The Bonds are not payable from the general funds of the Service and do not constitute a legal or equitable pledge, or lien or encumbrance upon, any of the assets or property of the Service or upon any liability of the State of Maryland, of any political subdivision thereof (including the Subdivisions) or of the Service.

The following table represents changes in long-term liabilities for the years ended June 30:

Maryland Environmental Service:

2021	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advances from project participants	$ 20,375	$ 54,412	$ (62,477)	$ 12,310	$ 11,190
Capitalized leases	1,737	-	(378)	1,359	401
Long-term debt	90	-	(90)	-	-
Accrued annual leave	4,147	3,192	(2,679)	4,660	2,759
Workers' compensation	2,842	1,218	-	4,060	609
Net OPEB liability	2,633	-	(1,003)	1,630	-
Net pension liability	2,620	-	(37)	2,583	-
Long-term liabilities	$ 34,444	$ 58,822	$ (66,664)	$ 26,602	$ 14,959

2020	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advances from project participants	$ 22,832	$ 61,980	$ (64,437)	$ 20,375	$ 19,627
Capitalized leases	2,093	-	(356)	1,737	378
Long-term debt	139	-	(49)	90	51
Accrued annual leave	3,569	3,412	(2,834)	4,147	2,679
Workers' compensation	2,724	118	-	2,842	426
Net OPEB liability	1,758	875	-	2,633	-
Net pension liability	3,260	-	(640)	2,620	-
Long-term liabilities	$ 36,375	$ 66,385	$ (68,316)	$ 34,444	$ 23,161

(In thousands except where noted)

(7) Debt (continued)

Midshore Regional Landfill:

2021		Beginning Balance		Additions		Reductions		Ending Balance		Due Within One Year
Long-term debt	$	24,963	$	11,505	$	(13,260)	$	23,208	$	1,898
Landfill closure & postclosure care		6,233		713		(484)		6,462		-
Long-term liabilities	$	31,196	$	12,218	$	(13,744)	$	29,670	$	1,898

2020		Beginning Balance		Additions		Reductions		Ending Balance		Due Within One Year
Long-term debt	$	26,758	$	-	$	(1,795)	$	24,963	$	1,879
Landfill closure & postclosure care		5,558		985		(310)		6,233		-
Long-term liabilities	$	32,316	$	985	$	(2,105)	$	31,196	$	1,879

(8) 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.

(9) 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 (the 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 5 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 Annual Comprehensive Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202 or at https://sra.maryland.gov/annual-financial-reports.

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 $288 and $243, respectively, for the years ended June 30, 2021 and 2020.

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, 2021 and 2020 was $2,720 and $2,945, respectively. Employees are fully vested when eligible for the plan.

(In thousands except where noted)

(9) Pension (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2021 and 2020, the Service reported a liability of $2,583 and $2,620, respectively, for its proportionate share of the ERS net pension liability. The ERS net pension liability was measured as of June 30, 2020 and June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Service's proportion of the ERS net pension liability was based on a projection of the Service's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined. As of June 30, 2021 and 2020, the Service's proportion for ERS was 0.0122% and 0.0127%, respectively.

For the year ended June 30, 2021 and 2020, the Service recognized pension expense for ERS of approximately $554 and $513, respectively. As of June 30, 2021, the Service reported deferred outflows of resources and deferred inflows of resources related to ERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ (38)
Net difference between projected and actual earnings on pension plan investment	188	-
Net difference between actual and expected experience	-	(133)
Net change in proportionate share	-	(476)
Contributions made subsequent to the measurement date	228	-
Total	$ 416	$ (647)

The $228 reported as deferred outflows of resources related to ERS resulting from the Service contributions subsequent to the measurement date will be recognized as a reduction of the ERS net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS will be recognized in pension expense as follows:

	Deferred Outflows	Deferred Inflows		
Years Ending June 30	Net difference between projected and actual earnings on pension plan investments	Change in Assumptions	Net change in proportionate share	Actual and Expected Experience
2022	$ 27	$ (7)	$ (117)	$ (61)
2023	53	(9)	(144)	(46)
2024	61	(12)	(74)	(21)
2025	47	(10)	(117)	(5)
2026	-	-	(24)	-
Total	$ 188	$ (38)	$ (476)	$ (133)

Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position are available at https://sra.maryland.gov/actuarial-valuation-reports.

(In thousands except where noted)

(10) Other Postemployment Benefits (OPEB)

Sensitivity of the Services' proportionate share of the net pension liability to changes in the discount rate.

The Service's proportionate share of the ERS net pension liability calculated using the discount rate of 7.40% is $2,583. Additionally, the Service's proportionate share of the ERS net pension liability if it were calculated using a discount rate that is 1 percentage point lower (6.40%) is $3,677 or 1 percentage point higher (8.40%) is $1,672.

Plan Description. The Maryland Environmental Service (the Service) Retiree Medical Reimbursement Plan (the Plan) is a single-employer defined benefit plan. It is offered to eligible employees not covered under the State Retiree Medical Plan. To be eligible for coverage under the Service's plan, an employee must retire from the Service at age 60 or older and have at least 16 years of service with the Service. Through December 31, 2018, the Plan reimbursed retirees for eligible medical expenses incurred by the retiree or spouse up to $3,600 per calendar year per retiree. Effective January 1, 2019, the annual limit was increased to $4,000 for current retirees. For retirements on or after January 1, 2019, the annual limit is based on the number of years of service at retirement, as follows:

Service at Retirement	Annual Limit
15-19	$ 4,000
20-24	$ 4,500
25-29	$ 5,000
30+	$ 5,500

Retirees are not required to contribute to the Plan.

The number of participants in the OPEB Plan as of the actuarial valuation date of July 1, 2019, was as follows:

Active	766
Retired	51
Total	817

General: Participation in the Plan is on a voluntary basis. In order to participate in the Plan, a retiree must complete annual enrollment forms. Participation is effective on the first of the month following the date the Service receives the completed enrollment forms.

Contributions: The Service makes contributions to the Plan on a quarterly basis based on an actuarially determined amount in accordance with the actuarial valuation. Participants do not contribute to the Plan.

Benefit Payment: The reimbursement account can be used to pay for any healthcare expense that would qualify as a deduction under IRS rules such as deductibles and copayments, dental expenses, prescription drug costs, vision care expenses. The expenses submitted for reimbursement must not be eligible for payment or reimbursement under any other health plan.

Plan Termination: Although it has not expressed intent to do so, the Service has the right to discontinue its contributions or to terminate the Plan. Upon termination of the Plan, any unused benefits at the time of termination may be used up to the end of the Plan year in which termination occurs.

(In thousands except where noted)

(10) Other Postemployment Benefits (OPEB) (continued)

In 2010, the Service set up an irrevocable trust, the Maryland Environmental Service OPEB Trust Fund for the sole purpose of funding postemployment benefits for current and future retirees. Contribution requirements are determined according to actuarial valuations.

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.

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.

In the July 1, 2019, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.0% 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.

Funding Policy: The Service has an irrevocable trust, the Maryland Environmental Service OPEB Trust Fund, for the sole purpose of funding postemployment benefits for current and future retirees. Contribution requirements are determined according to actuarial valuations. The Service contributed $541 and $473, respectively, in fiscal years 2021 and 2020. Total reimbursement of medical expenses was $180 and $175, respectively, in fiscal years 2021 and 2020.

As of the June 30, 2021, the Plan was 77.7% funded. The actuarial accrued liability for benefits was $7,301 resulting in a total net OPEB liability of $1,630.

Annual OPEB Cost and Net Obligation: The Service's annual 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 generally accepted accounting principles. 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 30 years. For the fiscal year ended June 30, 2021, the Service's annual OPEB cost was $342.

Plan Expenses: The Plan incurs investment expenses in proportion to its share of each investment for which it is involved. The Service absorbs all internal administration costs related to the Plan.

The components of the net OPEB liability of the Service as of June 30, 2021, were as follows:

Total OPEB liability	$	7,301
Plan fiduciary net position		(5,671)
MES's net OPEB Liability	$	1,630
Plan fiduciary net position as a percentage of total OPEB liability		77.7%

(In thousands except where noted)

(10) Other Postemployment Benefits (OPEB) (continued)

Year Ended June 30,	2021	2020
Total OPEB Liability		
Service cost	$ 150	$ 148
Interest	490	410
Changes of benefit terms	-	-
Difference between expected and actual experience	(61)	321
Changes in assumptions and other inputs	(42)	450
Benefit payments	(180)	(175)
Net Change in Total OPEB Liability	357	1,154
Total OPEB Liability - Beginning	6,944	5,790
Total OPEB Liability - Ending	$ 7,301	$ 6,944
Plan Fiduciary Net Position		
Contributions - employer	$ 541	$ 473
Net investment income	999	(19)
Benefit payments	(180)	(175)
Net Change in Plan Fiduciary Net Position	1,360	279
Plan Fiduciary Net Position - Beginning	4,311	4,032
Plan Fiduciary Net Position - Ending	$ 5,671	$ 4,311
Net OPEB Liability	$ 1,630	$ 2,633

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.

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.

In the July 1, 2019, the actuarial valuation date, the entry age normal cost method was used. The actuarial assumptions included a 7.0% 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.

As of July 1, 2019, the latest actuarial valuation date, the accrued liability for the Plan was $7,301.

(In thousands except where noted)

(10) Other Postemployment Benefits (OPEB) (continued)

Actuarial valuation date		July 1, 2019
Actuarial value of assets	$	5,671
Actuarial accrued liability	$	7,301
Unfunded actuarial liability	$	1,630
Funded ratio		69.6%
Annualized covered payroll	$	48,536
Inflation		2.00%
Ratio of unfunded actuarial liability to annual covered payroll		3.36%
Actuarial cost method		Entry age
Money-weighted return		31.10%

Mortality rates were based on the PubG.H-2010 Employee and Healthy Retiree Mortality Tables, with generational projection using Scale MP-2020.

The long-term rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns net of OPEB plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rates of Return
Cash & Equivalents	5.00%	1.00%
Equity	70.00%	5.50%
Fixed Income	15.00%	3.50%
Real Estate	10.00%	6.00%
Other	0.00%	0.00%
Total	100.00%	5.03%

OPEB Deferred Outflows and Inflows of Resources

At June 30, 2021 and 2020, the Service reported deferred outflows of resources and deferred inflows of resources as follows:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Difference between actual and expected experience	$ 195	$ 408
Changes in assumptions	339	512
Difference between actual and expected investment earnings	240	547
Total	$ 774	$ 1,467

(In thousands except where noted)

(10) Other Postemployment Benefits (OPEB) (continued)

Amounts reported and deferred outflows of resources and deferred inflows of resources related to OPEB expense will be recognized in OPEB expense as follows:

Year Ending June 30		
2022	$	47
2023		28
2024		(25)
2025		(241)
2026		(84)
Thereafter		(418)
Total	$	(693)

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents the net OPEB liability of the Service, as well as what the Service's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current discount rate:

	1% Decrease	No Change	1% Increase
Net OPEB liability	2,569	1,630	830

The following presents the net OPEB liability of the Service , as well as what the Service's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates (7.0%):

	1% Decrease	No Change	1% Increase
Net OPEB liability	1,259	1,630	2,404

(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 become due and payable on demand. As of June 30, 2021, management believes it is in compliance with its obligations and has not violated the agreement.

(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 a portion of these closure and post closure costs as a liability based upon the estimated useful life of the landfills.

Midshore I stopped accepting waste on December 31, 2010, was capped, and is now in the postclosure monitoring and maintenance period. Total closure and postclosure care costs for the landfill is currently estimated to be $2,979, as determined through engineering studies and $1,622 has been recognized as a liability by the Service as of June 30, 2021.

Midshore II current cells are approximately 29% filled as of June 30, 2021, with a remaining life of 21 years. Total closure and postclosure care costs for the landfill is currently estimated to be $19,888, as determined through engineering studies, and $4,840 has been recognized as a liability by the Service as of June 30, 2021. 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, 2020. The Service expects to satisfy these requirements as of June 30, 2021, using the same criteria.

The Service serves as an operator for various landfills throughout the State of Maryland and no liability is recognized in regard 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 9), 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. As of June 30, 2021 and 2020, no additional assessments were made and the Service's premium for the years ended June 30, 2021 and 2020 was $4,710 and $4,747, respectively.

(14) COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Service operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Service.

Maryland Environmental Service
Required Supplementary Information
(unaudited)
(In thousands except where noted)

Schedule of Changes in Net OPEB Liability and Related Ratios

Year Ended June 30,	2021	2020	2019	2018	2017
Total OPEB Liability					
Service cost	$ 150	$ 148	$ 111	$ 107	$ 152
Interest	490	410	285	343	319
Changes of benefit terms	-	-	1,312	-	-
Difference between expected and actual experience	(61)	321	6	(501)	-
Changes in assumptions and other inputs	(42)	450	173	(669)	-
Benefit payments	(180)	(175)	(120)	(89)	(84)
Net Change in Total OPEB Liability	357	1,154	1,767	(809)	387
Total OPEB Liability - Beginning	6,944	5,790	4,023	4,832	4,445
Total OPEB Liability - Ending	$ 7,301	$ 6,944	$ 5,790	$ 4,023	$ 4,832
Plan Fiduciary Net Position					
Contributions - employer	$ 541	$ 473	$ 263	$ 368	$ 335
Net investment income	999	(19)	176	154	349
Benefit payments	(180)	(175)	(120)	(89)	(84)
Net Change in Plan Fiduciary Net Position	1,360	279	319	433	600
Plan Fiduciary Net Position - Beginning	4,311	4,032	3,713	3,280	2,680
Plan Fiduciary Net Position - Ending	$ 5,671	$ 4,311	$ 4,032	$ 3,713	$ 3,280
Net OPEB Liability	$ 1,630	$ 2,633	$ 1,758	$ 310	$ 1,552
Plan fiduciary net position as a percentage of total OPEB Liability	77.7%	62.1%	69.6%	92.3%	67.9%
Covered Employee Payroll	48,536	$ 46,669	$ 44,599	$ 42,883	$ 44,599
Net OPEB liability as a percentage of covered employee payroll	3.4%	5.6%	3.9%	0.7%	3.5%

Notes to the Schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, OPEB plans should present information for those years for which information is available.

Changes of Benefit Terms: Effective January 1, 2019, the reimbursement limit for current retirees was increased to $4,000. For retirements on or after January 1, 2019, the reimbursement limit was changed to (a) $4,000 for 15-19 years of service (b) $4,500 for 20-24 years of service, (c) $5,000 for 25-29 years of service, and (d) $5,500 for 30+ years of service at retirement.

Changes of Assumptions: Discount Rate 2017-2021 7.00%

Mortality Rates:

2017-2018	RPH-2014 Employee and Healthy Annuity, Generational with MP- 2018
2019	PubG.H-2010 Employee and Healthy Retiree, Generational with MP-2018
2020	PubG.H-2010 Employee and Healthy Retiree, Generational with MP-2019
2021	PubG.H-2010 Employee and Healthy Retiree, Generational with MP-2020

Maryland Environmental Service
Required Supplementary Information
(unaudited)
(In thousands except where noted)

Schedule of Employer Contributions OPEB

	2017	2018	2019	2020	2021
Actuarially Determined Contribution	$ 257	$ 266	$ 132	$ 287	$ 348
Employer Contribution	335	368	263	473	541
Contribution Deficiency/(Excess)	(70)	(102)	(130)	(186)	(194)
Covered Employee Payroll	39,956	42,883	44,599	46,669	48,536
Employer Contribution as a Percentage of Covered Employee Payroll	0.8%	0.9%	0.6%	1.0%	1.1%

Notes to Schedule

Methods and assumptions used to determine contributions rates:

Valuation Date:	Actuarially determined contributions are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percentage of payroll, closed
Amortization Period:	18 years
Asset Valuation Method:	Market Value
Inflation:	2.00%
Healthcare Cost Trend Rates:	8.00% initial, decreasing 0.50% per year to an ultimate rate of 5.50%
Salary Increases:	4.00% average, including inflation
Investment Rate of Return:	7.00%, net of plan investment expenses, including inflation
Retirement Rates:	In the 2018 actuarial valuation
Mortality Rates:	Mortality rates were based on the PubG.H-2010 Employee and Healthy Retiree mortality tables, Generational with Projection Scale MP-2020 for males or females, as appropriate.

Maryland Environmental Service
Required Supplementary Information
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(In thousands except where noted)

Schedule of Proportionate Share of Net Pension Liability

	2021	2020	2019	2018	2017	2016	2015
The Service's proportion of the ERS net pension liability	0.0122%	0.0127%	0.0155%	0.0131%	0.0159%	0.0143%	0.0125%
The Service's proportionate share of the ERS net pension liability	$ 2,583	$ 2,620	$ 3,260	$ 2,822	$ 3,761	$ 2,968	$ 2,102
The Service's covered employee payroll	1,085	1,119	1,365	1,365	2,557	2,483	2,177
The Service's proportionate share of the net pension liability as a percentage of its covered employee payroll	238%	234%	239%	207%	147%	120%	97%
Plan net position as a percentage of the total pension liability	70.72%	72.34%	69.38%	69.38%	65.79%	68.78%	71.87%

This schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (ERS)	$ 228	$ 243	$ 262	$ 303	$ 318	$ 336	$ 301
Contributions in relation to the contractually required contribution	228	243	262	303	318	336	301
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
The Service's covered-employee payroll	$ 1,085	$ 1,119	$ 1,365	$ 1,365	$ 2,557	$ 2,483	$ 2,177
Contributions as a percentage of covered employee payroll	21.01%	21.72%	22.19%	22.19%	12.43%	13.53%	13.83%

This schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's

Board of Directors
Maryland Environmental Service

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the Maryland Environmental Service (the Service), a component unit of the State of Maryland, as of and for the year ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Service's basic financial statements, and have issued our report thereon dated December 9, 2021.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service's internal control. Accordingly, we do not express an opinion on the effectiveness of the Service's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a significant deficiency.

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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 financial statements. 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*.

Service's Response to Findings
Government Auditing Standards requires the auditor to perform limited procedures on the Service's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Service's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

RSM US LLP

Gaithersburg, Maryland
December 9, 2021

Schedule of Findings and Responses

2021-001 – Accounting for Refunding of Debt

Criteria: In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, refundings that result in a debt defeasance require deferral of the difference between the net carrying amount of the prior refunding debt and the cost/reacquisition price of the new debt, together with the unamortized balance from the prior refunding. The deferred amount should be amortized as an element of interest expense in a systematic and rational manner over the shorter of the original amortization period remaining from the prior refundings or the life of the latest refunding debt (the new debt).

Condition: Material accounting adjustments were made to the financial statements to comply with GASB Statement No. 23. This included adjustments to bond premiums, deferred gain on refunding, and interest expense associated with the Service's refund and defeasance of the outstanding revenue bond 2011 series using tax-exempt bonds issued in September 2020.

Cause: Management did not record the defeasance of the revenue bond 2011 series in accordance with the proper accounting standards.

Effect: Reclassifications and adjustments were made to reflect the net deferred gain on refunding of approximately $217,000 as of June 30, 2021.

Recommendation: We recommend that management implement procedures to ensure future defeasance transactions are properly evaluated and accounted for.

Views of Responsible Officials and Planned Corrective Actions: Refunding and reissuing of Bond is a unique and rare occurrence. It is not done at MES for more than 20 years. We have discussed the corrections with the auditors, and we will correct our accounting ledgers accordingly. We will consult with the auditors and receive their guidance if such bond refunding occurs again.

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