

**COMMISSIONERS OF  
ST. MARY'S COUNTY**

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**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED JUNE 30, 2014**

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**Murphy & Murphy, CPA, LLC**



# The County Commissioners for St. Mary's County

June 30, 2014

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# The County Commissioners for St. Mary's County

June 30, 2014

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## INDEPENDENT AUDITOR'S REPORT

To the Commissioners of St. Mary's County, Maryland

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commissioners of St. Mary's County, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commissioners of St. Mary's County's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the St. Mary's County Public Schools, which represent 33 percent, 34 percent and 46 percent, respectively, of the assets, net position, and revenues of the total reporting entity. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the St. Mary's County Public Schools, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund

information of the Commissioners of St. Mary's County's as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As described in Note 18 to the financial statements, the Commissioners of St. Mary's County adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. Our opinions are not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension and OPEB information on pages 4-15 and 106-109 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Commissioners of St. Mary's County's basic financial statements. The combining and individual nonmajor fund financial statements, budget schedules and unexpended appropriations for capital projects are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The detailed budget schedules and unexpended appropriations for capital projects have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014, on our consideration of Commissioners of St. Mary's County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commissioners of St. Mary's County's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
November 7, 2014

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Financial Report of St. Mary's County, Maryland presents a narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2014. We encourage readers to use the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

### Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$280.4 million (*net position*). Approximately \$17.8 million, or 6.4%, is attributable to the County's enterprise funds, which include business-type activities for Solid Waste and Recycling (SW&R), Recreation and Parks recreation activities, and the Wicomico Golf Course. Approximately 24% of the total net position, or \$67.8 million (*unrestricted net position*), may be used to meet ongoing obligations to citizens and creditors. Other components of the net position are \$43.8 million of restricted net position and approximately \$168.8 million of net investment in capital assets. The net investment in capital assets represents the capitalized assets, net of accumulated depreciation and outstanding debt.
- The Government's overall net asset position reflects an increase of \$12.7 million over the prior year.
- As of June 30, 2014, the County's governmental funds reported combined fund balances of \$91.9 million, a decrease of \$3.6 million from the prior year. The general fund reflected a decrease of \$7.7 million. The capital projects fund reflected an increase of \$4.1 million. The fund balance for the non-major funds increased \$45,543. The County's governmental fund balances at June 30, 2014 include \$42.5 million for capital projects, \$46.4 million in general funds, and \$3.0 million for the other non-major funds. The general fund balance of \$46.4 million includes: \$2.1 million that is nonspendable as well as \$19 million which is committed to the following: \$12.8 million for the Bond Rating Reserve, and \$6,208,796 budgeted for use in the Approved FY2015 Budget. In addition, the general fund reflects assigned designations of approximately \$2.3 million which includes encumbrances and a Rainy Day Fund of \$1.625 million. The County's unassigned fund balance is approximately \$22.9 million, of which \$17 million was accumulated over the four years ended June 30, 2011. In the several years leading up to that, the County experienced significant positive variances in revenues, which it determined were the unusually strong economy at that time, with record increases in the values of real estate, and likely well above the amount that would be expected in future years. Subsequently, the economy declined severely, affecting the State's finances negatively, and which led to a series of State cuts and cost shifts. During that time, the County, recognizing both the economic reality and the State's fiscal difficulties, chose to retain a fund balance as a measure of flexibility should revenues or State funding decline, or should the State shift costs to the County. In the intervening years, the State has reduced its allocations significantly to all but public schools, and shifted significant costs to the County, such as teacher retirement. The County chose to base its recurring expenditure budget using sustainable revenue levels, thus avoiding recurring cost commitments that could not be funded by recurring revenues. With the FY2014 budget, the State's principal actions with respect to County funding and cost shifts were identified, though some are being phased in and affect future budgets. Though significant, the County programmed these impacts into its outer year estimates, and expects to continue to rely principally on its recurring revenues, balanced by continued cost control measures, to fund recurring expenses. The ongoing uncertainty with respect to the federal budget situation is a constant factor in budget decisions. The County is mindful that federal budget balancing efforts may disproportionately affect St. Mary's County, given the federal presence in the County – directly through federal installations such as the Patuxent River Naval Air Station (Pax River), and also the related impacts on the contractor community which is also a significant employment sector for the County. As noted later in this section, the FY2014 actual revenues reflect such impact. The County deems it prudent to stay the course with respect to basic government services, while maintaining reserves adequate to cushion against changes over which it has little influence. As a part of the FY2015 budget process, the County approved a plan for the use of fund balance that includes both FY2015 and FY2016, and maintains significant balances that can be used to mitigate the impact or at least allow the County to transition to the potential new levels of economic activity, without undue and/or unnecessary disruption to citizen services. The non-major funds are special purpose funds that correspond to special assessments, the

Emergency Services Support Fund, and a revolving loan fund set up to assist volunteer fire and rescue squads in financing their acquisition of capital assets. The special assessments fund reflects a deficit because expenditures are incurred by the County and then are reimbursed by various entities pursuant to written agreements over varying periods of time, which correspond to the underlying asset.

- The business-type operating activities reflect a net increase in net position of \$287,583. Fee-based recreation activities posted an increase of \$106,143, though a principal component of that is a non-recurring activity related to capital assets. This fund is an accumulation of a large number of recreation activities, and fees are adjusted so that the fund, over the long term, breaks even, with no significant net position being accumulated. Fee-based solid waste and recycling activities posted an increase of \$356,068. Beginning with the FY2012 budget, the general fund subsidy for this activity was set at \$1 million annually, with any changes in funding needed coming through expenditure adjustment or revenue enhancement. The Wicomico Golf Course reflects a decrease of \$174,628, which reflects a decline in charges from the prior year, for the second year. The enterprise funds are reviewed for sustainability, as a part of the annual budget process. At the same time, increased costs for personal, utilities and general operating costs has been realized. During FY 2015 and 2016, consideration will be given to the fee schedules as well as cost control, to restore this activity to a balanced budget.
- At June 30, 2014, the unassigned fund balance for the general fund (primary operating fund) was \$22.9 million, or 11.3% of general fund expenditures. Assigned fund balance of the general fund was \$2.3 million, or 5.0% of the general fund total fund balance.
- Governmental activities' total indebtedness, including general obligation bonds, water quality loans and exempt financing, decreased by a net of \$9.2 million during the fiscal year ended June 30, 2014. The increase was principally related to a bond refunding. Payments on the debt totaled \$9.6 million. The estimated post-closure costs of the landfill decreased by \$425,000 and there was a net increase in the accrual for compensated absences of \$259,373.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements, which comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required and non-required supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner comparable to a private-sector business.

The *statement of net position* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, public works, health, social services, economic development, agricultural land preservation and recreation and parks, community services, planning and zoning, and permits and inspections. The business-type activities of the County include Wicomico Golf Course, Solid Waste and Recycling Activities and the Recreation Activities.

The government-wide financial statements include not only the Commissioners of St. Mary's County itself (known as the *primary government*), but also legally separate component units. The County has the following component units: St. Mary's County Public Schools, St. Mary's County Library, the Metropolitan Commission, and the Building Authority. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 16 to 19 of this report.

**Fund financial statements:** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds:** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Commissioners of St. Mary's County maintains five individual governmental funds: general, capital projects, special assessments, fire and rescue revolving funds, and emergency support. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general, capital projects and non-major funds (special assessments, fire and rescue revolving, and emergency support funds). The detail for the non-major funds is presented as part of supplementary information following the notes to the financial statements.

The Commissioners of St. Mary's County adopts an annual appropriated budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, the County's primary fund. The basic governmental fund financial statements can be found on pages 20 to 21 of this report.

**Proprietary funds:** Proprietary funds, also known as *Enterprise funds*, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Commissioners of St. Mary's County uses enterprise funds to account for Wicomico Golf Course, and fee-based Solid Waste and Recycling Activities and Recreation Activities. The proprietary fund financial statements can be found on pages 23 to 25 of this report.

**Fiduciary funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support The Commissioners of St. Mary's County own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary Funds are established for retiree benefit trusts, specifically the Sheriff's Office Retirement plan and the Retiree Benefit Trust of St. Mary's County, Maryland, which addresses the County's retiree health benefits. The basic fiduciary fund financial statements can be found on pages 26 to 29 of this report.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 30 to 105 of this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Commissioners of St. Mary's County's progress in funding its obligations to retiree benefits. Required supplementary information can be found on pages 106 to 109 of this report. Other supplementary information can be found on pages 110 to 120.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's overall financial condition and position. In the case of St. Mary's County, assets exceeded liabilities by \$280.4 million at the close of the current fiscal year. The County's net position is divided into three categories: net investment in capital assets, restricted net position; and unrestricted net position. Approximately 58.0% of the County's net position reflects its net investment in capital assets (e.g., land and easements, buildings, machinery, equipment, infrastructure and improvements), less any outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net position represents 15.6% of total net position. Restricted net position is resources that are subject to external restrictions on how they may be used. Unrestricted net position of the government has a balance of \$67.8 million (24.2% of total net position) which may be used to meet the government's ongoing obligations to citizens and creditors.

### COMMISSIONERS OF ST. MARY'S COUNTY NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>						
Current Assets	\$140,002,069	\$139,924,722	\$ 1,921,748	\$ 1,704,684	\$141,923,817	\$141,629,406
Other Non-Current Assets	1,684,248	1,699,797	-	-	1,684,248	1,699,797
Capital Assets, net of accumulated depreciation	238,741,446	229,721,777	17,200,491	17,186,323	255,941,937	246,908,100
Bond refunding	<u>2,575,858</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,575,858</u>	<u>-</u>
Total Assets & Deferred Outflow of Resources	<u>\$383,003,621</u>	<u>\$371,346,296</u>	<u>\$ 19,122,239</u>	<u>\$ 18,891,007</u>	<u>\$402,125,860</u>	<u>\$390,237,303</u>
<b>LIABILITIES</b>						
Current Liabilities	\$ 22,155,184	\$ 18,323,522	\$ 802,739	\$ 751,195	\$ 22,957,922	\$ 19,074,717
Non-current Liabilities	94,193,430	100,573,982	493,619	601,514	94,687,050	101,175,496
Unavailable income tax distribution	<u>4,074,955</u>	<u>3,261,805</u>	<u>-</u>	<u>-</u>	<u>4,074,955</u>	<u>3,261,805</u>
Total Liabilities & Deferred Inflow of Resources	<u>120,423,569</u>	<u>122,159,309</u>	<u>1,296,358</u>	<u>1,352,709</u>	<u>121,719,927</u>	<u>123,512,018</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	152,328,264	133,707,214	16,503,423	16,733,007	168,831,687	150,440,221
Restricted	43,767,714	35,661,114	-	-	43,767,714	35,661,114
Unrestricted	<u>66,484,074</u>	<u>79,818,659</u>	<u>1,322,458</u>	<u>805,291</u>	<u>67,806,532</u>	<u>80,623,950</u>
Total Net Position	<u>262,580,052</u>	<u>249,186,987</u>	<u>17,825,881</u>	<u>17,538,298</u>	<u>280,405,933</u>	<u>266,725,285</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$383,003,621</u>	<u>\$371,346,296</u>	<u>\$ 19,122,239</u>	<u>\$ 18,891,007</u>	<u>\$402,125,860</u>	<u>\$390,237,303</u>

At June 30, 2014, the Commissioners of St. Mary's County reports positive balances in all three categories of net position as a whole.

The following table indicates the changes in net position for governmental and business-type activities:

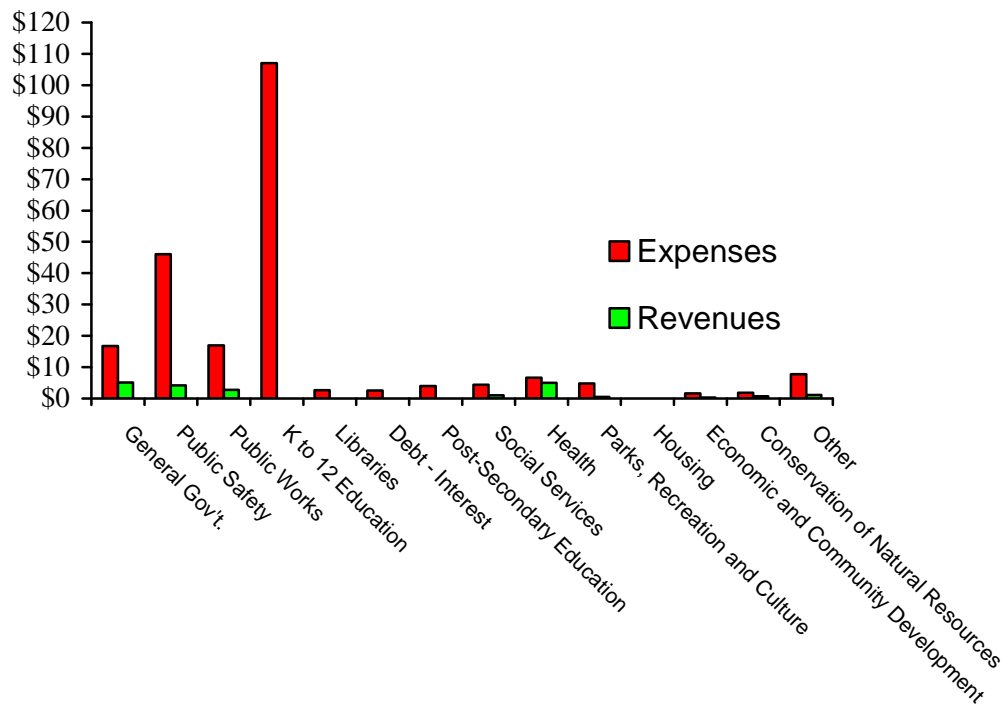
**COMMISSIONERS OF ST. MARY'S COUNTY CHANGES IN NET POSITION**  
Years Ended June 30, 2014 and 2013

	<u>Governmental Activities</u>		<u>Business –Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Program Revenues:						
Charges for Services	\$ 6,355,495	\$ 6,783,810	\$ 3,376,782	\$ 3,460,066	\$ 9,732,277	\$ 10,243,876
Environment/Solid Waste Fees	-	-	2,887,242	2,796,387	2,887,242	2,796,387
Operating Grants and Contributions	12,788,756	11,978,899	32,061	29,066	12,820,817	12,007,965
Capital Grants and Dedicated Fees or Taxes	1,565,659	1,435,775	-	-	1,565,659	1,435,775
General Revenues:						
Property Taxes	103,014,068	100,809,676	-	-	103,014,068	100,809,676
Income Taxes	77,384,719	76,746,270	-	-	77,384,719	76,746,270
Other Taxes	14,672,233	13,877,868	-	-	14,672,233	13,877,868
Investment Earnings	54,945	50,530	39,624	587	94,569	51,117
Subsidies to Enterprise Funds	(1,000,000)	(980,065)	1,000,000	980,065	-	-
Roads Constructed by Third Parties	6,061,227	1,836,173	-	-	6,061,227	1,836,173
Capital Transfer	(103,010)	(94,437)	103,010	94,437	-	-
Miscellaneous, principally Capital Projects Funding	<u>14,511,011</u>	<u>14,402,355</u>	<u>-</u>	<u>-</u>	<u>14,511,011</u>	<u>14,402,355</u>
Total Revenues	<u>\$235,305,103</u>	<u>\$226,846,854</u>	<u>\$ 7,438,719</u>	<u>\$ 7,360,608</u>	<u>\$242,743,822</u>	<u>\$234,207,462</u>
Program Expenses:						
General Government	16,790,502	14,479,550	-	-	16,790,502	14,479,550
Public Safety	46,043,586	50,001,327	-	-	46,043,586	50,001,327
Public Works	16,933,853	24,533,468	3,556,520	3,502,487	20,490,373	28,035,955
Health	6,605,425	6,495,400	-	-	6,605,425	6,495,400
Social Services	4,364,022	4,050,664	-	-	4,364,022	4,050,664
Primary and Secondary Education	107,005,644	90,038,986	-	-	107,005,644	90,038,986
Post-Secondary Education	3,951,949	3,823,574	-	-	3,951,949	3,823,574
Parks, Recreation, and Culture	4,753,559	4,975,577	3,594,616	3,422,933	8,348,175	8,398,510
Housing	-	1,100,256	-	-	-	1,100,256
Libraries	2,658,741	2,608,194	-	-	2,658,741	2,608,194
Conservation of Natural Resources	1,867,646	2,015,042	-	-	1,867,646	2,015,042
Economic Development and Opportunity	1,599,234	1,419,104	-	-	1,599,234	1,419,104
Interest on Debt	2,584,714	2,060,108	-	-	2,584,714	2,060,108
Other, principally Retirees' Health	<u>7,728,565</u>	<u>7,422,174</u>	<u>-</u>	<u>-</u>	<u>7,728,565</u>	<u>7,422,174</u>
Total Expenses	<u>\$222,887,440</u>	<u>\$215,023,424</u>	<u>\$ 7,151,136</u>	<u>\$ 6,925,420</u>	<u>\$230,038,576</u>	<u>\$221,948,844</u>
Increase/(Decrease) in Net position	12,417,663	11,823,430	287,583	435,188	12,705,246	12,258,618
Net Position – Beginning, as Previously Stated	249,186,987	237,363,557	17,538,298	17,103,110	266,725,285	254,466,677
Change in Accounting Principle	(329,598)	-	-	-	(329,598)	-
Prior Period Adjustment	1,305,000	-	-	-	1,305,000	-
Net Position – Beginning, as Restated	<u>250,162,389</u>	<u>237,363,557</u>	<u>17,538,298</u>	<u>17,103,110</u>	<u>267,700,687</u>	<u>254,466,677</u>
Net Position - Ending	<u>\$262,580,052</u>	<u>\$249,186,987</u>	<u>\$ 17,825,881</u>	<u>\$ 17,538,298</u>	<u>\$280,405,933</u>	<u>\$266,725,285</u>

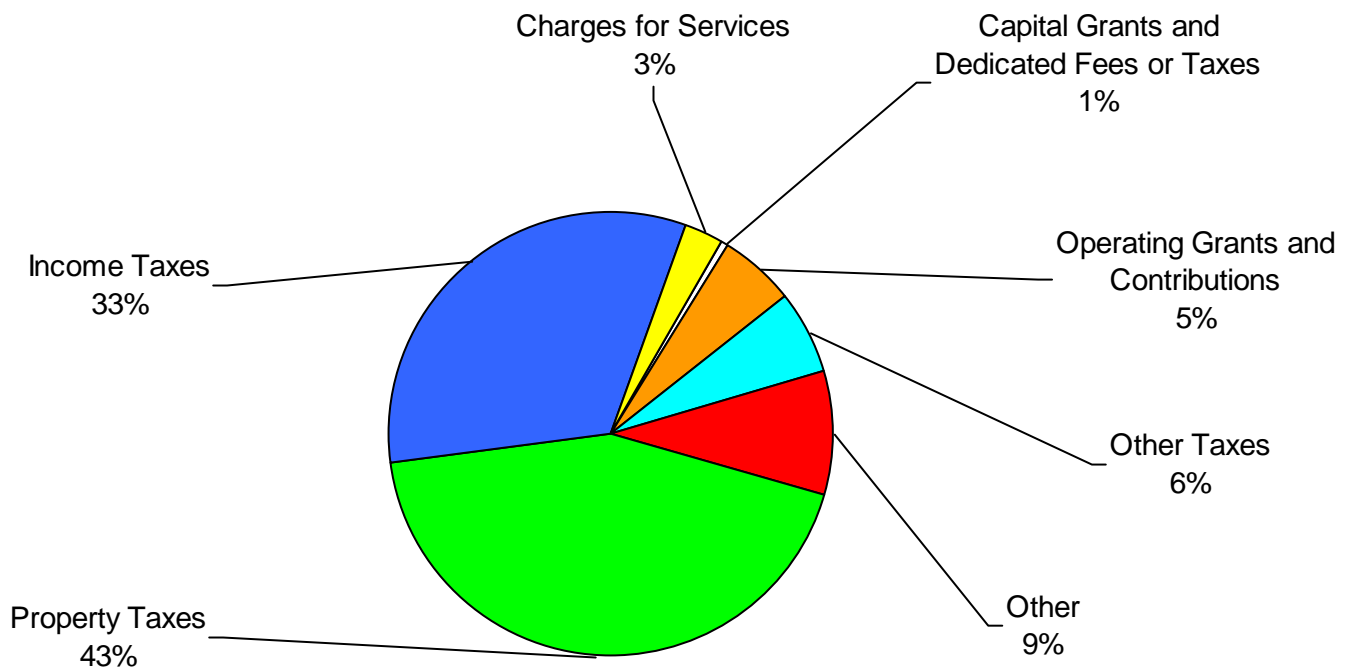
**Governmental activities:** Governmental activities reflected an increase in net position of \$12.4 million. The governmental funds reflected a net decrease of \$3.6 million.

**Business-type activities:** Business-type activities reflected an increase in net position of \$287,583. Wicomico Golf Course, Recreation and Parks, and Solid Waste and Recycling fee-based activities all posted increases.

### Expenses and Program Revenues – Governmental Activities (in millions)



### Revenues By Source – Governmental Activities



## Financial Analysis of the Government's Funds

As noted earlier, the Commissioners of St. Mary's County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds:** The focus of the Commissioners of St. Mary's County *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Commissioners of St. Mary's County financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2014, the Commissioners of St. Mary's County governmental funds reported combined ending fund balances of \$91.9 million, a decrease of \$3.6 million over the prior year. The Capital Projects fund accounts for \$42.5 million. Approximately \$26.9 million, or 29.3% of this total, constitutes *assigned and unassigned fund balances*, which are available for spending at the government's discretion, of which \$25.2 million is in the General Fund. Of this \$25.2 million, the Board of County Commissioners has assigned \$2.3 million to the Rainy Day Fund, Encumbrances and the Miscellaneous Revolving Fund. As a part of the FY2015 budget, the Board identified amounts for FY2016 of \$10.4 million, to be used for non-recurring items such as County and Board of Education OPEB and capital project pay-go funding, leaving \$6.9 million unassigned after FY16. The OPEB funding would be in addition to the scheduled full funding of the annual actuarially-determined OPEB cost for the County. The application of fund balance to the subsequent year's budget and these designations are discussed elsewhere in this section. Restricted and committed fund balances include \$40.8 million for capital projects, \$12.8 million for the Bond Rating Reserve, and the FY2015 budgeted items of \$1.4 million for pay-go funding as well as a supplemental funding of \$3 million to pay-down OPEB liabilities. Nonspendable fund balance includes \$1,006,510 committed to liquidate inventories, \$20,600 committed to prepaid postage and \$1,023,244 in interfund advances, which represents the loan made to Wicomico enterprise fund from the general fund so that it could reduce its debt service payments by refunding a bank loan in a prior year.

The general fund is the chief operating fund of the Commissioners of St. Mary's County and is central to the budget process and management of current resources. At June 30, 2014, assigned and unassigned fund balances of the general fund were \$25.2 million. As a measure of the general fund's liquidity, it may be useful to compare both assigned and unassigned fund balances and total fund balance to total fund expenditures. Assigned and unassigned fund balances represent 12.5% of total general fund expenditures, excluding pass-throughs, while total fund balance represents 27.6% of that same amount.

The fund balance of the Commissioners of St. Mary's County general fund decreased by \$7.7, which is almost \$2 million more than the prior year. However, both FY2013 and FY2014 had planned use of fund balance for non-recurring expenses and significant application to capital project pay-go funding (\$9.9 million in FY2014). The County prefers to use the elevated level of fund balance for items such as pay-go, since each \$1 million applied to pay-go vs. debt financing saves \$75,000 in debt service annually over 20 years. The variances are discussed previously.

The capital projects fund has a total fund balance of \$42.5 million. This balance reflects the accumulated unspent balances of impact fees, recordation taxes, transfer taxes, and pay-go, which has been appropriated for specific projects, but remains unspent as of June 30, 2014. These funds have been budgeted, and the capital projects are in progress. A listing of the unexpended balances appears elsewhere in this document.

**Proprietary funds:** The Commissioners of St. Mary's County's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, the Wicomico Golf Course Fund reflected unrestricted net position of (\$1,059,929). The Recreation Activities Fund reflected unrestricted net position of \$366,505, and the unrestricted net position of the Solid Waste and Recycling Fund amounted to \$1,661,033. On a combined basis, there was a (\$925,861) decrease in unrestricted net position. Factors concerning these funds' finances are addressed in the discussion of the County's business-type activities.

## General Fund Budgetary Highlights

In addressing the budget to actual variances, this section addresses both the original approved budget and final budget. The "other supplementary information" on pages 112 through 118 reflects the original and revised budgets as well as the actual results in more detail. In explaining the budget variances, we exclude the "Grant reserve" on both the revenues and expenses, because this is simply an appropriation reserve that is set up as a part of the budget process, in matching amounts for both revenues and expenses, but which is only used for appropriation authority, and is not represented by actual budgeted revenues or expenses. FY2014 actual results reflect actual revenues that are about \$2.6 million less than budgeted; however, this is largely attributable to the \$2.0 million negative variance in grants. Such variances in grants can be the result of not getting grants that were budgeted as well as incurring the grant revenues in a subsequent period, when the corresponding revenues are then reflected. The grants variance has a corresponding level of reduced expenditure activity, which results in no net effect on fund balance. The remaining revenue variance is the net of an income tax shortfall of \$2.3 million, partially offset by positive variances, principally in property tax and recordation tax revenue. The income tax shortfall reflects the effect of the federal government's sequester and especially the effect of the furloughs, which had a disproportionate effect on the County. The income tax variance from the original budget of \$4.6 million, while significant, was not disruptive to the County's operations, because of other measures taken as a part of the budget process. As a part of the FY2014 budget process, the Board set up a reserve of \$2,053,468, which represented recurring revenues estimated, but set aside in a reserve to be used to offset negative revenue results or, if not needed, could be used as additional OPEB funding. In addition, the County had identified several expenditure areas that could be scaled back without disruption, should the negative impact be realized. The FY2014 results reflect positive expenditure variances of approximately \$5.9 million, (again, excluding grants and the grant reserve) of which \$2,053,468 is the re-alignment of the reserve funds mentioned previously to cover part of the income tax shortfall. The largest area of expenditure savings are in allocations to the Office of the Sheriff, which reflect position savings of \$1.5 million, of which \$461,000 was transferred to the Sheriff's Office Retirement Plan to pay down the unfunded liability, as well as another \$371,000 in various expenditure savings. Another significant area of savings was in the FY2014 maintenance costs budgeted for the NextGen system, which due to the timing of the warranty period there was about \$709,000 not needed for payments until FY2015. The County departments also experienced personal services savings of about \$950,000, which reflects positions that were vacant for a time period, changes in the health benefit enrollment from what was budgeted for all positions, as well as deferred filling of positions, such as in the Department of Economic Development, where the County opted to proceed aggressively with a Comprehensive Economic Development Strategy (CEDS, which is discussed later in this section) prior to determining the optimum staffing. The County again experienced budget savings in non-public school transportation, utilities and STS, though the amounts are less than prior years, as the budgets are refined based on prior year actual. The FY2015 budget for income tax revenue is based upon an annual growth rate of 4.8% applied to calendar/tax year 2012 results based on returns filed. The calendar 2012 tax returns actually reflected a growth of 5.17%, but the lower rate was used to adjust for the impact of the federal budget actions. FY2015 revenue estimates will be addressed and actions taken to re-balance the budget. FY2015 budget had several areas identified, such as deferred hiring of staff and the timing of the bond sale, that can be adjusted to enable the balancing. This will incorporate information about the 2013 tax returns, which is only known in late November / early December. As the information on pages 112 through 118 shows, there are a variety of smaller variances; these were considered when developing the revenue budget for FY2015. The County will continue to monitor closely the developments in property and income taxes, as these are such a significant component of funding. Given the economy, it is likely that the rate of growth in property taxes will be minimal, due to the contraction of assessed values and the slower rate of growth. As for income taxes, the County will continue to budget based on its specific taxable income statistics, as provided by the State, rather than the State's distributions, which are based on State-wide cash flow.

The County will continue to take a conservative approach to revenue estimates, given the significant uncertainty surrounding the federal budget and the general economy – continuing to focus on efficiency measures, both as a part of budget adoption, and also throughout the operational year. The use of selected budget savings to pay down liabilities instead of increasing recurring cost is a good indicator of the County's conservative approach. Savings are not re-aligned to spend on recurring costs that carry future funding commitments. Instead, the savings are used to pay down liabilities to reduce future annual costs, or allowed to accrue to fund balance to fund future non-recurring costs. This reflects the County's disciplined approach to budgeting, including adherence to budgeted activities,



position control, judicious review of supplemental budget requests, use of an encumbrance-based approach, continued focus on efficiency and effectiveness, and prudent fiscal management at all levels.

Recurring expenses must be supported by recurring revenues in order to be sustainable. The County builds a budget based on sustainable levels of revenues, and uses any excess generated in one year to fund non-recurring items in subsequent budget years. As indicated previously, the County has retained significant fund balance to position it to be able to address the uncertain future caused by the economy, especially as it relates to State and Federal funding. The federal budget situation can be expected to have an effect on the County's economy directly as well as through the State allocations, though it may take several years until the effect is known with certainty. As a part of each annual budget process, the County Commissioners approve a fund balance plan that utilizes funds not needed for operating reserves for transfers to retiree benefit trusts and pay-go for capital over the next several years. It also retains a significant reserve balance not identified for such purposes. Higher reserves at this time will enable us to soften the impact of further cuts or cost shifts, allowing some additional time to implement longer term cost reduction measures, as might be appropriate. In a report released by the State in January 2014, it identified the County as ranking 21<sup>st</sup> in its tax effort for property and income tax. With the low property tax rate and an income tax rate that is less than the maximum allowed by the State, the County maintained ample capacity for revenue enhancement should future needs arise, and the circumstances warrant it.

### Capital Asset and Debt Administration

- **Capital assets:** The Commissioners of St. Mary's County investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$256 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure and land development rights. The net increase in the County's investment in capital assets for the fiscal year ended June 30, 2014 was \$9,033,837. It should be noted that the capital asset balances include the County's infrastructure (i.e., roads), as the County has fully implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

#### COMMISSIONERS OF ST. MARY'S COUNTY CAPITAL ASSETS (At Cost, Net of Accumulated Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 32,385,283	\$ 32,035,283	\$ 1,078,666	\$ 1,078,666	\$ 33,463,949	\$ 33,113,949
Building and Improvements	61,437,857	60,043,856	2,740,245	2,822,158	64,178,102	62,866,014
Facilities Under Construction	7,126,593	10,612,689	-	-	7,126,593	10,612,689
Solid Waste Facilities	-	-	12,248,547	12,248,547	12,248,547	12,248,547
Infrastructure	120,640,350	115,393,282	181,002	197,696	120,821,352	115,590,978
Vehicles	4,288,691	3,880,023	824,134	761,958	5,112,825	4,641,981
Equipment	12,862,672	7,756,644	127,897	77,298	12,990,569	7,833,942
	<u>\$238,741,446</u>	<u>\$229,721,777</u>	<u>\$17,200,491</u>	<u>\$17,186,323</u>	<u>\$255,941,937</u>	<u>\$246,908,100</u>

Major capital asset events during the current fiscal year included the following:

- Approximately \$10.2 million in road costs were capitalized, including \$6.1 million in roads developed/constructed by third parties, the largest being: Primevere Road, Middlegate Drive, Pembroke Street and South Coral Drive.
- Approximately \$1.4 million in vehicle costs were capitalized, including \$700,000 in Sheriff's Department vehicles.
- NextGen 911 System & Equipment was placed in service in FY14 totaling \$6.3 million
- STS Bus Barn, at a cost of \$1.2 million, was placed in service
- Purchased land of \$350,000 relating to the FDR project

Additional information on the County's capital assets can be found in Note 4 of this report.

**Long-term debt:** At June 30, 2014, the Commissioners of St. Mary's County had the following debt, and other similar obligations outstanding, as set forth in the table below. The full faith and credit and unlimited taxing power of the Commissioners of St. Mary's County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the General Obligation Bonds.

COMMISSIONERS OF ST. MARY'S COUNTY'S GENERAL OBLIGATION DEBT

Primary Government

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Amounts due within one year</u>
General Obligation Bonds(GOB) – County	\$ 77,484,000	\$ 83,885,000	\$ 6,996,000
Water Quality Loans	1,917,224	2,480,790	573,006
State Loans	1,779,889	1,789,140	151,330
Surplus Property Transfer of Debt	578	1,206	140
Exempt Financing (Equipment & Vehicles)	<u>6,367,947</u>	<u>8,437,967</u>	<u>2,096,044</u>
	<u>\$ 87,549,638</u>	<u>\$ 96,594,103</u>	<u>\$ 9,816,520</u>

Business-Type Activities

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Amounts due within one year</u>
Exempt Financing (Equipment)	<u>\$ 342,218</u>	<u>\$ 453,317</u>	<u>\$ 112,643</u>

The Commissioners of St. Mary's County's total general obligation bonded debt decreased by \$9,044,465 reflecting new exempt financing for NextGen equipment and vehicles, offset by principal payments, State loans for capital projects, and adjustments of accruals for compensated absences.

The County has an AA+ rating from Fitch Ratings, an "AA+" from Standard and Poors and an "Aa2" rating from Moody's Investors Service, Inc. Rating reviews issued by the agencies have typically cited the County's low debt burden with rapid amortization, careful management of the capital program, healthy reserves, budget flexibility, a stable economy, and prudent fiscal policies. The County's debt policy, adopted by the Board, provides that the ratio of debt to assessed value not exceed 2%, and debt service as a percent of current general fund revenue not exceed 10%. The County is well within these parameters, and monitors capital budgets and 5-year plans to ensure it remains within the limitations.

Additional information on the Commissioners of St. Mary's County's long-term debt can be found in Note 7 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The FY2015 expenditure budget is \$214.3 million, with another \$6.2 million identified for non-recurring transfers and reserves. It is funded by \$214.3 million of revenues as well as the application of \$6.2 million of fund balance. The property tax income is based on information provided by the State as to estimated taxable assessed value of \$11.9 billion, a small increase over the prior year's estimate of \$11.675 billion. The impact of triennial assessments that show declines in the full value are somewhat mitigated by the County's cap of 5%, because the drastic increase in the assessed values of the prior year weren't fully incorporated into the revenues. However, this trend is expected to have a dampening effect on the future years' estimates of property tax income, especially when combined with slower growth. Initial billings for FY2015 are slightly above the estimates. The income taxes were budgeted at \$85.2 million. This represents an increase of 3.9% over the FY2014 budget, and reflects both the estimated County specific tax returns as well as \$3.5 million which is estimated to be interest and penalties as well as the share of State-wide

unallocated taxes that will be distributed to the County by the State. Preliminary indications, based on the first of the four large distributions made by the State, indicate that budget will not be met. The growth in the calendar year 2012 returns is less than prior years, and lower than the assumed growth factor used in the budget. The extent to which this might be one-time shortfalls due to furloughs and federal sequester actions that occurred late in calendar year 2013 is not estimable. As a part of the first several work sessions for budget FY2016, these shortfalls and revised estimates will be addressed. When the FY2015 budget was adopted, this potential was considered. There are positions that were planned to be hired effective January 31, 2015, which were identified for possible elimination, if revenues did not materialize. Additionally, given the positive expense variances of FY2014, there are other areas where estimates and activities can be re-aligned to correspond to funds available. The County will continue to monitor the income tax trend, and take an aggressive approach to expenditure control. As indicated previously, the County expects its reserves to be more than adequate to offset any negative revenue impact from these federal actions, so that disruption can be avoided, and a revised plan for FY2015 and FY2016 can be developed.

- Though the County is influenced by the federal and State economies, the activities and operations of the Naval Air Station Patuxent River are still expected to have a stabilizing effect on the local economy. The number of jobs and related services and the number and diversity of technology companies tied to the work at the base are relatively stable. The County is closely monitoring federal budget cuts to determine how these cuts will affect St. Mary's. Most recently, the County engaged the Regional Economic Studies Institute of Towson University to analyze the direct impact of Sequestration and reduced federal defense spending on the future of the County's economy. This analysis shows increased growth in the number of jobs, wages and economic output although at a slower rate of growth than would have been expected without the dampening influence of Sequestration and reduced federal spending. The study's findings of continued positive economic growth is due to the world class facilities at Pax River which continue to attract national and international business and to the FAA's recent designation of the Mid-Atlantic Aviation Partnership (MAAP), of which Maryland is apart, as one of six regions in the country permitted to test unmanned aerial systems (UAS) in commercial air space.
- Maryland has identified St. Mary's County's Regional Airport in Hollywood as one of only two "UAS test sites" in the State. Consequently, the University of Maryland System, which is leading the State's participation in the MAAP, recently announced its commitment to construct a UAS research facility on the campus of the Southern Maryland Higher Education Center which is directly adjacent to the County's airport. The projected \$60 million facility will be opened within 3 years. This announcement has triggered a flurry of prospective new business for our County. Unmanned and autonomous systems, which have both commercial and defense applications, are expected to drive the next wave of job and business growth in St. Mary's County.
- Despite these promising indicators of future economic growth, the County will retain its fund balance and continue its cost containment efforts to hedge against any further changes to the federal budget.
- The population growth for the County continues to be one of the highest in the State.
- The County ranks near the top in the State for growth in the labor force, average weekly wages, and median household income. We typically post unemployment rates below State averages.
- The Tourism and Hospitality Industry continues to be an important component of the local economy. The industry generates 2,245 jobs including direct and indirect positions; \$143 million in industry sales and \$4.4 million in tourism-related sales and use taxes.
- Residential construction is ticking upward and over 245,000 square feet of phased commercial construction divided between two new shopping centers located in the County's largest Development District is permitted and under construction. A new 40,000 square foot medical center will soon break ground on a property located within the heart of our community revitalization district. The County's office vacancy rate has,

however, increased substantially in the last three years reflecting the defense contractor community's concerns about the continuing uncertainty of the federal budget.

- The County is well aware of its economic dependence on defense spending. To lessen this dependency, the Commissioners have undertaken the development of a Comprehensive Economic Development Strategy (CEDS) focused on the diversification of the County's future economy. Federal Department of Economic Adjustment and state grant funding has been secured to match the County's financial contribution to this effort. Both the University of Maryland and Towson University are now under contract to provide data analysis and to facilitate the master planning process. Furthermore, the Southern Maryland region was recently awarded a significant federal Office of Economic Adjustment grant to explore the use of defense patents for technology commercialization. Both the regional initiative and the County's CEDS process will be completed within the next two years. In the meantime, the County is focusing considerable resources and funding on the exploration and development of an "entrepreneur ecosystem" to support technology business start-ups and growth. The County is supporting the College of Southern Maryland's efforts to launch an Entrepreneur and Innovation Institute to further enhance business development opportunities while also working closely with the Maryland Technology Economic Development Corporation to provide mentoring and financial assistance to technology and technology-enabled local business enterprises.

Each budget cycle includes reviews of both the operating and capital spending plans for sustainability and affordability. The County's debt policy is conservative and is a significant consideration in budget deliberations. The County has used its fund balance in the previous years to pay for capital projects, rather than borrow, and also to pay down its unfunded accrued liability for retiree health obligations. The County has funded the full required actuarially determined annual contribution for OPEB annually since FY2008 out of recurring revenues. Additionally, the County has used operating budget savings to make supplemental contributions to the OPEB Trust and to increase its pay-go funding of capital projects, which reduces the debt needed. Each of these actions served to reduce future annual expenditures. As indicated in the development of the fund balance plan, it is expected that during the FY2016 and FY2017 budget cycles, as the economic picture, including the State and Federal budget, becomes clearer, the County will again address the levels of fund balance and reserves.

The Board intends to continue its use of multi-year outlooks and sustainability reviews as a part of the budget process, accompanied by interim reviews of selected revenues and expenditures. It is expected that cost-saving measures will continue, and that savings will be used to reduce future costs. County Departments (which does not include Law Enforcement or Corrections) staffing in the FY2015 budget remains at levels comparable to more than a decade ago, achieved through use of technology as well as operational stream-lining and privatization. These reviews are not focused simply on the operating budget, but include the review of capital projects that can often have significant operational impacts beyond the debt service needed to repay any related borrowings. Given the Federal budget situation and its potential impact on Pax River and the related County economy, the Board recognizes that its plan must be scalable to accommodate the economic conditions of the near term. With conservative financial practices, continued focus on cost-saving measures during regular financial reviews, and tight expenditure controls, the County retains the flexibility and capacity to manage through these challenging times. Tax rates for FY2015 remained unchanged, and property tax rates are among the lowest in the State, thus retaining tax flexibility and capacity for the future. However, it is the goal to manage our way through these tough economic times using a variety of measures, with a balanced approach that considers the needs and priorities of our citizens. The continued focus will be to assure that adequate and sustainable resources are identified to address prioritized needs – both capital and operating – now and for the future.

### **Requests for Information**

This financial report is designed to provide a general overview of St. Mary's County Government's finances for those interested in the Government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Finance, Commissioners of St. Mary's County, P.O. Box 653, Leonardtown, Maryland 20650, or via email at [Finance@stmarysmd.com](mailto:Finance@stmarysmd.com).

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COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
<b>ASSETS</b>							
Cash and cash equivalents	\$ 94,659,233	\$ 184,499	\$ 94,843,732	\$ 17,911,711	\$ 716,766	\$ 14,159,362	\$ -
Internal balances	(1,426,419)	1,426,419	-	-	-	-	-
Restricted cash and investments	138,400	175,613	314,013	83,143	162,990	-	-
Taxes receivable	3,852,987	-	3,852,987	-	-	-	-
Income tax reserve, funds held by the State	4,074,955	-	4,074,955	-	-	-	-
Due from other governments	-	-	-	8,305,436	-	-	193,054
Special assessments receivable	2,602	-	2,602	-	-	-	-
Notes receivable, Fire and Rescue loans	296,228	-	296,228	-	-	-	-
Accounts receivable	13,617,025	92,592	13,709,617	393,994	88,611	7,035,515	-
Inventory	1,006,510	35,602	1,042,112	169,156	-	323,820	-
Prepaid, post-retirement benefit (OPEB)	21,658,485	-	21,658,485	-	252,603	300,388	-
Net pension asset (SORP)	1,766,000	-	1,766,000	-	-	-	-
Other, principally prepaid expenses	343,266	7,023	350,289	8,620	-	47,175	-
Due from fiduciary fund	12,797	-	12,797	-	-	-	-
Unamortized bond discount	-	-	-	-	-	100,245	-
Fire and Rescue loans receivable, net of short-term portion	901,223	-	901,223	-	-	-	-
Special tax assessments receivable, net of short-term portion	783,025	-	783,025	-	-	-	-
Capital assets	394,247,687	22,045,611	416,293,298	373,827,892	5,790,489	173,687,872	-
Accumulated depreciation	(155,506,241)	(4,845,120)	(160,351,361)	(131,329,938)	(4,345,696)	(54,155,807)	-
Capital assets, net of accumulated depreciation	<u>238,741,446</u>	<u>17,200,491</u>	<u>255,941,937</u>	<u>242,497,954</u>	<u>1,444,793</u>	<u>119,532,065</u>	<u>-</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>							
Bond refunding	<u>2,575,858</u>	<u>-</u>	<u>2,575,858</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets and Deferred Outflow of Resources</b>	<u><b>\$ 383,003,621</b></u>	<u><b>\$ 19,122,239</b></u>	<u><b>\$ 402,125,860</b></u>	<u><b>\$ 269,370,014</b></u>	<u><b>\$ 2,665,763</b></u>	<u><b>\$ 141,498,570</b></u>	<u><b>\$ 193,054</b></u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
<b>LIABILITIES</b>							
<u>Current liabilities</u>							
Accounts payable	\$ 5,712,776	\$ 272,865	\$ 5,985,641	\$ 4,458,451	\$ 122,000	\$ 2,002,155	\$ -
Compensation-related liabilities	8,106,471	275,407	8,381,878	15,648,235	100,049	-	-
Unearned revenue	2,918,398	254,467	3,172,865	1,913,014	-	47,366	-
Other liabilities	5,224,485	-	5,224,485	187,462	-	1,890,448	-
Due to other governments	193,054	-	193,054	2,519,790	-	-	-
Accrued expenses including estimated health insurance claims incurred but not reported	-	-	-	79,082	-	-	-
<u>Non-current liabilities</u>							
Due within one year	9,832,205	112,643	9,944,848	1,998,120	-	2,420,340	-
Due in more than one year	84,361,225	380,976	84,742,201	42,259,624	90,959	35,130,524	-
<b>DEFERRED INFLOW OF RESOURCES</b>							
Gain on refunding	-	-	-	-	-	-	-
Unavailable income tax distribution	4,074,955	-	4,074,955	-	-	-	-
<b>Total Liabilities and Deferred Inflow of Resources</b>	<b>120,423,569</b>	<b>1,296,358</b>	<b>121,719,927</b>	<b>69,063,778</b>	<b>313,008</b>	<b>41,490,833</b>	<b>-</b>
<b>NET POSITION</b>							
Net investment in capital assets	152,328,264	16,503,423	168,831,687	238,717,157	1,444,793	81,981,201	-
Restricted for							
Fire & Rescue	1,320,836	-	1,320,836	-	-	-	-
Emergency Services	1,648,405	-	1,648,405	-	-	-	-
County Pay Go	20,780,902	-	20,780,902	-	-	-	-
Other Purposes	20,017,571	-	20,017,571	81,120	179,707	8,629,351	-
Unrestricted	66,484,074	1,322,458	67,806,532	(38,492,041)	728,255	9,397,185	193,054
<b>Total Net Position</b>	<b>262,580,052</b>	<b>17,825,881</b>	<b>280,405,933</b>	<b>200,306,236</b>	<b>2,352,755</b>	<b>100,007,737</b>	<b>193,054</b>
<b>Total Liabilities, Deferred Inflow of Resources and Net Position</b>	<b>\$ 383,003,621</b>	<b>\$ 19,122,239</b>	<b>\$ 402,125,860</b>	<b>\$ 269,370,014</b>	<b>\$ 2,665,763</b>	<b>\$ 141,498,570</b>	<b>\$ 193,054</b>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

Program Revenues

Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes	Total Revenues
General Government	\$ 16,790,502	\$ 3,240,200	\$ 1,674,015	\$ 148,768	\$ 5,062,983
Public Safety	46,043,586	1,269,916	2,866,713	-	4,136,629
Public Works	16,933,853	780,939	1,946,957	-	2,727,896
Health	6,605,425	-	4,992,109	-	4,992,109
Social Services	4,364,022	2,017	1,038,312	-	1,040,329
Primary and Secondary Education	107,005,644	-	-	-	-
Post -Secondary Education	3,951,949	-	-	-	-
Parks, Recreation, and Culture	4,753,559	44,186	21,518	471,231	536,935
Libraries	2,658,741	-	-	-	-
Conservation of Natural Resources	1,867,646	-	-	744,791	744,791
Housing	-	-	-	-	-
Economic Development and Opportunity	1,599,234	49,494	249,132	-	298,626
Debt Interest	2,584,714	-	-	-	-
Intergovernmental	-	-	-	-	-
Other, principally OPEB	7,728,565	968,743	-	200,869	1,169,612
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>222,887,440</b>	<b>6,355,495</b>	<b>12,788,756</b>	<b>1,565,659</b>	<b>20,709,910</b>
Business - Type Activities					
Recreation Activity	2,184,636	2,155,708	32,061	-	2,187,769
Wicomico	1,409,980	1,221,074	-	-	1,221,074
Solid Waste/Recycling	3,556,520	2,887,242	-	-	2,887,242
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>7,151,136</b>	<b>6,264,024</b>	<b>32,061</b>	<b>-</b>	<b>6,296,085</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>230,038,576</b>	<b>12,619,519</b>	<b>12,820,817</b>	<b>1,565,659</b>	<b>27,005,995</b>
Component Units:					
Public Schools	239,156,722	3,748,162	39,881,532	14,620,516	58,250,210
Library	3,593,211	256,913	897,717	-	1,154,630
MetCom	18,084,851	22,547,569	-	-	22,547,569
Building Authority	56,231	-	-	-	-
	<u>260,891,015</u>	<u>26,552,644</u>	<u>40,779,249</u>	<u>14,620,516</u>	<u>81,952,409</u>

General Revenues:

Property Taxes  
Income Taxes  
Other - including energy, recordation and transfer taxes  
Investment Earnings  
Grants and Contributions Not Restricted to Specific Purposes  
Subsidies to enterprise funds  
Roads constructed by third parties  
Capital transfer  
Miscellaneous, principally capital projects funding  
Total General Revenues

Increase/(Decrease) in Net Position

Net Position - Beginning, as Previously Stated  
Change in Accounting Principle  
Prior Period Adjustment  
Net Position - Beginning, as restated  
Net Position - Ending

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



COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Public Schools	Library	MetCom	Building Authority
\$ (11,727,519)	\$ -	\$ (11,727,519)	\$ -	\$ -	\$ -	\$ -
(41,906,957)	-	(41,906,957)	-	-	-	-
(14,205,957)	-	(14,205,957)	-	-	-	-
(1,613,316)	-	(1,613,316)	-	-	-	-
(3,323,693)	-	(3,323,693)	-	-	-	-
(107,005,644)	-	(107,005,644)	-	-	-	-
(3,951,949)	-	(3,951,949)	-	-	-	-
(4,216,624)	-	(4,216,624)	-	-	-	-
(2,658,741)	-	(2,658,741)	-	-	-	-
(1,122,855)	-	(1,122,855)	-	-	-	-
-	-	-	-	-	-	-
(1,300,608)	-	(1,300,608)	-	-	-	-
(2,584,714)	-	(2,584,714)	-	-	-	-
-	-	-	-	-	-	-
(6,558,953)	-	(6,558,953)	-	-	-	-
(202,177,530)	-	(202,177,530)	-	-	-	-
-	3,133	3,133	-	-	-	-
-	(188,906)	(188,906)	-	-	-	-
-	(669,278)	(669,278)	-	-	-	-
-	(855,051)	(855,051)	-	-	-	-
(202,177,530)	(855,051)	(203,032,581)	-	-	-	-
-	-	-	(180,906,512)	-	-	-
-	-	-	-	(2,438,581)	-	-
-	-	-	-	-	4,462,718	-
-	-	-	-	-	-	(56,231)
-	-	-	(180,906,512)	(2,438,581)	4,462,718	(56,231)
103,014,068	-	103,014,068	-	-	-	-
77,384,719	-	77,384,719	-	-	-	-
14,672,233	-	14,672,233	-	-	-	-
54,945	39,624	94,569	5,168	5,832	14,552	8,674
-	-	-	174,871,770	2,476,561	-	-
(1,000,000)	1,000,000	-	-	-	-	-
6,061,227	-	6,061,227	-	-	-	-
(103,010)	103,010	-	-	-	-	-
14,511,011	-	14,511,011	1,210,611	10,148	5,214,646	-
214,595,193	1,142,634	215,737,827	176,087,549	2,492,541	5,229,198	8,674
12,417,663	287,583	12,705,246	(4,818,963)	53,960	9,691,916	(47,557)
249,186,987	17,538,298	267,700,687	205,125,199	2,298,795	90,853,091	271,032
(329,598)	-	-	-	-	(537,270)	(30,421)
1,305,000	-	-	-	-	-	-
250,162,389	17,538,298	267,700,687	205,125,199	2,298,795	90,315,821	240,611
\$ 262,580,052	\$ 17,825,881	\$ 280,405,933	\$ 200,306,236	\$ 2,352,755	\$ 100,007,737	\$ 193,054

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

COMMISSIONERS OF ST. MARY'S COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 94,659,233	\$ -	\$ -	\$ 94,659,233
Due from other funds	-	42,808,485	3,272,402	46,080,887
Taxes receivable	3,734,110	-	118,877	3,852,987
Income tax reserve, funds held by the State	4,074,955	-	-	4,074,955
Special tax assessments receivable	-	-	2,602	2,602
Notes receivable, Fire and Rescue loans	-	-	296,228	296,228
Accounts receivable	11,148,777	2,468,248	-	13,617,025
Inventory	1,006,510	-	-	1,006,510
Other	343,267	-	-	343,267
Due from fiduciary fund	12,797	-	-	12,797
Fire and Rescue loans receivable, net of short-term portion	-	-	901,223	901,223
Special tax assessments receivable, net of short-term portion	-	-	783,025	783,025
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Bond refunding	-	-	-	-
<b>Total Assets and Deferred Outflow of Resources</b>	<b>\$ 114,979,649</b>	<b>\$ 45,276,733</b>	<b>\$ 5,374,357</b>	<b>\$ 165,630,739</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 2,918,767	\$ 2,783,883	\$ 10,127	\$ 5,712,777
Compensation-related liabilities	8,106,471	-	7,200	8,113,671
Unearned revenue	531,432	-	2,386,966	2,918,398
Other liabilities	5,217,285	-	-	5,217,285
Due to other funds	47,497,109	-	10,197	47,507,306
Due to other governments	193,054	-	-	193,054
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable income tax distribution	4,074,955	-	-	4,074,955
<b>Total Liabilities and Deferred Inflow of Resources</b>	<b>68,539,073</b>	<b>2,783,883</b>	<b>2,414,490</b>	<b>73,737,446</b>
<b>FUND BALANCES</b>				
Nonspendable	2,050,354	-	-	2,050,354
Restricted	212,629	40,447,444	-	40,660,073
Committed	18,993,769	303,886	2,969,241	22,266,896
Assigned	2,311,819	1,741,520	-	4,053,339
Unassigned	22,872,005	-	(9,374)	22,862,631
<b>Total Fund Balances</b>	<b>46,440,576</b>	<b>42,492,850</b>	<b>2,959,867</b>	<b>91,893,293</b>
<b>Total Liabilities, Deferred Inflow and Resources and Fund Balances</b>	<b>\$ 114,979,649</b>	<b>\$ 45,276,733</b>	<b>\$ 5,374,357</b>	<b>\$ 165,630,739</b>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Capital Projects	Non-Major	Total
<b>REVENUES</b>				
Property Taxes	\$ 103,011,131	\$ -	\$ -	\$ 103,011,131
Income Taxes	77,384,719	-	-	77,384,719
Energy Taxes	1,446,551	-	-	1,446,551
Recordation Taxes	5,025,546	-	-	5,025,546
Transfer Taxes	-	5,016,978	-	5,016,978
Agricultural/Development Taxes	-	487,678	-	487,678
Impact Fees	-	2,438,641	-	2,438,641
Other Local Taxes	1,207,209	-	-	1,207,209
Highway User Revenues	721,923	-	-	721,923
Licenses and Permits	1,504,387	-	-	1,504,387
Intergovernmental	10,418,326	2,026,350	581,566	13,026,242
Charges for Services	2,790,407	-	-	2,790,407
Fines and Forfeitures	208,573	-	-	208,573
Special Assessments	-	-	200,872	200,872
Other Revenues	312,298	659,846	2,241,050	3,213,194
Sub-total	<u>204,031,070</u>	<u>10,629,493</u>	<u>3,023,488</u>	<u>217,684,051</u>
Pass-Throughs	200,000	-	-	200,000
<b>TOTAL GENERAL FUND REVENUES</b>	<u><u>204,231,070</u></u>	<u><u>10,629,493</u></u>	<u><u>3,023,488</u></u>	<u><u>217,884,051</u></u>
<b>EXPENDITURES</b>				
General Government	20,288,779	4,054,318	-	24,343,097
Public Safety	39,631,748	2,472,702	2,189,314	44,293,764
Public Works	10,202,985	5,748,524	-	15,951,509
Health	6,605,425	-	-	6,605,425
Social Services	4,135,430	-	-	4,135,430
Primary and Secondary Education	91,990,408	4,118,236	-	96,108,644
Post -Secondary Education	3,873,943	-	-	3,873,943
Parks, Recreation, and Culture	3,621,272	1,327,981	-	4,949,253
Libraries	2,476,561	-	-	2,476,561
Conservation of Natural Resources	437,638	1,430,008	-	1,867,646
Economic Development and Opportunity	1,505,754	-	-	1,505,754
Debt Service - Principal and Interest	9,959,968	56,438	788,631	10,805,037
Other, principally OPEB	6,867,002	-	-	6,867,002
Sub-total	<u>201,596,913</u>	<u>19,208,207</u>	<u>2,977,945</u>	<u>223,783,065</u>
Pass-Throughs	200,000	-	-	200,000
<b>TOTAL GENERAL FUND EXPENDITURES</b>	<u><u>201,796,913</u></u>	<u><u>19,208,207</u></u>	<u><u>2,977,945</u></u>	<u><u>223,983,065</u></u>
Excess of Revenues Over (Under) Expenditures	<u>2,434,157</u>	<u>(8,578,714)</u>	<u>45,543</u>	<u>(6,099,014)</u>
<b>OTHER FINANCING SOURCES AND USES</b>				
Exempt financing proceeds	3,684,217	56,438	-	3,740,655
State Loans	-	(164,698)	-	(164,698)
Subsidy to Solid Waste Enterprise Fund	(1,000,000)	-	-	(1,000,000)
Construction in Progress	-	(103,010)	-	(103,010)
Capital Projects - General Fund Pay-Go	(12,855,816)	12,855,816	-	-
Total Other Financing Sources / Uses	<u>(10,171,599)</u>	<u>12,644,546</u>	<u>-</u>	<u>2,472,947</u>
Net Increase/(Decrease) in Fund Balances	(7,737,442)	4,065,832	45,543	(3,626,067)
<b>FUND BALANCE</b>				
Beginning of the Year	54,178,018	38,427,018	2,914,324	95,519,360
End of Year	<u>\$ 46,440,576</u>	<u>\$ 42,492,850</u>	<u>\$ 2,959,867</u>	<u>\$ 91,893,293</u>

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

Commissioners of St. Mary's County  
Reconciliations of the Governmental Funds to the Governmental Activities  
For the Year Ended June 30, 2014

Balances reflected as Fund Balance for Governmental Funds are different from Net Position for Governmental Activities because:

Fund Balance - Governmental Funds	\$	91,893,293
Capital assets, net of accumulated depreciation, are not reported in the Balance Sheet for Governmental Funds		238,741,446
Prepaid OPEB is not reported in the Balance Sheet for governmental funds		21,658,485
Net pension asset (SORP)		1,766,000
Restricted assets are not available to pay for current period expenditures and, therefore, are deferred in the funds		138,400
Debt, including bonds, loans, capital leases and the long-term portion of compensated absences, is not reported in the Balance Sheet for Governmental Funds. The amount reflected here does include debt applicable to assets reported in the component unit for the Board of Education		(94,193,430)
Deferred outflow of resources - general obligation bond refunding		<u>2,575,858</u>
Net Position - Governmental Activities	\$	<u>262,580,052</u>
Amounts reported for change in Fund Balances - Governmental Funds are different from change in Net Position of Governmental Activities because:		
Net increase/(decrease) in fund balances - total governmental funds	\$	(3,626,067)
Depreciation expense which is reported in the statement of activities, but not reflected as an expenditure for governmental activities		(9,514,185)
Disposal of capital assets which is reported in the statement of activities, but not reflected as an expenditure for governmental activities		(735,097)
Bond issue costs expensed		(56,000)
Issuance of long-term debt, excluding effect of refunding and balance in debt escrow		(691,945)
Repayment of debt		10,033,953
Decrease in debt escrow		(3,722,947)
Increase in prepaid OPEB not reported on balance sheet for governmental funds		1,000,000
Increase in Net pension asset (SORP) not reported on balance for governmental funds		461,000
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense		<u>19,268,951</u>
Increase/(decrease) in net position of governmental activities	\$	<u>12,417,663</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
<b>ASSETS</b>				
<u>Current assets</u>				
Cash and cash equivalents	\$ -	\$ 184,499	\$ -	\$ 184,499
Due from other funds	608,409	33,956	1,807,298	2,449,663
Restricted Cash from Investments	-	3,845	171,768	175,613
Accounts receivable	23,390	275	68,927	92,592
Inventory	-	35,602	-	35,602
Other, prepaids	-	7,023	-	7,023
<b>Total Current Assets</b>	<u>631,799</u>	<u>265,200</u>	<u>2,047,993</u>	<u>2,944,992</u>
<u>Non-current assets</u>				
Capital assets	258,012	6,467,834	15,319,765	22,045,611
Accumulated depreciation	<u>(139,481)</u>	<u>(2,469,782)</u>	<u>(2,235,857)</u>	<u>(4,845,120)</u>
Capital assets, net of accumulated depreciation	<u>118,531</u>	<u>3,998,052</u>	<u>13,083,908</u>	<u>17,200,491</u>
<b>Total Assets</b>	<u>\$ 750,330</u>	<u>\$ 4,263,252</u>	<u>\$ 15,131,901</u>	<u>\$ 20,145,483</u>
<b>LIABILITIES</b>				
<u>Current liabilities</u>				
Accounts payable	\$ 56,736	\$ 42,489	\$ 173,640	\$ 272,865
Compensation-related liabilities	60,247	76,691	138,469	275,407
Unearned revenue	148,311	106,156	-	254,467
<u>Noncurrent Liabilities</u>				
Due within one year				
Financing agreements	-	8,835	103,808	112,643
Advance from general fund	-	66,697	-	66,697
Due in more than one year				
Financing agreements	-	18,006	211,569	229,575
Advance from general fund	-	956,547	-	956,547
Compensated absences	-	76,549	74,852	151,401
<b>Total Liabilities</b>	<u>265,294</u>	<u>1,351,970</u>	<u>702,338</u>	<u>2,319,602</u>
<b>NET POSITION</b>				
Net investment in capital assets	118,531	3,971,211	12,768,530	16,858,272
Unrestricted	<u>366,505</u>	<u>(1,059,929)</u>	<u>1,661,033</u>	<u>967,609</u>
<b>Total Net Position</b>	<u>485,036</u>	<u>2,911,282</u>	<u>14,429,563</u>	<u>17,825,881</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 750,330</u>	<u>\$ 4,263,252</u>	<u>\$ 15,131,901</u>	<u>\$ 20,145,483</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 2,155,708	\$ 1,221,074	\$ 409,812	\$ 3,786,594
Environmental/Solid Waste Fees	-	-	2,477,430	2,477,430
	<u>2,155,708</u>	<u>1,221,074</u>	<u>2,887,242</u>	<u>6,264,024</u>
<b>OPERATING EXPENSES</b>				
Personal Services	1,206,436	682,152	1,036,935	2,925,523
Operating Supplies	220,586	227,022	34,048	481,656
Professional Services	255,656	88,500	1,195,801	1,539,957
Communications	11,748	3,021	5,347	20,116
Transportation	33,028	30,077	96,868	159,973
Rentals	155,630	34,010	32,020	221,660
Public Utilities	262,941	71,925	26,087	360,953
Other Operating Costs	12,701	27,543	-	40,244
Tipping Fees	-	-	871,388	871,388
Retiree Health Benefits (OPEB)	-	71,000	43,000	114,000
Interest Expense	-	28,582	5,034	33,616
Equipment	18,227	25,153	3,815	47,195
Depreciation	7,683	120,995	206,178	334,856
Total operating expenses	<u>2,184,636</u>	<u>1,409,980</u>	<u>3,556,521</u>	<u>7,151,137</u>
Operating Income (Loss)	(28,928)	(188,906)	(669,279)	(887,113)
Non-Operating Revenue				
Other	-	14,278	25,347	39,625
Construction in Progress - Recreation	103,010	-	-	103,010
Grants revenue	32,061	-	-	32,061
General fund subsidy	-	-	1,000,000	1,000,000
Increase/(Decrease) in net position	<u>106,143</u>	<u>(174,628)</u>	<u>356,068</u>	<u>287,583</u>
<b>NET POSITION</b>				
Beginning of the Year	<u>378,893</u>	<u>3,085,910</u>	<u>14,073,495</u>	<u>17,538,298</u>
End of Year	<u>\$ 485,036</u>	<u>\$ 2,911,282</u>	<u>\$ 14,429,563</u>	<u>\$ 17,825,881</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Charges for Services	\$ 2,163,970	\$ 1,226,466	\$ 2,888,586	\$ 6,279,022
Personal Services	(1,189,218)	(678,519)	(1,015,979)	(2,883,716)
Other Expenses	(991,408)	(603,307)	(2,297,547)	(3,892,262)
Net Cash Provided (Used) By Operating Activities	<u>(16,656)</u>	<u>(55,360)</u>	<u>(424,940)</u>	<u>(496,956)</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Net change in interfund loans	(9,546)	124,280	(469,377)	(354,643)
Grant revenue	32,061	-	-	32,061
General Operating Subsidy	-	-	1,000,000	1,000,000
Net Cash Provided (Used) By Non-Capital and Related Financing Activities	<u>22,515</u>	<u>124,280</u>	<u>530,623</u>	<u>677,418</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Construction / purchase of capital assets	(5,859)	(14,314)	(199,000)	(219,173)
Principal payments on long-term debt	-	-	(137,939)	(137,939)
Other reductions in long-term debt	-	(64,935)	-	(64,935)
Net Cash Used by Capital and Related Financing Activities	<u>(5,859)</u>	<u>(79,249)</u>	<u>(336,939)</u>	<u>(422,047)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	-	14,278	25,347	39,625
Net Increase/(Decrease) in Cash	-	3,949	(205,909)	(201,960)
<b>CASH</b>				
Beginning of Year	-	184,395	377,677	562,072
End of Year	<u>\$ -</u>	<u>\$ 188,344</u>	<u>\$ 171,768</u>	<u>\$ 360,112</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (28,928)	\$ (188,906)	\$ (669,279)	\$ (887,113)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Depreciation	7,683	120,995	206,178	334,856
(Increase) decrease in accounts receivable	(7,989)	4,356	1,344	(2,289)
(Increase) decrease in inventory	-	2,842	-	2,842
(Increase) decrease in prepaids	-	1	-	1
Increase (decrease) in accounts payable	(20,891)	683	15,861	(4,347)
Increase (decrease) in compensation-related liabilities	17,218	3,633	20,956	41,807
Increase (decrease) in unearned revenue	16,251	1,036	-	17,287
Net Cash Provided (Used) By Operating Activities	<u>\$ (16,656)</u>	<u>\$ (55,360)</u>	<u>\$ (424,940)</u>	<u>\$ (496,956)</u>
<b>SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES</b>				
Total capital asset additions	\$ (108,869)	\$ (41,155)	\$ (199,000)	\$ (349,024)
Less transfer of assets from other funds	103,010	-	-	103,010
Less amount financed	-	26,841	-	26,841
Net cash used for purchase of capital assets	<u>\$ (5,859)</u>	<u>\$ (14,314)</u>	<u>\$ (199,000)</u>	<u>\$ (219,173)</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF FIDUCIARY NET POSITION - SHERIFF'S OFFICE RETIREMENT PLAN  
JUNE 30, 2014

	<u>Sheriff's Office Retirement Plan</u>
ASSETS	
Cash and cash equivalents	\$ 3,093,486
Restricted cash and investments	<u>62,335,610</u>
Total Assets	<u>\$ 65,429,096</u>
NET POSITION	
Net position held in trust for pension benefits	<u>\$ 65,429,096</u>
Total Net Position	<u>\$ 65,429,096</u>

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



COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - SHERIFF'S OFFICE RETIREMENT PLAN  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Sheriff's Office Retirement Plan</u>
ADDITIONS	
Contributions - Employer	\$ 4,834,126
Voluntary Supplemental Contribution - Employer	461,000
Contributions - Employee	<u>1,008,001</u>
	<u>6,303,127</u>
Interest and Dividends	1,346,897
Realized Gain	1,283,064
Net Unrealized Gain on Investments	<u>6,182,289</u>
	<u>8,812,250</u>
Total Additions	<u>15,115,377</u>
DEDUCTIONS	
Benefits	(2,891,886)
Administrative Costs	<u>(379,549)</u>
Total Deductions	<u>(3,271,435)</u>
Change in Net Position	11,843,942
NET POSITION	
Beginning of Year	<u>53,585,154</u>
End of Year	<u>\$ 65,429,096</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF FIDUCIARY NET POSITION - RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY  
JUNE 30, 2014

	<u>Retiree Benefit Trust of St. Mary's County, Maryland</u>
ASSETS	
Restricted cash and investments	\$ <u>56,288,177</u>
Total Assets	<u>\$ 56,288,177</u>
LIABILITIES	
Due to Primary Government	\$ <u>12,797</u>
Total Liabilities	<u>12,797</u>
NET POSITION	
Net Position restricted for other post-employment benefits	<u>56,275,380</u>
Total Liabilities and Net Position	<u>\$ 56,288,177</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - RETIREE BENEFIT TRUST OF  
ST. MARY'S COUNTY  
YEAR ENDED JUNE 30, 2014

	Retiree Benefit Trust of St. Mary's County, Maryland
ADDITIONS	
Contributions to the Trust - Employer	\$ 3,459,954
Voluntary Supplemental Contribution - Employer	1,000,000
Payments to Retirees - Employer	2,412,046
	6,872,000
Interest and Dividends	1,627,898
Realized Gain	1,600,500
Net Unrealized Gain on Investments	4,062,124
	7,290,522
Total Additions	14,162,522
DEDUCTIONS	
Benefits Paid Directly to Retirees	(2,412,046)
Administrative Costs	(239,654)
Total Deductions	(2,651,700)
Change in Net Position	11,510,822
NET POSITION	
Beginning of Year	44,764,558
End of Year	\$ 56,275,380

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

Commissioners of St. Mary's County

Index - Notes to Financial Statements

June 30, 2014

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Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies

Financial Reporting entity

St. Mary's County (the County), the first Maryland County, was established in 1637. The Board of County Commissioners is composed of five Commissioners elected for four-year terms. Four Commissioners represent specific election districts while the President of the Commissioners runs at large. All Commissioners are elected by the voters of the entire County. The County operates under a line-organizational method, with a County Administrator being responsible for the general administration of the County government. The Chief Financial Officer is responsible for financial reporting, debt management, investment management, procurement, and budgeting functions. The Treasurer is responsible for the collection of real and personal property taxes. The County provides the following services: public safety, highway and streets, health and social services, recreation, education, public improvements, planning and zoning, sewage and water treatment and general administrative services. Component units are also included as part of the Financial reporting entity.

The financial statements of the reporting entity include those of the Commissioners of St. Mary's County (the primary government) and its component units. As defined by GASB Statement Numbers 14, 39 and 61, component units are legally separate entities that are included in the County's reporting entity because of the significance of their operating or financial relationships with the County. The criteria for including organizations as component units within the County's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate
- the County Commissioners appoint a voting majority of the organization's board
- the County Commissioners have the ability to impose their will on the organization
- the organization has the potential to impose a financial benefit/burden on the County
- the organization is fiscally dependent on the County

Based on the application of these criteria, the four organizations identified on the following page are considered component units of the County. Their financial data is discretely presented in separate columns in the government-wide financial statements. All discretely presented component units have a June 30 year-end.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies (continued)

Financial Reporting entity (continued)

Except for the Board of Education of St. Mary's County, the governing bodies of all these component units are appointed by County Commissioners of St. Mary's County.

St. Mary's County Public Schools – In Maryland, public schools are part of a statewide system of county school boards. The school boards' political boundaries conform to the county boundaries. The purpose of the Board of Education of St. Mary's County is to operate the local public school system in accordance with State and community standards. The school system does not have the authority to levy any taxes or incur debt. Schools are funded with local, State and Federal monies. St. Mary's County has oversight responsibility for approval and partial funding of the school system's operating budget.

St. Mary's County Metropolitan Commission is responsible for providing water and wastewater facilities and services within the jurisdiction of St. Mary's County, Maryland.

St. Mary's County Building Authority Commission was created by the Maryland General Assembly as an instrumentality of the County to acquire title to property within St. Mary's County for construction, renovation, or rehabilitation. The Building Authority Commission currently does not own or lease any property. Until June 2010, they owned and leased property to the St. Mary's Nursing Center, Inc. Until June 2013, they also owned and leased property to the State of Maryland; the Carter State Office Building was transferred to the State of Maryland in FY2013.

St. Mary's County Library operates a main library in Leonardtown and branch libraries in Lexington Park and Charlotte Hall.

Financial statements of the individual component units can be obtained from their respective administrative offices.

St. Mary's County Public Schools  
23160 Moakley Street  
Leonardtown, Maryland 20650

St. Mary's County Metropolitan Commission  
23121 Camden Way  
California, Maryland 20619

St. Mary's County Building Authority Commission  
41770 Baldrige Street  
P.O. Box 653, Chesapeake Building  
Leonardtown, Maryland 20650

St. Mary's County Library  
23250 Hollywood Road  
Leonardtown, Maryland 20650

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies (continued)

Financial Statements

The financial statements of the Commissioners of St. Mary's County, (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements include various agencies, department organizations and offices which are legally part of St. Mary's County (the Primary Government) and the County's Component Units.

The County's basic financial statements include government-wide financial statements (reporting on the County as a whole), fund financial statements (reporting the County's most significant funds), and fiduciary financial statements (reporting on the County's pension funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities are normally supported by taxes and intergovernmental revenues. The County's public safety, public transportation, health and social services, some parks and recreation activities, public works and general administrative services are classified as governmental activities. Business-type activities rely significantly on fees and charges for support. The County's Recreation and Park programs, the Wicomico Golf Course and Solid Waste and Recycling are classified as business-type activities.

Government-wide Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements focus more on the sustainability of the County as an entity and the change in the County's net position resulting from the current year's activities. In the government-wide Statement of Net Position, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) reported using the economic resources measurement focus and the accrual basis of accounting, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts – (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes results from special revenue funds and the restrictions on their net position use. When both restricted and unrestricted resources are available for use, the County utilizes restricted resources to finance qualifying activities first, then unrestricted resources as they are needed.

The government-wide Statement of Activities reports both the gross and net cost of each of the County's functions and business-type activities. The functions are also supported by general government revenues (property tax, income tax, certain intergovernmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants and capital grants. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenues (property tax, income tax, intergovernmental revenues, interest income, etc.) which are properly not included among program revenues. The County has an indirect cost allocation plan which it uses (when applicable and allowed) to charge costs to special revenue (grant) programs. Indirect costs are not normally charged to general government activities.

Fund Financial Statements

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflow of resources, liabilities, deferred inflow of resources, fund balances, revenues and expenditures/expenses.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies (continued)

Fund Financial Statements (continued)

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB 34 sets forth minimum criteria (percentage of the assets, deferred outflow of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. No major funds by category are summarized into a single column.

Governmental Funds

The measurement focus of the governmental fund financial statements is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the County.

1. General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund.
2. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes. The Special Revenue Funds of the County are non-major funds.
3. Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The Capital Projects Fund is a major fund.
4. Debt Service Fund is a non-major fund used to account for servicing of long-term debt.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those applicable to businesses in the private sector. Proprietary (Enterprise) Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity, (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to cover similar costs.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support County programs. The reporting focus for fiduciary funds is on net position and changes in net position and accounting principles used are similar to proprietary funds.

The County's pension trust fund accounts for the retirement benefits for the St. Mary's County Maryland Sheriff's Office Retirement Plan. Since, by definition, these assets are held for the benefit of a third party (pension participants) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Additionally, the County's pension trust fund accounts for the retirement benefits for the Retiree Health Benefit Plan. Since, by definition, these assets are held for the benefit of eligible retirees and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Both are presented in the fiduciary fund financial statements.



Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies (continued)

Basis of Accounting and Measurement Focus

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The measurement focus identifies which transactions should be recorded.

Basis of Accounting

- a. Accrual Basis – Both governmental and business-type activities are presented using the accrual basis of accounting in the government-wide financial statements and the proprietary and fiduciary fund financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.
- b. Modified Accrual Basis – The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means knowing or able to reasonably estimate the amount. "Available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year-end. All other revenue items are considered to be measurable and available only when cash is received by the County. Expenditures (including capital outlay) are recorded when the related liability is incurred. However, debt service expenditures (principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when due.
- c. Budget Basis of Accounting - Actual results of operations are presented in the Statement of Revenues, Expenditures, Encumbrances, and Other Financing Sources and Uses - Budget (Non-GAAP Basis) and Actual - General Fund, in order to provide a meaningful comparison of actual results with budget estimates. Under the budget basis, encumbrances are recorded as the equivalent of expenditures, as opposed to only a reservation of fund balance as on a GAAP basis.

Measurement Focus

In the government-wide financial statements, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item (b.) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. The fund financial statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary and fiduciary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies (continued)

Fund accounting

The County uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate fund types.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement either a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

The amount of grant funds passed through the County to the St. Mary's County Housing Authority for the fiscal year ended June 30, 2014 totaled \$200,000. These pass-through grants are recorded as pass-through revenues and expenditures in the Statement of Revenues and Expenditures.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies (continued)

Accounting policies

The more significant accounting policies established in the GAAP and used by the County are discussed below.

Budget and budgetary accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America. All annual operating appropriations lapse at fiscal year end. Project-length financial plans are adopted for the capital projects fund. The County follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1 of each year, the Commissioners of St. Mary's County shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance by June 1.
- d. All revisions that alter the expenditures of each fund must be approved by the Commissioners of St. Mary's County or the Chief Financial Officer.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund, special assessment fund and enterprise funds.
- f. The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America, except that appropriations of fund balance are treated as other financing sources. Budget comparisons presented for the general fund in this report are on a non-GAAP basis. The capital projects funds' budgets are prepared on a project-length basis, and accordingly, annual budgetary comparisons are not presented in the financial statements. The enterprise funds' budgets are flexible annual operating budgets. Budgetary comparisons are not presented in the financial statements for the enterprise funds.
- g. The budgeted amounts are as adopted, including amendments, by the Commissioners of St. Mary's County.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds.

Cash, cash equivalents and investments

Cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired. State statutes authorize investments in obligations of the United States government, federal government agency obligations and repurchase agreements. Investments are stated at cost.

The operating cash balances for all funds are commingled and shown in the governmental activities on the statement of net position and in the general fund on the governmental fund balance sheet.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies (continued)

Cash, cash equivalents and investments (continued)

Investments in both the Pension Trust Fund of the Sheriff's Department Retirement Plan and the Retiree Health Benefit Plan are carried at fair value as determined on June 30 of each year, based on appraisals or quotations by an independent investment counselor. These investments are offset by a restriction, which indicates that they do not constitute available spendable resources even though they are a component of net position.

Long-term receivables

Noncurrent portions of long-term receivables are reported on the balance sheet in spite of their spending measurement focus. The long-term portion of receivables is offset by a nonspendable fund balance in the general fund, which indicates that they do not constitute available spendable resources since they are not a component of net current assets.

Annual, Personal and Sick Leave Benefits

Full-time employees can earn annual leave at a rate of from 80 hours per year (one through five years of service) up to a maximum of 200 hours per year (if over twenty years of service). Leave for permanent part-time employees is prorated according to the number of hours worked.

There are no requirements that annual leave be taken; however, the maximum permissible accumulation to be carried into the new calendar year is 360 hours for full-time employees and 180 hours for permanent part-time employees. At calendar year end, any hours in excess of 360 hours for full-time employees and 180 hours for permanent part-time employees are deducted from the employees' annual leave balance and credited to their sick leave balance. At termination, employees are paid for any accumulated annual leave.

Full-time and permanent part-time employees earn sick leave based upon the number of hours worked, with a maximum of 120 hours earned per year. There is no limit to the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave, nor is credit provided for employees that retire on early retirements. However, at regular retirement, employees who have been employed by the County for five years are eligible to receive service credit at a rate of one month for every 160 hours of unused sick leave. Persons that are reinstated in the County service within one year from the time of their separation shall receive full credit for all sick leave accumulated at time of separation.

Full-time employees are entitled to compensatory time off for work performed in excess of the normal work period. The maximum permissible accumulation to be carried into the new calendar year is 240 hours for non-law enforcement employees and 480 hours for law enforcement employees and correctional officers. An employee leaving County service shall receive a lump sum payment at their current rate of pay for any unused accumulated annual leave.

Use of estimates

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies (continued)

Capital assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

With the implementation of GASB Statement No. 34, the County has recorded its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, etc.

The purpose of depreciation is to spread the cost of capital assets equitably among all uses over the lives of these assets. The amount charged to depreciation expense each year represents that year's prorata share of capital assets.

The method of depreciation being used for all governmental-type assets placed in service as a result of GASB Statement No. 34 is the straight-line half-year convention. Only assets greater than or equal to \$5,000 will be depreciated.

Property, plant and equipment of the primary government and the component units are depreciated using the straight-line method (half-year convention) over the following estimated useful lives:

Primary Government

Buildings and improvements	50 years
Computer equipment	5 years
Other equipment	5-10 years
Vehicles licensed	5-8 years
Off-road vehicles	5-10 years
Miscellaneous equipment	5-10 years
Other infrastructure	10-50 years

Component Units

St. Mary's County Public Schools

Buildings and improvements	20-50 years
Furniture and equipment	5-15 years

St. Mary's County Library

Leasehold improvements	50 years
Furnishings and equipment	5 years
Vehicles	5 years
Books	7 years

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

1. Reporting entity and summary of significant accounting policies (continued)

Capital assets (continued)

Component Units (continued)

St. Mary's County Metropolitan Commission

Utility plants	18-50 years
Water plant systems	18-50 years
Equipment	3-10 years
Capitalized interest	50 years
Buildings	20-30 years

St. Mary's County Building Authority Commission

Buildings	40 years
Furniture and equipment	10 years

Inventory and prepaid expenditures

Inventory is valued at the lower of cost (first-in, first-out method) or market. Inventory in the general fund, special revenue funds and enterprise funds consists of expendable supplies held for consumption. Reported inventories and prepaid expenditures in the general fund are offset by a nonspendable fund balance, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities statement of net position, or proprietary fund type balance sheet. Bond premiums and discounts are deferred and amortized over the life of the bond.

Pension Accounting

Employee contributions are recognized in the Pension Trust Funds in the period the contributions are due. Employer contributions are recognized when due and the County has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Administrative costs are funded from investment income. Any net pension obligation or asset is calculated on an actuarial basis consistent with the requirements of GASB Statement No 27 – Accounting for Pensions by State and Local Government Employers. Expenditures are recognized when are paid or are expected to be paid with current available resources. The net pension obligation (asset) is reported in the government-wide financial statements.

2. Deficit fund equity

Non-major governmental funds – The deficits in the non-major governmental funds arise primarily because of the application of accounting principles generally accepted in the United States of America to the financial reporting of such funds. Special assessments are recognized as revenue only to the extent that individual installments are considered current assets. Expenditures, however, are recognized at the time liabilities are incurred. The deficit will be reduced and eliminated as deferred assessment installments are assessed and collected.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

3. Cash, cash equivalents and investments

Primary Government

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term securities and certificates of deposit with an original maturity of three months or less.

Investments held by the County, including the pension and retiree health benefit funds, are stated at fair value. Fair value is based on quoted market prices at year end or best available estimate. All investments not required to be reported at fair value are stated at cost or amortized cost.

Article 95, Section 22 of the Annotated Code of Maryland states that local governments are authorized to invest in the instruments specified in the State Finance and Procurement Article, Section 6-222 of the Code. In addition, Article 95, Section 22 requires that local government deposits with financial institutions be fully collateralized and that the collateral be of types specified in the State Finance and Procurement Article, Section 6-202. The County is charged with the responsibility for selecting depositories and investing the idle funds as directed by the State and County Codes. The County is further restricted as to the types of deposits and investments in accordance with the County's investment policy. Depository institutions must be Maryland banks and must be approved for use by the County Commissioners.

Cash Deposits

At year end, the carrying amount of the County's deposits was \$89,856,338 (in addition, petty cash totaling \$11,650 at various County Departments) and the collected bank balance was \$91,020,278. Of the collected bank balance, \$667,992 was covered by Federal Deposit Insurance Corporation (FDIC), and \$90,352,329 was covered by collateral held either in the pledging bank's trust department or by the pledging bank's agent.

Investments

Statutes authorize the County to invest in short-term United States government securities or repurchase agreements fully secured by the United States government if the funds are not needed for immediate disbursement. The stated maturities of the investments may not exceed 270 days. Statutes also authorize the County to invest in the Local Government Investment Pool established by state law. Investments are subject to approval of the County Commissioners as to the amount available for investment and the acceptable securities or financial institutions used.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

3. Cash, cash equivalents and investments (continued)

Primary Government (continued)

Investments (continued)

At year end, the County's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. government securities – Cash Deposits and Treasuries	\$ 89,553,975
Money Market - Exempt Financing	314,013
Maryland Local Government Investment Pool (MLGIP)	5,289,757
Retiree Benefit Trust (OPEB):	
Cash	\$ 1,019,921
Common Stock/Equity Funds	34,528,629
Fixed Income:	
Bond Funds	17,528,317
Venture/Limited Partnership/Closely Held	<u>3,211,310</u>
Subtotal – Retiree Benefit Trust (OPEB)	56,288,177
Pension investments – Sheriff's Office Retirement Plan:	
Cash	\$ 3,093,486
Fixed income:	
Government and agencies	
Bond Funds	17,226,657
Common stock	9,977,040
Venture/Limited Partnership/Closely Held	6,946,982
Equity Funds	27,593,883
Other – Miscellaneous	<u>591,048</u>
Subtotal – Sheriff's Office Retirement Plan	<u>65,429,096</u>
Total investments	<u>\$ 216,875,018</u>

Money Market account is not evidenced by securities.

Investments in the Maryland Local Government Investment Pool (MLGIP) are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments.

The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares.

None of the County's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.



Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

3. Cash, cash equivalents and investments (continued)

Component Units

St. Mary's County Public Schools

Deposits

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of bank failure, the School System's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the School System must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2014, all of the School System's deposits, including the certificate of deposit, were either covered by federal depository insurance or were covered by collateral held by the School System's agent in the School System's name.

Short-term investments

Maryland State Law authorizes the School System to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations, the State's sponsored investment pool, or interest bearing accounts in any bank.

At June 30, 2014, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value were \$10,000,999, \$406,126, and \$604,951 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

St. Mary's County Library

Cash deposits and investments

Statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

At June 30, 2014, the carrying amount of the Library's deposits was \$459,887, and the bank balances totaled \$472,954. All of the bank balances in financial institutions were covered by federal depository insurance or collateral at June 30, 2014.

Investments in the Maryland Local Government Investment Pool (MLGIP), an external investment pool, are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk.

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government Investment Pool	<u>\$ 257.303</u>	<u>\$ 257.303</u>
Restricted:		
The Vanguard Group	<u>\$ 162.990</u>	<u>\$ 162.990</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

St. Mary's County Library (continued)

None of the Library's deposits or investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

Statutes authorize the Library to invest in obligations of the United States government, federal government agency obligations, repurchase agreements secured by direct government or agency obligations, certificates of deposit, banks' acceptances, commercial paper, pooled investments and municipal bonds and municipal mutual funds.

St. Mary's County Metropolitan Commission

Deposits and investments

Deposits

The carrying amount of MetCom's deposits was \$11,432,436 at June 30, 2014, and the bank balances were \$13,704,639. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2014, with the remaining \$13,454,639 adequately covered by collateral. State statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Cash and cash equivalents consisted of the following:

Investments		\$ 2,726,026
Cash		11,432,436
Petty cash		<u>900</u>
		<u>\$ 14,159,362</u>

Investments

Investments in the MLGIP are not evidenced by securities. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. Separately issued financial statements may be obtained from the contractor: David Rommel, PNC Bank, Two Hopkins Plaza, Baltimore, Maryland 21201. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments. The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated AAAM by Standard and Poors. As of June 30, 2014, MetCom's investments, for both custodial and credit risk purposes, consisted solely of shares in the MLGIP. This investment is not deemed to have either risk. The Pool is managed as a Rule 2a-7 pool. Therefore, MetCom faces no interest rate risk. The cost and fair value of the MLGIP investments at June 30, 2014 was \$2,726,026.

	<u>Carrying Amount</u>	<u>Market Value</u>
MLGIP	<u>\$ 2,726,026</u>	<u>\$ 2,726,026</u>

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Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

4. Changes in capital assets

Primary Government

A summary of changes in capital assets is as follows:

	Balance June 30, 2013	Additions	Transfers/ Disposals	Balance June 30, 2014
<b>Governmental Activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 32,035,283	\$ 350,000	\$ -	\$ 32,385,283
Construction In Progress	10,612,689	9,462,761	(12,948,857)	7,126,593
911 system & equipment	<u>1,423,733</u>	<u>-</u>	<u>-</u>	<u>1,423,733</u>
<b>Total capital assets not being depreciated</b>	<u>44,071,705</u>	<u>9,812,761</u>	<u>(12,948,857)</u>	<u>40,935,609</u>
<b>Capital assets being depreciated:</b>				
Buildings & improvements	99,287,551	3,216,224	-	102,503,775
Computer equipment	2,181,112	38,464	-	2,219,576
Other equipment	257,781	5,983	-	263,764
Vehicles - licensed	12,365,231	1,390,902	(1,250,075)	12,506,058
Off-road vehicles	2,017,454	46,349	(49,812)	2,013,991
Miscellaneous equipment	5,407,279	459,831	-	5,867,110
Roads	165,920,060	10,223,058	-	176,143,118
Curbing	946,791	-	-	946,791
Sidewalks	982,973	-	-	982,973
Guardrails	1,285,515	68,205	-	1,353,720
Airport infrastructure	4,595,335	64,050	-	4,659,385
Airport equipment	579,104	-	-	579,104
Baseball fields	802,670	-	-	802,670
Bridges	6,506,889	-	-	6,506,889
Parks & recreation	13,168,077	276,361	-	13,444,438
Marinas & docks	8,048,077	128,048	-	8,176,125
Irrigation systems	241,853	-	-	241,853
Signage	475,433	-	-	475,433
Parking lots	838,283	228,851	-	1,067,134
911 system & equipment	<u>7,848,948</u>	<u>6,258,721</u>	<u>(1,549,498)</u>	<u>12,558,171</u>
<b>Total capital assets being depreciated</b>	<u>333,756,416</u>	<u>22,405,047</u>	<u>(2,849,385)</u>	<u>353,312,078</u>
<b>Accumulated depreciation for:</b>				
Buildings & improvements	(39,243,695)	(1,822,223)	-	(41,065,918)
Computer equipment	(2,026,370)	(47,426)	-	(2,073,796)
Other equipment	(150,975)	(14,797)	-	(165,772)
Vehicles - licensed	(9,042,068)	(998,953)	1,276,891	(8,764,130)
Off-road vehicles	(1,460,594)	(6,634)	-	(1,467,228)
Miscellaneous equipment	(2,950,546)	(378,086)	-	(3,328,632)
Roads	(70,099,757)	(4,752,600)	-	(74,852,357)

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

4. Changes in capital assets (continued)

Primary Government (continued)

A summary of changes in capital assets is as follows:

	Balance June 30, 2013	Additions	Transfers/ Disposals	Balance June 30, 2014
Accumulated depreciation for: (continued)				
Curbing	\$ (689,274)	\$ (19,524)	\$ -	\$ (708,798)
Sidewalks	(470,592)	(21,411)	-	(492,003)
Guardrails	(468,775)	(29,522)	-	(498,297)
Airport infrastructure	(4,505,530)	(22,097)	-	(4,527,627)
Airport equipment	(513,594)	(8,735)	-	(522,329)
Baseball fields	(419,671)	(15,926)	-	(435,597)
Bridges	(2,522,819)	(130,434)	-	(2,653,253)
Parks & recreation	(3,935,879)	(418,680)	-	(4,354,559)
Marinas & docks	(4,522,007)	(260,447)	-	(4,782,454)
Irrigation systems	(119,288)	(5,787)	-	(125,075)
Signage	(404,216)	(7,975)	-	(412,191)
Parking lots	(260,866)	(57,102)	-	(317,968)
911 equipment	(4,299,828)	(495,826)	837,397	(3,958,257)
Total accumulated depreciation	<u>(148,106,344)</u>	<u>(9,514,185)</u>	<u>2,114,288</u>	<u>(155,506,241)</u>
Total capital assets being depreciated, net	<u>185,650,072</u>	<u>12,890,862</u>	<u>(735,097)</u>	<u>197,805,837</u>
Governmental activities capital assets, net	<u>\$ 229,721,777</u>	<u>\$ 22,703,623</u>	<u>\$ (13,683,954)</u>	<u>\$ 238,741,446</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 1,078,666	\$ -	\$ -	\$ 1,078,666
Solid waste facilities	12,248,547	-	-	12,248,547
Total capital assets not being depreciated	<u>13,327,213</u>	<u>-</u>	<u>-</u>	<u>13,327,213</u>
Capital assets being depreciated:				
Buildings & improvements	4,324,284	-	-	4,324,284
Computer equipment	57,188	-	-	57,188
Other equipment	39,359	-	-	39,359
Vehicles - Licensed	1,992,739	199,000	(94,594)	2,097,145
Off-road vehicles	1,093,742	41,155	(12,335)	1,122,562
Miscellaneous equipment	459,005	108,869	-	567,874
Irrigation systems	509,986	-	-	509,986
Total capital assets being depreciated	<u>8,476,303</u>	<u>349,024</u>	<u>(106,929)</u>	<u>8,718,398</u>
Accumulated depreciation for:				
Buildings & improvements	(1,502,126)	(81,913)	-	(1,584,039)
Computer equipment	(55,939)	(1,249)	-	(57,188)
Other equipment	(38,375)	(129)	-	(38,504)
Vehicles - Licensed	(1,566,731)	(121,795)	94,594	(1,593,932)
Off-road vehicles	(757,792)	(56,184)	12,335	(801,641)
Miscellaneous equipment	(383,940)	(56,892)	-	(440,832)
Irrigation systems	(312,290)	(16,694)	-	(328,984)
Total accumulated depreciation	<u>(4,617,193)</u>	<u>(334,856)</u>	<u>106,929</u>	<u>(4,845,120)</u>
Total capital assets being depreciated, net	<u>3,859,110</u>	<u>14,168</u>	<u>-</u>	<u>3,873,278</u>
Business-type activities capital assets, net	<u>\$ 17,186,323</u>	<u>\$ 14,168</u>	<u>\$ -</u>	<u>\$ 17,200,491</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

4. Changes in capital assets (continued)

Primary Government (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General Government	\$ 1,122,847
Public Safety	1,649,266
Public Works	5,669,877
Social Services	99,883
Post -Secondary Education	42,285
Parks, Recreation, and Culture	747,846
Libraries	182,181
Economic Development and Opportunity	-
Total Depreciation - Governmental Activities	<u>\$ 9,514,185</u>

Business-Type Activities

Recreation Activity Fund	\$ 7,683
Solid Waste/Recycling	206,178
Wicomico	<u>120,995</u>
Total Depreciation - Business-Type Activities	<u>\$ 334,856</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

4. Changes in capital assets (continued)

Component Units

St. Mary's County Public Schools

Capital Assets

Capital asset activity for the year ended June 30, 2014 is as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions/Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 2,545,293	\$ -	\$ -	\$ 2,545,293
Construction in process	<u>3,639,276</u>	<u>11,415,667</u>	<u>(1,562,503)</u>	<u>13,492,440</u>
	<u>6,184,569</u>	<u>11,415,667</u>	<u>(1,562,503)</u>	<u>16,037,733</u>
Capital assets being depreciated:				
Buildings and improvements	338,004,986	3,533,365	-	341,538,351
Furniture and equipment	8,151,387	755,665	(532,478)	8,374,574
Equipment leased under financing agreements	<u>4,472,501</u>	<u>1,733,091</u>	<u>-</u>	<u>6,205,592</u>
	<u>350,628,874</u>	<u>6,022,121</u>	<u>(532,478)</u>	<u>356,118,517</u>
Accumulated depreciation for:				
Buildings and improvements	(114,764,578)	(7,715,165)	-	(122,479,743)
Furniture and equipment	<u>(6,311,080)</u>	<u>(1,847,513)</u>	<u>510,528</u>	<u>(7,648,065)</u>
	<u>(121,075,658)</u>	<u>(9,562,678)</u>	<u>510,528</u>	<u>(130,127,808)</u>
Governmental activities capital assets, net	<u>\$ 235,737,785</u>	<u>\$ 7,875,110</u>	<u>\$ (1,584,453)</u>	<u>\$ 242,028,442</u>
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,664,196	\$ 7,446	\$ -	\$ 1,671,642
Accumulated depreciation for:				
Furniture and equipment	<u>(1,125,883)</u>	<u>(76,247)</u>	<u>-</u>	<u>(1,202,130)</u>
Business-type activities capital Assets, net	<u>\$ 538,313</u>	<u>\$ (68,801)</u>	<u>\$ -</u>	<u>\$ 469,512</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Assets (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2014, as follows:

Governmental activities:	
Administration	\$ 122,559
Mid-Level administration	845,204
Other instructional costs	502,579
Special education	14,860
Student personnel services	682
Student transportation services	132,062
Operation of plant	7,938,180
Maintenance of plant	<u>6,552</u>
Total governmental activities depreciation expense	<u>\$ 9,562,678</u>
Business-type activities:	
Food services	<u>\$ 76,247</u>

St. Mary's County Library

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets:				
Furnishings and Equipment	\$ 974,158	\$ 63,870	\$ 23,681	\$ 1,014,347
Leasehold Improvements	87,735	-	-	87,735
Vehicles	34,944	-	-	34,944
Books	<u>4,232,625</u>	<u>420,838</u>	<u>-</u>	<u>4,653,463</u>
	<u>5,329,462</u>	<u>484,708</u>	<u>23,681</u>	<u>5,790,489</u>



Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Library (continued)

Capital assets and depreciation (continued)

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Accumulated depreciation:				
Furnishings and equipment	\$ 912,513	\$ 36,913	\$ 23,681	\$ 925,745
Leasehold improvements	5,265	1,755	-	7,020
Vehicles	19,711	3,808	-	23,519
Books	<u>2,986,515</u>	<u>402,897</u>	<u>-</u>	<u>3,389,412</u>
	<u>3,924,004</u>	<u>445,373</u>	<u>23,681</u>	<u>4,345,696</u>
Net capital assets	<u>\$ 1,405,458</u>	<u>\$ 39,335</u>	<u>\$ -</u>	<u>\$1,444,793</u>

Governmental activities depreciation expense of \$445,373 was charged to Library services.

St. Mary's County Building Authority Commission

Capital assets

Capital assets at June 30, 2014 consisted of the following:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets:				
State Office building	\$ 0	\$ -	\$ 0	\$ 0
Furniture and equipment	<u>0</u>	<u>-</u>	<u>0</u>	<u>0</u>
	<u>0</u>	<u>-</u>	<u>0</u>	<u>0</u>
Accumulated depreciation:				
State Office building	0	0	0	0
Furniture and equipment	<u>0</u>	<u>-</u>	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net capital assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

4. Changes in capital assets (continued)

St. Mary's County Metropolitan Commission

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2014 was as follows:

Capital assets:	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>
Utility plants	\$ 98,177,788	\$ 3,755,858	\$ -	\$ 101,933,646
Water plant systems	36,851,063	1,283,271	-	38,134,334
Equipment	7,633,107	529,294	148,507	8,013,894
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,899,703</u>	<u>-</u>	<u>-</u>	<u>3,899,703</u>
Subtotal	147,379,862	5,568,423	148,507	152,799,778
Not being depreciated:				
Utility plant construction in process	6,175,652	9,727,126	3,266,689	12,636,089
Water plant construction in process	3,197,618	4,928,506	645,538	7,480,586
Land/land rights	<u>657,587</u>	<u>113,832</u>	<u>-</u>	<u>771,419</u>
	<u>157,410,719</u>	<u>20,337,887</u>	<u>4,060,734</u>	<u>173,687,872</u>
Accumulated depreciation:				
Utility plants	35,390,967	2,460,735	-	37,851,702
Water plant systems	8,261,261	1,077,752	-	9,339,013
Equipment	4,801,624	630,761	147,116	5,285,269
Capitalized interest	302,734	16,364	-	319,098
Buildings	<u>1,188,481</u>	<u>172,244</u>	<u>-</u>	<u>1,360,725</u>
	<u>49,945,067</u>	<u>4,357,856</u>	<u>147,116</u>	<u>54,155,807</u>
Net capital assets	<u>\$ 107,465,652</u>	<u>\$ 15,980,031</u>	<u>\$ 3,913,618</u>	<u>\$ 119,532,065</u>

Depreciation expense of \$4,357,856 was charged to activities as follows:

Sewer activities	\$ 2,838,292
Water activities	1,362,827
Engineering activities	46,953
Administrative	<u>109,784</u>
Total	<u>\$ 4,357,856</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

5. Property tax

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied each July 1, and the taxpayer has the option to pay in full without interest by September 30 or elect a semiannual payment option. If a semiannual payment option is elected, the first payment is payable without interest by September 30 and the second payment, including a service charge, is payable without interest by December 31. Interest is charged for each month or fraction thereof that taxes remain unpaid beginning October 1 on accounts under the annual payment option or January 1 for accounts under the semiannual payment option. Maryland law grants the Treasurer of St. Mary's County the power to immediately advertise and sell any real property after the taxes are delinquent for a period of one year. Property taxes are levied at rates enacted by the Commissioners in the annual budget applied to the assessed value of the property as determined by the Maryland State Department of Assessments and Taxation, an agency of the government of the State of Maryland. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice, and then only after public hearings. The real property tax rate during the year ended June 30, 2014, was \$.857 per \$100 of assessed value based on the full valuation method. The Constant Yield tax rate for FY2014 was \$.8526. The personal property tax rate during the year ended June 30, 2014 was \$2.1425 per \$100 of assessed value. The County Treasurer bills and collects all property taxes.

A 100% allowance for uncollectibles is established for prior year taxes receivable. County property tax receivable as of June 30, 2014, net of the allowance for uncollectibles of \$795,136, is \$3,113,014 (this amount does not include state and emergency services taxes receivable). On October 1, a 3% penalty is assessed, and interest begins accruing at a rate of 1% for each month that real and personal property taxes are delinquent (unless taxpayer has elected semiannual payment option as described above).

6. Special tax assessment receivable and unearned revenue

Primary Government

The special assessment receivable is composed of various special assessments levied by the County for completed projects funded by the County. The cost of the completed projects is billed to taxpayers over periods from 10 to 25 years and reported as a special assessment receivable and unearned revenue. In accordance with the modified accrual method of accounting, in subsequent periods, when revenue recognition criteria are met or when the government has a legal claim to the resources, the liability for the unearned revenue is removed from the balance sheet and revenue is recognized. The non-current portion of the receivable is offset by a fund balance reserve account, which indicates that this does not constitute available resources since this is not a component of fund balance. The current portion of the special assessment receivable is considered available spendable resources.

As of June 30, 2014, the amount of delinquent special assessment receivables due from taxpayers was \$949.

Component Units

St. Mary's County Public Schools

Unearned Revenue

General Fund

Unearned revenue primarily consists of payments received under restricted programs in excess of the expenses / expenditures incurred to date under those programs at June 30, 2014, of \$1,705,012.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

6. Special tax assessment receivable and unearned revenue (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Unearned Revenue (continued)

Capital Projects Fund

Unearned revenue consists primarily of funds received for a removal security deposit to be used either towards the purchase of, or removal of an installed solar generating facility upon the expiration of a solar power purchase agreement in the amount of \$81,837.

Enterprise Fund

Unearned revenue of \$126,165 represents student lunch ticket sales collected in advance for lunches which will be consumed by students in fiscal year 2015.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations

Primary Government

Governmental Activities

	June 30, 2013	Additions	Deductions	Principal Repayment	June 30, 2014	Amounts due within one year
General Obligation Bonds - County	\$ 83,885,000	\$ 9,934,000	\$ 9,505,000	\$ (6,830,000)	\$ 77,484,000	\$ 6,996,000
Water Quality Loans	2,480,790	-	-	(563,566)	1,917,224	573,006
State Loans	1,789,140	133,200	-	(142,451)	1,779,889	151,330
Surplus Property Transfer of Debt	1,206	-	-	(628)	578	137
Exempt Financing	<u>8,437,967</u>	<u>2,288</u>	<u>-</u>	<u>(2,072,308)</u>	<u>6,367,947</u>	<u>2,096,044</u>
	<u>96,594,103</u>	<u>10,069,488</u>	<u>9,505,000</u>	<u>(9,608,953)</u>	<u>87,549,638</u>	<u>9,816,517</u>
Landfill Post-Closure Costs	2,250,000	-	425,000	-	1,825,000	-
Compensated Absences (Long-Term)	<u>4,559,419</u>	<u>259,373</u>	<u>-</u>	<u>-</u>	<u>4,818,792</u>	<u>15,688</u>
	<u>6,809,419</u>	<u>259,373</u>	<u>425,000</u>	<u>-</u>	<u>6,643,792</u>	<u>15,688</u>
Amount Reported in Statement of Net Position	<u>\$ 103,403,522</u>	<u>\$ 10,328,861</u>	<u>\$ 9,930,000</u>	<u>\$ (9,608,953)</u>	<u>\$ 94,193,430</u>	<u>\$ 9,832,205</u>

Business-Type Activities

Exempt Financing	\$ 453,317	\$ -	\$ 2,288	\$ (108,811)	342,218	\$ 112,643
Compensated Absences (Long-Term)	<u>148,197</u>	<u>3,204</u>	<u>-</u>	<u>-</u>	<u>151,401</u>	<u>-</u>
Amount Reported in Statement of Net Position	<u>\$ 601,514</u>	<u>\$ 3,204</u>	<u>\$ 2,288</u>	<u>\$ (108,811)</u>	<u>\$ 493,619</u>	<u>\$ 112,643</u>

For governmental activities, compensated absences are generally liquidated by the governmental fund to which the liability relates.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

General obligation bonds

The County issues General Obligation Bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds have been issued for both general government and proprietary activities. These bonds, therefore, are reported in the proprietary funds if they are expected to be repaid from proprietary revenue. In addition, General Obligation Bonds have been issued to refund both General Obligation and Revenue Bonds. General Obligation Bonds are direct obligations of the County and pledge the full faith and credit of the government.

On March 8, 2005, the County issued General Obligation Bonds (\$16,260,000 Consolidated Public Improvement Bonds). The Consolidated Public Improvement Bonds will mature on March 1, in 20 annual serial installments, beginning in the year 2006 and ending with the year 2025. Interest on the Bonds is payable semiannually on each March 1 and September 1 to maturity with an average interest rate of 3.80%.

On November 17, 2009, the County issued General Obligation Bonds of \$13,055,000 Series A Tax Exempt Bonds, \$16,945,000 Series B Build America Bonds, and a \$15,645,000 Series C Refunding Bond. The Bonds will mature on July 15, in 20 annual serial installments, beginning in the year 2010 and ending in the year 2030. Interest on the Bonds is payable semiannually on each January 15 and July 15 to maturity with an average interest rate of 3.09%.

The Series B, Build America Bonds, are taxable with a bi-annual credit of 35% of the interest from the Internal Revenue Service.

The Series C Refunding Bond of \$15,645,000 is an advanced refunding on the 2001 General Obligation Bond, on principal payments of \$15,085,000. The last payment for the un-refunded portion of the 2001 General Obligation Bond was in 2012.

On November 8, 2011, the 2002 Refunding Bonds and the 2003 Public Facilities and Refunding Bonds were refunded in the 2011 General Obligation Refunding Bonds for \$34,357,000. The 2002 Refunding Bonds will mature on October 1 in 8 installments beginning in 2013 and ending in 2019. The 2003 Refunding Bonds will mature on November 1 in 12 installments beginning in 2013 and ending in 2023. Both the 2002 and 2003 Refunding Bonds carry interest rates ranging from 2.25-2.41%.

On April 10, 2014, the 2005 General Obligation Bonds were refunded with an advance refunding for \$9,934,000. The 2014 Direct Bank Loan Refunding will mature on March 1 in 10 installments beginning in 2016 and ending in 2025. The Refunding Bonds carry an interest rate of 2.32%.

The County has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase United States government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government-wide financial statements. As of June 30, 2014 the amount of debt outstanding removed from long-term debt amounted to \$9,505,000.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

2001 Maryland Water Quality Loan

On September 29, 2000, Commissioners of St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$3,338,383 for landfill post-closure costs, St. Andrews Landfill area B, cells 1, 2 and 4. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears interest at a rate of 2.4% per annum payable semiannually. Principal payments are due annually through 2016 starting February 1, 2002. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2014, based on the final loan amount of \$3,037,789, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2015	\$ 255,251	\$ 9,685	\$ 12,753	\$ 277,689
2016	<u>148,312</u>	<u>3,559</u>	<u>12,753</u>	<u>164,624</u>
	<u>\$ 403,563</u>	<u>\$ 13,244</u>	<u>\$ 25,506</u>	<u>\$ 442,313</u>

2004 Maryland Water Quality Loan

On May 26, 2004, Commissioners of St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$4,332,759 for landfill post-closure costs, St. Andrews Landfill area B, cells 3 and 5. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears an interest rate of 1.10% per annum, payable semiannually. Principal payments are due annually through 2019 beginning February 1, 2006. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2014, based on the final loan amount of \$3,934,347, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2015	\$ 317,755	\$ 16,650	\$ 11,448	\$ 345,853
2016	321,250	13,155	11,448	345,853
2017	324,784	9,621	11,448	345,853
2018	328,356	6,049	11,448	345,853
2019	<u>221,516</u>	<u>2,437</u>	<u>11,448</u>	<u>235,401</u>
	<u>\$1,513,661</u>	<u>\$ 47,912</u>	<u>\$ 57,240</u>	<u>\$1,618,813</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

2006 Surplus Property, Transfer of Net Debt

On June 6, 2006, Commissioners of St. Mary's County entered into a public school property transfer agreement with St. Mary's County Public Schools for the transfer of George Washington Carver Elementary School. With this property transfer, the County agreed to assume the total outstanding State bond debt of \$368,769. As of June 30, 2014, the principal and interest payments through 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 137	\$ 21	\$ 158
2016	142	16	158
2017	147	11	158
2018	<u>152</u>	<u>6</u>	<u>158</u>
	<u>\$ 578</u>	<u>\$ 54</u>	<u>\$ 632</u>

2012 Exempt Financing Equipment Lease

On September 20, 2012, Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$11,100,000 for the purchase of equipment and vehicles. The lease bears interest at a rate of 1.26% per annum, payable bi-annually through 2017. As of June 30, 2014, \$10,395,669 has been drawn to pay for eligible purchases. The balance will be used to reimburse eligible purchases upon delivery and approval of the invoice. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the primary government portion of the 2012 Equipment Lease as of June 30, 2014, based on the final lease amount of \$11,100,000 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,096,044	\$ 73,654	\$ 2,169,698
2016	2,122,537	47,161	2,169,698
2017	<u>2,149,366</u>	<u>20,333</u>	<u>2,169,699</u>
	<u>\$ 6,367,947</u>	<u>\$ 141,148</u>	<u>\$ 6,509,095</u>



Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

Long-term obligations at June 30, 2014 consist of the following:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Amount</u>
<u>MD Water Quality Loans and Other State Loans:</u>			
Maryland Department of Natural Resources:			
Point Breeze	1993-2018	None	\$ 32,568
Sandgates Road	1994-2015	None	6,232
Tall Timbers #3 Erosion Project	1991-2016	None	13,166
Jefferson Island Club, Inc.	1991-2015	None	13,554
Holly Point Shores	2008-2032	None	180,513
Maryland Water Quality Loan	2003-2016	2.4%	403,562
Murray Road Revetment	2004-2028	None	50,848
Maryland Water Quality Loan	2005-2019	1.10%	1,513,662
Piney Point Lighthouse	2009-2026	None	403,644
Villas on Water Edge	2009-2032	None	392,328
Kingston Creek II	2010-2037	None	242,503
North Patuxent Beach	2009-2025	None	311,333
Thomas Road	2015-2029	None	<u>133,200</u>
Total state loans			<u>3,697,113</u>
<u>General obligation bonds</u>			
Consolidated Public Improvement Bonds of 2005	2006-2015	3.75-4.25%	770,000
2009 Refunding Bonds, Series A	2010-2020	2.5-4.0%	8,095,000
2009 Bonds, BAB, Series B	2021-2030	4.519%-5.7%*	16,945,000
*Rate shown does not reflect 35% rebate			
2009 Refunding Bonds, Series C	2010-2022	2-5%	13,020,000
2011 Refunding Bonds	2012-2024	2.25-2.41%	28,720,000
2014 Refunding Bonds	2016-2025	2.32%	<u>9,934,000</u>
Total general obligation bonds			<u>77,484,000</u>
Total state loans and bonds			81,181,113
Surplus property transfer of debt			578
Accrued landfill closure and postclosure costs			1,825,000
Exempt Financing			6,367,947
Accumulated unpaid annual leave			<u>4,818,792</u>
Total			<u>\$ 94,193,430</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Primary Government (continued)

Business-Type Activities

2012 Exempt Financing Equipment Lease

On September 20, 2012, the Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$11,100,000 for the purchase of equipment and vehicles. The lease bears interest at a rate of 1.26% per annum, payable bi-annually through 2017. As of June 30, 2014, \$390,318 has been drawn to pay for eligible purchases. The balance will be used to reimburse eligible purchases upon delivery and approval of the invoice. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the business-type activities portion of the 2012 Equipment Lease as of June 30, 2014, based on the final lease amount of \$11,100,000 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 112,643	\$ 3,958	\$ 116,601
2016	114,067	2,534	116,601
2017	115,508	1,093	116,601
	<u>\$ 342,218</u>	<u>\$ 7,585</u>	<u>\$ 349,803</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Primary Government (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2014 is composed of the following loans payable to the Maryland Department of Natural Resources:

Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$6,582, without interest, guaranteed by the full faith and credit of the County.	\$ 13,166
Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of \$11,040, without interest, modified during fiscal year 1993 to twenty-two varying annual payments without interest, guaranteed by the full faith and credit of the County.	13,554
Holly Point Shore Erosion Control, originally payable in twenty-five annual installments of \$10,029 without interest, guaranteed by the full faith and credit of the County.	180,513
Villas on Waters Edge Shore Erosion, payable in twenty annual installments of \$21,796, without interest, guaranteed by the full faith and credit of the County.	392,328
Kingston Creek Waterway #2, payable in twenty-five annual installments of \$10,544, without interest, guaranteed by the full faith and credit of the County.	<u>242,503</u>
	<u>\$ 842,064</u>

St. Mary's County Government has agreed that the above amounts borrowed shall be reimbursed and that these obligations shall be supported by the full faith and credit of the County.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Primary Government (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2014 including interest of \$14,116,737, except for the accrued landfill closure and postclosure costs, accumulated unpaid leave benefits, exempt financing, surplus property debt and Maryland Water Quality Loans, are as follows:

<u>Years Ending June 30,</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 7,147,331	\$ 2,167,660	\$ 9,314,991
2016	6,986,548	2,002,528	8,989,076
2017	7,599,963	1,824,920	9,424,883
2018	7,805,963	1,606,109	9,412,072
2019	7,999,821	1,366,526	9,366,347
2020-2024	29,227,105	3,902,301	33,129,406
2025-2029	10,357,350	1,210,388	11,567,738
2030-2034	2,108,185	36,305	2,144,490
2035-2037	31,623	-	31,623
Total	\$ 79,263,889	\$ 14,116,737	\$ 93,380,626

A summary of the totals above by debt type is as follows:

	General Obligation Bonds	State Loans	Special Assessment Fund	Total
Principal	\$ 77,484,000	\$ 937,825	\$ 842,064	\$ 79,263,889
Interest	14,116,737	-	-	14,116,737
	\$ 91,600,737	\$ 937,825	\$ 842,064	\$ 93,380,626

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Component Units

St. Mary's County Public Schools

Long-term Liabilities

Long-term debt at June 30, 2014, consists of equipment financing obligations, accumulated compensated absences payable, and net OPEB obligation. The following is a summary of changes in the School System's long-term liabilities for the year ended June 30, 2014.

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>	<u>Amounts due Within one year</u>
Governmental activities:					
Equipment financing agreement	\$ 3,462,131	\$ 1,733,091	\$ (1,414,425)	\$ 3,780,797	\$ 1,411,407
Compensated absences	4,131,710	850,717	(331,990)	4,650,437	508,306
Net OPEB obligation	<u>30,945,928</u>	<u>12,515,000</u>	<u>(7,818,958)</u>	<u>35,641,970</u>	<u>-</u>
	<u>\$38,539,769</u>	<u>\$15,098,808</u>	<u>\$ (9,565,373)</u>	<u>\$44,073,204</u>	<u>\$ 1,991,713</u>
Business-type activities:					
Compensated absences	<u>\$ 161,265</u>	<u>\$ 33,369</u>	<u>\$ (10,094)</u>	<u>\$ 184,540</u>	<u>\$ 6,407</u>

The compensated absences liability attributable to the governmental activities will be liquidated solely by the General Fund.

During the year ended June 30, 2013, the School System entered into various lease-purchase agreements to acquire certain office equipment and various student, teacher and administrative computers. These agreements have varying terms consisting of combined monthly payments of \$38,818, quarterly payments of \$1,824, and annual payments of \$623,929 at interest rates ranging from 3.74% to 7.69% expiring through April 2018. All items purchased under the lease-purchase agreements are pledged as collateral under the agreements. Principal and interest payments for lease-purchase agreements are recorded as expenditures of the General Fund. Principal payments are reported as reductions of long-term obligations in the government-wide financial statements.

During the year ended June 30, 2014, the School System entered into two additional lease-purchase agreements to acquire additional computer equipment in the amount of \$1,733,091. The terms of one of the agreements provide for four annual payments of \$445,646, including interest at 3.59% and one final payment of \$26,464 due August 2017. The other agreement provides for 60 monthly payments of \$354.61, including interest at 6.79% through June 30, 2018.

Total combined annual lease payments, including interest, under these agreements at June 30, 2014, was \$1,546,940.

St. Mary's County Library

Long-term debt

Long-term debt consists of accrued compensated absences. The following is a summary of the changes in long-term debt for the year ended June 30, 2014:

<u>Balance July 1, 2013</u>	<u>Decrease</u>	<u>Balance June 30, 2014</u>	<u>Amounts due within one year</u>
\$ 112,981	\$ 22,022	\$ 90,959	\$ -

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission

Long-term debt

Long-term bonds payable as of June 30, 2014 are as follows:

<u>Bonds payable</u> <u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Seventeenth Issue	2005-2018	2.75 - 4.40%	\$ 2,620,000	\$ 291,475
Twenty-first Issue	2007-2021	3.65 - 4.275%	600,300	98,344
Twenty-third Issue	2008-2027	3.5 - 4.25%	7,153,689	2,298,566
Twenty-seventh Issue	2011-2030	0.75% - 4.31%	7,395,028	2,880,746
Thirtieth Issue	2012-2029	2.96%	1,248,773	321,971
Thirty-first Issue	2013-2032	0.61% - 3.42%	825,615	432,635
Thirty-sixth Issue	2014-2033	4.31%	<u>1,224,004</u>	<u>834,428</u>
			21,067,409	7,158,165
Less current portion			<u>1,500,156</u>	<u>851,971</u>
Total			<u>\$19,567,253</u>	<u>\$6,306,194</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2014 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015 (current)	\$ 1,500,156	\$ 851,971
2016	1,555,675	801,086
2017	1,609,197	747,014
2018	1,675,102	685,845
2019	1,742,005	619,691
2020-2024	6,119,341	2,343,287
2025-2029	5,752,041	998,891
2030-2033	<u>1,113,892</u>	<u>110,380</u>
	<u>\$21,067,409</u>	<u>\$7,158,165</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Seventeenth Issue

On September 4, 2003, MetCom issued Refunding Bonds of 2003 in the principal amount of \$6,105,000. The bonds mature on November 1, in 14 annual installments, beginning in 2005 and ending in 2018. Interest rates on the bonds range from 2.75% to 4.4%. Interest was payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1, to maturity.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
November 1, 2013 through October 31, 2014	101%
November 1, 2014 through October 31, 2015	100-1/2%
After November 1, 2015	100%

The bonds were issued to refund all the outstanding maturities of the St. Mary's County Metropolitan Commission Refunding Bonds of 1993 (Ninth Issue).

Twenty-first Issue

On April 15, 2006, the Commission issued Refunding Bonds in the principal amount of \$1,158,700. The bonds mature on May 1, in 15 annual installments, beginning in 2007 and ending in 2021. Interest was payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

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

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

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

Twenty-third Issue

On November 14, 2007, the Commission issued \$10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2014, MetCom had drawn only \$10,035,589 of the proceeds.

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Twenty-seventh Issue

On August 25, 2010, the Commission issued \$12,613,963 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2014, MetCom had drawn only \$9,389,991 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2011 and ending in 2030. Interest rates on the bonds range from 0.75% to 4.31%. Interest was payable on November 1, 2010 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2020. Any partial repayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Thirtieth Issue

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

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
May 1, 2020 through April 30, 2021	102%
May 1, 2021 through April 30, 2022	101%
On or after May 1, 2022	100%

The bonds were issued to refund all the outstanding maturities of Financing Bond Issue number fourteen, issued in conjunction with the Maryland Community Development Administration (CDA). These bonds were issued with an interest rate of 2.96% that may be increased up to 3.4% in the event of a decrease in the marginal maximum corporate income tax rate. The refunded bonds had a true interest cost ranging from 4.5% to 5.0%. These bonds were issued to take advantage of a favorable interest rate environment.

MetCom refunded these bonds to reduce its total debt service payments by \$249,357 and to obtain an economic gain of \$197,055.

Thirty-First Issue

On December 29, 2012, the Commission issued \$8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2014, MetCom had drawn only \$1,564,728 of the proceeds.

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



Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Thirty-Sixth Issue

On October 2, 2013, the Commission issued \$15,948,168 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2014, MetCom had drawn only \$1,820,272 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2014 and ending in 2033. The average interest yield on these bonds is 4.31%. Interest was payable on May 1, 2013 and semiannually thereafter on each May 1 and November 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2023. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Notes, leases, and loans payable

Notes, leases and loans payable as of June 30, 2014 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Undrawn</u>
Sixth Issue	2017	6.682%	\$ 47,441	\$ 6,477	\$ -
MD Water Quality Loan #11	2017	4.26%	863,979	74,634	-
MD Water Quality Loan #15	2020	2.70%	298,633	28,847	-
MD Water Quality Loan #16	2023	1.20%	242,599	12,266	-
MD Water Quality Loan #18	2025	1.10%	2,718,709	182,704	-
MD Water Quality Loan #19	2024	1.10%	538,738	33,128	-
MD Water Quality Loan #20	2024	1.10%	622,279	26,829	-
MD Water Quality Loan #22	2027	1.10%	753,089	53,337	-
MD Water Quality Loan #25	2029	1.00%	153,356	12,536	-
MD Water Quality Loan #26	2030	1.00%	475,123	41,390	-
MD Water Quality Loan #28	2030	2.20%	385,440	75,991	-
SunTrust Bank Loan #29	2016	2.03%	134,712	3,450	-
MD Water Quality Loan #32	2034	1.80%	2,912,010	606,341	1,962,192
MD Water Quality Loan #33	2033	1.70%	35,044	6,293	358,956
MD Water Quality Loan #34	2035	2.10%	4,857,058	1,516,497	16,225,342
MD Water Quality Loan #35	2035	2.10%	1,214,265	379,113	4,056,335
MD Water Quality Loan #37	2034	2.00%	<u>230,980</u>	<u>50,978</u>	<u>2,369,320</u>
			16,483,455	3,110,811	<u>\$24,972,145</u>
Less current portion			<u>920,184</u>	<u>268,939</u>	
Total			<u>\$ 15,563,271</u>	<u>\$ 2,841,872</u>	

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2014, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015 (current)	\$ 920,184	\$ 268,939
2016	1,327,960	315,430
2017	1,324,121	271,522
2018	998,872	242,105
2019	1,014,527	226,451
2020-2024	4,674,632	901,682
2025-2029	3,128,108	566,966
2030-2034	2,727,867	291,926
2035	<u>367,184</u>	<u>25,790</u>
	<u>\$16,483,455</u>	<u>\$ 3,110,811</u>

As of June 30, 2014, MetCom has fifteen loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purpose of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for \$976,700 was used to replace the Lexington Park Wastewater Pumping Station. Loan number twenty for \$1,466,576 was for water meter installations. Loan number twenty-two for \$1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 was used for Patuxent Park Sewer Line Repair and the Marlay-Taylor Methane Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was used for the St. Clements Shore Well. Loan number twenty-nine is with SunTrust Bank in the amount of \$270,682 at an interest rate of 2.03%. Payments are made monthly on this loan from December 2011 through November 2016. The proceeds of this loan were used to purchase a Vactor truck. Loan number thirty-two in the amount of \$4,874,202 is for the Radio Read Meter Project. As of June 30, 2014 MetCom had drawn \$2,912,010 of the proceeds. Loan number thirty-three in the amount of \$394,000 is for the Shangri La Drive/South Essex Drive Sewer Rehabilitation. As of June 30, 2014 MetCom had drawn \$35,044 of the proceeds. Loan number thirty-four in the amount of \$21,082,400 is for the Marlay-Taylor Wastewater Reclamation Facility Enhanced Nutrient Removal, ENR, project. Loan number thirty-five in the amount of \$5,270,600 is also used for Marlay-Taylor Water Reclamation Facility ENR project. This loan will be paid for by Navy charges and is therefore taxable. As of June 30, 2014, MetCom has drawn \$6,071,323 on loans thirty-four and thirty-five. Loan number thirty-seven in the amount of \$2,600,300 is for the Route 235 and Route 712 Interceptor Rehabilitation. As of June 30, 2014, MetCom had drawn \$230,980 of the proceeds.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2014 were as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amounts due</u> <u>within one year</u>
Bonds payable	\$19,798,017	\$ 3,795,393	\$ 2,526,001	\$21,067,409	\$ 1,500,156
Notes, leases and loans payable	<u>10,630,132</u>	<u>6,750,779</u>	<u>897,456</u>	<u>16,483,455</u>	<u>920,184</u>
Total long-term debt	<u>\$30,428,149</u>	<u>\$ 10,546,172</u>	<u>\$ 3,423,457</u>	<u>\$37,550,864</u>	<u>\$ 2,420,340</u>

Building Authority

Long-term debt

The changes in long-term debt for the year ended June 30, 2014 were as follows:

	<u>Bonds payable</u>
Balance, July 1, 2013	\$1,430,000
Additions	0
Deductions	<u>(1,430,000)</u>
Balance, June 30, 2014	<u>\$ 0</u>
	<u>Amounts due</u> <u>within one year</u>
Bonds payable	<u>\$ 0</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

7. Long-term obligations (continued)

Component Units (continued)

Building Authority (continued)

Nursing Home Refunding Bonds

General

The refunding bonds are dated December 2, 2003 and were issued in the aggregate principal amount of \$6,230,000.

As part of the transfer of the asset to the St. Mary's County Nursing Center, Inc., the Nursing Center deposited funds into restricted investment accounts in an amount adequate to defease the bonds on July 15, 2013. The proceeds of the property transfer were determined to be the amount needed to defease the bonds as of that date.

<u>Type of Security</u>	<u>SLGS Maturity Date</u>	<u>Par Amount</u>	<u>Interest</u>	<u>Rate</u>	<u>Net Escrow Receipts</u>	<u>Present Value To 06/28/10@ 0.9954321%</u>
SLGS - Note	7/15/12	\$ 604,409	\$10,930	0.720%	\$ 615,339	\$ 602,957
SLGS - Note	1/15/13	16,797	8,755	0.960%	25,552	24,913
SLGS - Note	7/15/13	<u>1,457,778</u>	<u>8,674</u>	1.190%	<u>1,466,452</u>	<u>1,422,745</u>
		\$2,078,984	\$28,359		\$2,107,343	\$ 2,050,615

The Building Authority retained financial advisors to assist in the determination of amounts and rates required to equate to the debt service payments required on the bonds. We completed the optional redemption on July 15, 2013.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

8. Fund balances

A summary of the nonspendable, restricted, committed, assigned and unassigned fund balances as of June 30, 2014 is as follows:

	Special Revenue Funds			Debt Service Fund	
	General Fund	Fire & Rescue Revolving	Emergency Support	Special Assessments	Capital Projects Fund
<b>Nonspendable</b>					
Inventory	\$ 1,006,510	\$ -	\$ -	\$ -	\$ -
Prepaid Postage	20,600				
Interfund Advance (Wicomico)	1,023,244	-	-	-	-
<b>Total Nonspendable</b>	<u>2,050,354</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Restricted</b>					
Domestic Violence Programs	1,245	-	-	-	-
County Matching Funds for Approved Grants	211,384	-	-	-	-
Funding Sources Specified for Capital Projects					
Land Preservation	-	-	-	-	789,145
Various Capital Projects - Transfer Tax	-	-	-	-	7,978,746
County Pay-Go	-	-	-	-	20,780,902
Roads- Impact Fees	-	-	-	-	227,186
Roads- Mitigation	-	-	-	-	428,395
Parks- Impact fees	-	-	-	-	968,382
Parks- Mitigation	-	-	-	-	46,753
Schools- Impact Fees	-	-	-	-	9,193,810
Schools-Mitigation	-	-	-	-	34,125
<b>Total Restricted</b>	<u>212,629</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,447,444</u>
<b>Committed</b>					
Bond Rating Reserve	12,784,973	-	-	-	-
CIP Pay-Go	1,432,805	-	-	-	-
County OPEB	1,000,000	-	-	-	-
BOE OPEB	2,000,000	-	-	-	-
Operating Budget, non-recurring items	1,775,991	-	-	-	-
Other, Net, Including grants	-	1,320,836	1,648,405	-	303,886
<b>Total Committed</b>	<u>18,993,769</u>	<u>1,320,836</u>	<u>1,648,405</u>	<u>-</u>	<u>303,886</u>
Assigned	2,311,819	-	-	-	1,741,520
Unassigned	22,872,005	-	-	(9,374)	-
<b>Total Fund Balances (deficit)</b>	<u>\$ 46,440,576</u>	<u>\$ 1,320,836</u>	<u>\$ 1,648,405</u>	<u>\$ (9,374)</u>	<u>\$ 42,492,850</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

8. Fund balances (continued)

St. Mary's County spends funds in the following order: committed, then assigned, then unassigned.

The Board of County Commissioners (Board) is the highest level of decision-making authority, and committed funds are established by resolution, legislation, ordinance, and/or contractual action through the budget process. Those committed amounts cannot be used for any other purpose without Board action.

The authority for assigning fund balance is delegated to the Finance Department by the Board to carry out their approved plan.

The nonspendable fund balance includes:

Inventory - The amount of inventory at June 30, 2014, carried as an asset.

The restricted fund balance includes:

Domestic violence programs - The amount of marriage license fees committed for domestic violence programs, by resolution.

County matching funds for approved grants – The amount of county funding that is committed as a match to grants that were budgeted in FY2014, but for which the period extends beyond June 30, 2014. These funds will be needed to meet the obligations of the grant.

Revenues appropriated for capital projects - The amount of revenue collected to date, which has been obligated through the budget process for specific capital projects, and will be used for future capital project expenses.

The committed fund balance includes:

Bond Rating Reserve – set by ordinance, at a minimum of 6% of the next year's revenues

Fund balance appropriated as a part of the FY2015 budget for supplemental payments for OPEB (County, Board of Education) as well as the transfer of pay-go funding to the FY2015 capital budget.

The debt service fund assigned fund balance includes:

Retirement of long-term obligations - The amount of future revenue (collections) of Special Assessments that is legally restricted to expenditures for specified purposes. This future revenue will be used for the retirement of long-term obligations.

The general fund assigned fund balance is composed of:

Rainy Day Fund	\$1,625,000
Encumbrances	234,800
Miscellaneous revolving fund	<u>452,019</u>
	<u>\$2,311,819</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

8. Fund balances (continued)

The unassigned fund balance includes \$17 million that was accumulated over the 4 years ended June 30, 2011, due to revenues exceeding budget estimates and reduced expenditures when compared to the budget. It is tempting to use fund balance for recurring costs, and hope for a much improved picture next year. But this is not a short term problem. State allocations like the \$7 million in highway user funds are gone. Given the general economy, and especially federal budget considerations which impact the County's largest employment sector, the Board determined that a multi-year plan to use unassigned fund balance was warranted, but that it was also appropriate to maintain a significant unassigned balance.

The multi-year plan applies fund balance in ways that will reduce future annual operating costs for periods up to 20 years. Using fund balance instead of bonds for a capital project already in the plan translates to annual cost savings in debt service of \$750,000 for every \$10 million applied. Similar savings can be achieved by applying fund balance to pay down the accrued liability for accumulated unfunded retiree health benefits. The plan developed uses the fund balance over a 4 year period. However, the plan doesn't apply all of that fund balance because we believe it is also important to have the flexibility to address needs such as Hurricane Irene, as and when they arise. Such unassigned fund balance (\$6,852,091) can help avoid sudden disruption or elimination of services, by allowing time for a plan to be developed to address such changes, as well as revenue shortfalls or cost shifts from the State. Given the still uncertain economy and the federal budget situation and its impact on the County's largest employment sector, it can help the County to weather negative revenue results for a limited period of time.

In May 2014, as a part of the approval of the FY2015 budget, the Board approved a multi-year plan to use fund balance, as follows:

FY2015 (\$6,208,796)

\$1,000,000	for supplemental funding of the County retiree health (OPEB) trust
\$2,000,000	for supplemental funding of the Board of Education retiree health (OPEB) trust
\$ 604,200	to fund the acquisition of furniture and equipment associated with the renovation and expansion of the Adult Detention Center
\$ 250,000	for Development contracted services related principally to the development of the Comprehensive Economic Development Strategy
\$ 234,738	to purchase and implement Tax/Billing/Collections/Payment Software, and replacement radios for Emergency Services & Technology
\$ 125,000	Human Resources to perform County-wide compensation study
\$ 325,253	Mutual Aid & Paging System Optimization & Upgrade (Towers)
\$ 100,000	Health Department – Substance Abuse Prevention & Control Funding
\$1,432,805	Pay-go for several capital projects
\$ 136,800	Other Miscellaneous

FY2016 (\$10,426,298)

\$1,720,300	for Pay-go for several capital projects
\$ 750,645	for Non-recurring operating impacts of the Adult Detention Upgrade CIP
\$7,955,353	for additional pay-go funding or OPEB contributions

Each subsequent budget will include evaluation of the fund balance levels and assumptions upon which the plan was developed to determine whether it needs to be revised.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

9. Retirement plans

Primary Government

Plan description

Eligible employees of the County participate in retirement plans of the State Retirement and Pension System of Maryland (the System). The System is a cost sharing multiple-employer defined benefit pension plan administered in accordance with Article 73B of the annotated Code of Maryland by the State Retirement Agency of Maryland (SRA) to provide survivor, disability, and retirement benefits to State and local government employees, teachers, police, correctional and law enforcement officers, judges, and legislators. The SRA operates under the direction of a 15-member Board of Trustees, which establishes policy, oversees investments, and represents various employee interests. The Maryland State Retirement and Pension System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the Systems. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202-1600 or calling (800) 492-5909. The State of Maryland is obligated for the payment of all pension annuities, retirement allowances, refunds, reserves and other benefits of the System. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. The System is a component unit of the State of Maryland's financial reporting entity and is included in the State's financial statements as a pension trust fund. The County's total payroll for the year ended June 30, 2014 was \$40,163,168, of which \$22,496,523 was covered under the System.

Eligible County employees participate in one of two State sponsored plans:

- a) The Employees' Retirement System, established October 1, 1941 (closed to all new members in January 1980). Membership is a condition of employment. Members participate under one of three options: Plan A – member elected to pay a higher contribution rate (generally 7% of pay) to maintain all benefits, including unlimited cost-of-living adjustments; Plan B – member continued pre-1984 contribution rate (generally 5% of pay) to maintain all benefits except unlimited cost of living. Cost of living adjustments are capped at 5%; Plan C – member chose a combination, or two-part (bifurcated) benefit. The portion of the service prior to the election is calculated at retirement as a Retirement System benefit; the portion of service after the election is calculated at retirement as a Pension System benefit.
- b) The Employee's Pension System, established January 1, 1980. Membership is a condition of employment. Members contribute 5% of earnable compensation.

Plan benefits

Members of the Employees' Retirement Systems qualify for a normal service retirement upon attaining the age of 60, regardless of service or upon accumulating 30 years of eligibility service, regardless of age. The annual retirement allowance for members who opted to join Plan A or B equals 1/55 of a member's average final compensation (AFC) for each year of creditable service. For members of Plan C (bifurcated plan), a two part calculation is required. Part of Plan C benefits are calculated using the Retirement System formula. The remainder of the benefit is calculated using the Pension System formula. A member may retire with reduced benefits after completing 25 years of eligibility service.



Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

9. Retirement plans (continued)

Primary Government (continued)

Plan benefits (continued)

1. Members of the Employees' Pension Retirement System hired prior to July 1, 2011
  - a. Members are eligible for full retirement benefits upon attaining at least age 62 with five years of eligibility service, or upon accumulating 30 years of eligibility service regardless of age. The annual pension allowance is equal to 1.2% of AFC times years of creditable service to June 30, 1998, plus 1.8% of AFC times years of creditable, service after July 1, 1998. A member may retire with reduced benefits at age 55 with 15 years of service.
2. Members of the Employees' Pension System hired on or after July 1, 2011 (Reformed Contributory Pension Benefit)
  - b. Eligibility for normal service retirement is determined by the Rule of 90. Members become eligible once the sum of their age and eligibility service is at least 90 or upon attaining at least age 65 and has accrued at least 10 years of eligibility service. The annual pension allowance is equal to 1.5% of AFC times years of creditable service to June 30, 1998. A member may retire with reduced benefits at age 60 with 15 years of service.

Various retirement options are available under each System which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's or spouse's attained age and similar actuarial factors.

Retirement and pension allowances are increased annually to provide for changes in the cost of living in accordance with prescribed formula. Under the Reformed Contributory Pension Benefit, eligible retirees will receive a COLA capped at 2.5% when the system's investment fund earns or exceeds its assumed actuarial rate of return (currently 7.75%) or capped at 1% in years when the assumed actuarial rate is not met.

For all other plans, a two-part adjustment applies. For service earned before July 1, 2011, the COLA rate is capped at 3% and is not tied to investment performance. For service earned on or after July 1, 2011, the same caps apply as for retirees of the Reformed Contributory Pension Benefit.

The System has adopted Governmental Accounting Standards Board (GASB) Statement No.25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

9. Retirement plans (continued)

Primary Government (continued)

Funding status and progress

Pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 2013. The significant actuarial assumptions used in the actuarial valuations include (a) rate of return on the investment of 7.70% compounded annually (adopted June 30, 2013), (b) projected salary increases of 3.4% to 11.95% per year compounded annually, attributable to inflation (adopted June 30, 2013), (c) post-retirement benefit increases ranging from 2.70% to 3.45% for service prior to July 1, 2011 and 1.69% to 3.45% for service after June 30, 2011 per year based on the system and provisions (adopted June 30, 2013).

At June 30, 2013, the System's unfunded pension benefit obligation (i.e., pension benefit obligation less net position available for benefits) in accordance with GASB No. 25 was as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 36,001,888,558
Current employees	<u>24,058,202,820</u>
Total actuarial accrued liability	60,060,091,378
Actuarial value of assets	<u>39,350,969,353</u>
Unfunded actuarial accrued liability	<u>\$ 20,709,122,025</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

9. Retirement plans (continued)

Primary Government (continued)

Funding status and progress (continued)

The schedule below (expressed in thousands) presents the actuarial value of the System's assets and the actuarial accrued liability as of June 30, 2013 and the preceding two years. The schedule is intended to help the users assess the funding status of the State System.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial value of assets	\$39,350,969	\$37,248,401	\$36,177,656
Actuarial accrued liability (AAL)	<u>60,060,091</u>	<u>57,869,145</u>	<u>55,917,543</u>
Unfunded AAL	<u>\$20,709,122</u>	<u>\$20,620,744</u>	<u>\$19,739,887</u>
Funded ratio	65.52%	64.37%	64.70%
Covered payroll	\$10,477,544	\$10,336,537	\$10,478,800
Unfunded AAL as a % of payroll	198%	199%	188%
Annual required contributions	\$2,149,985	\$2,146,624	\$2,035,401
Percentage contributed	76%	71%	74%
Net pension obligation	\$ -	\$ -	\$ -

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

9. Retirement plans (continued)

Primary Government (continued)

Contributions required and made

The State Personnel and Pensions Article of the Annotated Code of Maryland require contributions by active members and their employers. Rates for required contributions by active members are established by law. Members of the Employees' Retirement Systems are required to contribute 7% (or 5% depending upon the plan option selected) of earnable compensation. Members of the Employees' Pension Systems are required to contribute 7% of earnable compensation.

Employer contributions totaling \$959,612,000 for fiscal year 2013 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2013. Employer contributions consisted of normal cost and amortization of the unfunded actuarial accrued liability in distinct layers. The UAAL which existed as of the June 30, 2000, actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2013 legislative session, the Legislature changed the method used to Fund the System. The unfunded liability as of June 30, 2013 for each System is being amortized over a single closed 25-year period. Employee contributions, which are applied to normal cost, for fiscal year 2013 totaled approximately \$710,856,000. The County's contribution to the System for the year ended June 30, 2014 was \$2,169,353.

The State of Maryland (which is also a non-employer contributor to the Teachers' Retirement and Pension Systems and the Judges' Retirement System), the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund, and more than 150 participating governmental units make all of the employer and other (non-employer) contributions to the System.

Historical trend information

Historical trend information which provides data about the Systems' progress made in accumulating sufficient assets to pay pension benefits when due is presented immediately following the notes to the financial statements in the System's comprehensive annual financial report for the fiscal year ended June 30, 2013.

Sheriff's Department plan

Effective date

The effective date of the plan is July 1, 1986, with amendments effective October 2000, September 2006, June 2007, July 2008 and January 2013.

Commissioners of St. Mary's County  
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9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Participation

Generally all Sheriff's Office covered employees ("Covered Employee" means any Employee who is classified by the County as the Sheriff, a Deputy Sheriff, a Correctional Officer, or an Inmate Services Coordinator of the Sheriff's Office) who were hired after June 30, 1986 participate in the plan. Also, each Sheriff's Department covered employees who were employed by St. Mary's County prior to July 1, 1986, and who participated in the Maryland State Retirement System, may elect to participate in the plan.

Participants are required to make mandatory contributions to the plan equal to 8% of base earnings. Employee contributions are credited with interest at the rate of 4% per annum. The County pays the entire remaining cost of the plan.

Credited service

Credited service for participants hired prior to July 1, 1986, is equal to the sum of:

- a. Service subsequent to June 30, 1986, while a participant of the plan.
- b. Military service, not in excess of five years.
- c. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Retirement System.
- d. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Pension System and/or Maryland Employees' Retirement System which the employee elects to buy back by paying into the plan an amount equal to employee contributions for such service, accumulated with interest. Such service is reduced by 25% for the purpose of calculating benefits if participants elect not to buy back such service.
- e. Service not with the Sheriff's Department, but while participating in the Maryland Systems stated above. Such service shall count only in eligibility and not in the benefit determination.

Credited service for participants hired subsequent to June 30, 1986, is equal to:

- a. Service while a participant of the plan; plus
- b. Military service, not in excess of five years is on an incremental basis, with up to one year of service each time the participant completes four years of eligibility service, and
- c. Any approved leave of absence up to 12 months.

In addition, for purposes of calculating the amount of the plan benefit only for a participant eligible for early, normal or late retirement, credit shall be given for unused sick leave as follows: 22 days of unused sick leave shall equal 1 month of credited service.

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Notes to Financial Statements  
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9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Final average earnings

"Final Average Earnings" is the average compensation received during three consecutive years of service, out of the ten calendar years prior to termination, which produces the highest average.

Normal retirement

Eligibility - A participant's normal retirement date is the earliest of the 62nd birthday or the completion of 25 years of service.

The amount of the annual retirement income shall be equal to the lesser of: (1) 80% of the Participant's average compensation, plus the Participant's unused sick leave, or (2) the sum of:

- (i) 2.5% of the Participant's average compensation multiplied by the number of years (and fractional years) of credited service earned by, or credited to, the Participant on and after July 1, 2008, plus
- (ii) 2.0% multiplied by all years (and fractional years) of credited service earned by, or credited to, the Participant prior to July 1, 2008.

Early retirement

Eligibility - A participant who retires prior to becoming eligible for normal retirement but on or after completion of 20 years of credited service.

Amount - The amount of the early retirement pension is determined in the same manner as for normal retirement.

A participant may elect to have benefits commence on the Normal Retirement Date or any month following termination. Benefits are reduced 1/2% for each month the benefit commencement date precedes the normal retirement date.

Late retirement

Eligibility - A participant who continues to work past the normal retirement date is eligible for a postponed retirement benefit.

Amount - The amount of the postponed retirement benefit is determined in the same manner as the normal benefit, based on final average earnings and credited service at the time of actual retirement subject to a maximum benefit of 80% of the Participant's average compensation.

Disability benefit

Eligibility - A participant with five years of service who is unable to perform the duties of the position by reason of physical or mental disability, which is expected to be total and permanent, is eligible for a disability benefit commencing in the month following disablement. The benefit will continue until death or recovery.

Amount - The annual benefit is equal to 1.6% of the participant's final average earnings for each year of credited service not in excess of 35 years. For line of duty disability, the annual benefit is equal to the greater of the benefit for ordinary disability or 66 2/3% of average compensation, if the disability qualifies as a catastrophic disability pursuant to the Plan. For a line of duty disability which is non-catastrophic, the annual benefit is equal to the greater of the benefit for ordinary disability or 50% of average compensation.

Commissioners of St. Mary's County  
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9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Pre-retirement death benefit

Lump sum benefit

Eligibility - The participant's beneficiary will be entitled to a lump sum benefit if the participant dies prior to termination of employment.

Amount - 100% of the participant's annual compensation, plus employee contributions accumulated with interest.

Survivor's pension

Eligibility - The spouse or dependent child of a participant who dies prior to termination of employment but after completing 5 years of credited service may receive a monthly benefit commencing the first of the month following the participant's death. The benefit is payable until death or remarriage (if the beneficiary is the spouse) or as a temporary annuity (if the beneficiary is a child) payable until the child attains age 18 (23 if a full-time student).

Amount - The amount of such benefit will be 50% of the amount determined in the same manner as the disability benefit. The beneficiary may elect to receive the lump sum death benefit in lieu of the survivor's pension.

Deferred vested benefit

Eligibility - A participant who terminates employment and has completed five years of vesting service is eligible to receive a deferred vested benefit beginning at age 62.

Amount - The amount of the participant's deferred vested pension is determined in the same manner as the normal retirement pension based on final average earnings and credited service at the participant's termination of employment. If a terminated vested participant dies prior to commencement of benefits, no benefits other than those provided in the withdrawal benefit, described below, are payable from the plan.

Withdrawal benefit

A participant who terminates employment prior to becoming eligible to receive a benefit under one of the other provisions of the plan will be eligible to receive the return of this accumulated contribution including interest to the first of the month preceding his termination of employment. A vested participant who is not eligible for benefits commencing within one month of termination may elect to withdraw his contributions and credited interest. In this event, the participant forfeits the deferred vested benefit described above.

Commissioners of St. Mary's County  
Notes to Financial Statements  
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9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Form of benefit

Monthly pension benefits will commence on the first of the month coincident with or next following the retirement date of the participant and continue until the first of the month in which the retired participant dies, unless an optional method of payment has been elected. If the participant dies before receiving benefits equal to the value of his accumulated employee contributions, the remainder will be paid to his beneficiary.

Optional Benefit - A participant may elect to receive a reduced benefit in lieu of the benefits to which he would otherwise be entitled, in an amount of actuarially equivalent value, as follows:

- a. Joint and Survivor - a reduced pension during the lifetime of the pensioner, starting at his actual retirement date and continuing to the pensioner's spouse at an amount which may be the same as the reduced amount payable to the participant or one-half of the reduced amount paid to the participant.
- b. Other - A participant may elect a pension payable in accordance with any other option approved by the Board of Trustees (except an "interest only" option) which is the actuarial equivalent of the normal retirement pension to which the participant was entitled at normal retirement date.

Post-retirement pension increases

Each July 1, a 3% cost of living increase will be granted to retired participants or spouses whose benefit has been in pay status at least one year. The cost of living increase also applies to deferred benefits.

Actuarial methods and assumptions

The funding method, data and assumptions used in the determination of cost estimates are presented below:

Employee data - The employee data used in the determination of cost estimates consists of pertinent information with respect to participants as of July 1, 2014.

Valuation Date - July 1, 2014. The Board of Trustees elected to have the actuarial valuation period as of July 1, as opposed to the January 1 date formerly used. This is more timely for contribution budget considerations.

Actuarial Funding Method - The actuarial valuation has been completed using the Individual Entry Age Normal method.

Rate of Investment Return - An average net rate of 7.25% per annum (after investment expenses are deducted) is assumed as the annual rate of investment return (including appreciation and depreciation, realized and unrealized).

Salary Scale - Salary scale is based on years of service (lower serviced participants are assumed to have a 7% increase which grades down to an assumed 4% increase for higher serviced participants).

Cost of Living Increases - The cost of living increase is 3% per year.



Commissioners of St. Mary's County  
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9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Actuarial methods and assumptions (continued)

Annual Probability of Severance - At death - Pre-retirement mortality has been assumed to follow the RP-2000 Blue Collar Mortality tables. Post-retirement mortality has been assumed to follow the pre-retirement mortality for employees retiring on all but total and permanent disability. Post-retirement mortality for disabled lives has been assumed to follow the pre-retirement mortality set forward 3 years.

Development of plan costs

Derivation of Normal Cost - The plan's normal cost is the sum of the individual normal costs determined for each participant, assuming the plan had always been in existence and the actuarial assumptions underlying the cost determination are exactly realized. Benefits payable under every circumstance (retirement, death, disability and termination) are included in the calculations. An allowance is also added for expenses.

The actuarial accrued liability is the sum of all normal costs which would have accumulated, if the assumed normal cost had always been contributed in the past and the actuarial assumptions had been exactly realized. The unfunded actuarial accrued liability is the actuarial accrued liability less the fund's assets at the valuation date.

Recommended contribution level

Recommended contributions are based on a 23-year amortization of the unfunded liability.

Key results:	<u>July 1, 2014</u>
Number of Participants:	
Active	206
Retired	49
Terminated vested	4
Refunds due	27
Disabled	<u>32</u>
Total	<u>318</u>
 Total annual compensation of active participants	 <u>\$ 12,774,258</u>
Actuarial accrued liability:	
Actives	\$ 51,431,370
Nonactives	<u>43,917,634</u>
Total	<u>\$ 95,349,004</u>
Assets	<u>\$ 62,771,964</u>
Unfunded actuarial liability	\$ 32,577,040
Normal cost with adjustments:	
Dollar amount	\$ 2,588,786
Percent of payroll	20.30%

Commissioners of St. Mary's County  
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9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Recommended contribution level (continued)

The amount of the Sheriff's Department's current year covered payroll is \$14,276,010, and the Sheriff's Department's total payroll for all employees is \$15,386,373. The following employer contributions were made during the fiscal year ended June 30, 2014:

	<u>Contributions</u>	<u>% of Covered Payroll</u>
Actuarially determined	\$ 4,834,126	34%
Voluntary supplemental contribution	461,000	N/A

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit

A length of service program for qualified active volunteer members of the St. Mary's County Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit was established effective July 1, 1980. An "active member" is defined as a person who accumulated a minimum of fifty (50) points per calendar year in accordance with a point system. This program is funded and administered by the Commissioners of St. Mary's County.

Eligibility and benefits

- a. Any person who has served as a member of any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit is eligible to receive benefits provided that:
  - 1) The person is certified in accordance with the point system to have served as an active volunteer subsequent to December 31, 1979.
  - 2) Any person who discontinued active volunteer service prior to July 1, 1980, may receive credit for the service after being certified in accordance with the point system.
  
- b. Beginning July 1, 1994, active volunteer fire and rescue squads and advanced life support unit personnel may select from two Length of Service program benefit options. Selection of a benefit option by the individual is irrevocable. The options, with rates reflected effective July 1, 2006, are:
  - 1) Any person who has reached the age of sixty (60) and who has completed a minimum of twenty (20) years of certified active volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit, or combination thereof, shall receive two hundred dollars (\$200) per month, for life. Payments will begin in the month following eligibility.
    - An additional payment of eight dollars (\$8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.
  
  - 2) Any person who has reached the age of fifty-five (55) and who has completed a minimum of twenty (20) years of certified volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit or combination thereof, shall receive one hundred fifty dollars (\$150) per month for life.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit (continued)

Eligibility and benefits (continued)

An additional payment of eight dollars (\$8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

- c. In the event that any active volunteer becomes disabled during the course of his or her service while actively engaged in providing such services and in the event that the disability prevents the volunteer from pursuing his or her normal occupation and in the event that the disability is of a permanent nature as certified by the Maryland Workmen's Compensation Commission or other competent medical authority as designated by the Commissioners of St. Mary's County, then the volunteer is entitled to receive the minimum benefits prescribed above and any such benefits as he or she may be entitled to regardless of his or her age or length of service. These benefits will begin on the first day of the month following the establishment of the permanency of his or her disability.
- d. In the event that any qualified volunteer shall die while receiving benefits, then his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's benefits. These benefits terminate upon death or remarriage of the spouse.
- e. In the event that a qualified volunteer dies prior to receiving any benefits under this section, his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's earned benefits. These benefits terminate upon death or remarriage of the spouse.
- f. In the event that an active volunteer dies in the line of duty, a burial benefit up to two thousand five hundred dollars (\$2,500) is payable.
- g. In the event that any active volunteer (herein defined as one who has at least two (2) years of qualifying service in the five (5) preceding years) attains the age of seventy (70) years and fails to achieve the required twenty (20) years of service, then the volunteer is entitled to a monthly benefit of the number of years of credited service completed, multiplied by eight dollars (\$8).

Point system

In order to qualify for benefits, points are credited to each volunteer as follows:

- 1) One (1) point is credited for each hour of attendance in a recognized training course, provided that not more than twenty (20) points may be credited for all training courses attended per year.
- 2) One (1) point is credited for each company or county drill that is a minimum of two (2) hours in duration attended in its entirety, provided that not more than twenty-five (25) points may be credited for all drills attended per year.
- 3) One (1) point is credited for each official company or county meeting pertaining to St. Mary's County fire services or rescue services attended, provided that not more than fifteen (15) points may be credited for all meetings attended per year.

Commissioners of St. Mary's County  
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9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit (continued)

Point system (continued)

- 4) One (1) point is credited for each call to which a volunteer responds, provided that not more than forty (40) points may be credited for all calls responded to per year.
- 5) Twenty-five (25) points are credited for completion of a one-year term as an appointed or elected officer in any of the fire or rescue service organizations of St. Mary's County, provided that not more than one (1) office shall be counted in any calendar year.
- 6) One-half (1/2) of a point is credited for each hour of acceptable collateral duties, such as but not limited to apparatus and building maintenance, official standby and fire prevention, provided that not more than twenty-five (25) points may be credited for all collateral duties performed per year.
- 7) A volunteer member who serves or has served full-time military service in the armed forces of the United States receives credit at the rate of five (5) points for each month served, provided that not more than fifty (50) points can be credited for any calendar year. A maximum of four (4) years of creditable service may be acquired in this manner. The volunteer member must have been an active member for one (1) year prior to enlistment. The volunteer member must be reinstated within six (6) months after discharge.

This length of service program is funded by the County Commissioners by annual appropriations. The total contribution for the fiscal year ended June 30, 2014 was \$817,519.

Component Units

St. Mary's County Public Schools

Pension Plans

Plan description

The employees of the School System are covered by one of the following pension plans affiliated with the State Retirement and Pension System of Maryland, a cost-sharing multiple-employer public employee retirement system administered by the State Retirement Agency:

- The Teachers' Retirement System of the State of Maryland,
- The Employees' Retirement System of the State of Maryland,
- The Pension System for Teachers of the State of Maryland, or
- The Pension System for Employees of the State of Maryland

Commissioners of St. Mary's County  
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9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Plan description (continued)

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the "Pension System for Teachers of the State of Maryland" and the "Pension System for Employees of the State of Maryland." Prior to this date, all teachers and related positions were required to be members of the "Teachers' Retirement System of the State of Maryland," and non-certificated positions were members of the "Employees' Retirement System of the State of Maryland." All School System employees who were members of the "Retirement System" may remain in that System, or they may elect to join the "Pension System." All teachers hired within the State after December 31, 1979, must join the "Pension System for Teachers." All non-certificated employees hired within the State after December 31, 1979, must join the "Pension System for Employees." The "Employees' Retirement System" and the "Pension System for Employees" cover those employees not covered by the teachers' plans. These employees are principally custodial, maintenance, and food service employees.

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension system. Benefits generally vest after ten years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555, or online at <http://www.sra.state.md.us/>.

Funding policy

Contributions to the Systems are specified by the state Personnel and Pensions Article of the Annotated Code of Maryland. The State Personnel and Pensions Article requires both active members and their respective employers to make contributions to the respective Systems. Rates for required contributions by active members are established by law. Under the "Retirement System" employees contribute 5 percent or 7 percent of their earnable compensation depending upon the retirement option selected, and under the "Pension System" employees contribute 7 percent of their earnable compensation. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance.

Contribution rates for employer and other non-employer contributing entities (including the State of Maryland) are established by annual actuarial valuations using the individual entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The School System made required contributions totaling \$4,416,608 or 3.71% of current covered payroll, and the State of Maryland made contributions on behalf of the School System totaling \$13,048,841 or 11.00% of current covered payroll for fiscal year 2014.

Commissioners of St. Mary's County  
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9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Annual pension cost

A three-year trend of the School System's annual pension cost is as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Total Annual Pension Cost (APC)</u>	<u>APC Contributed By School System</u>	<u>APC Contributed By State</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2012	\$16,334,577	\$1,428,621	\$14,905,956	100%	-
2013	15,441,323	3,626,191	11,815,132	100%	-
2014	17,465,449	4,416,608	13,048,841	100%	-

The contributions made by the state of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by the GASB Codification.

St. Mary's County Library

Retirement and pension plan

Description

All qualified career employees of the Library are required to join the Maryland State Teachers' Pension Plan or the Maryland State Employees' Pension Plan. Some employees hired before January 1, 1980 have retained membership in the Maryland State Teachers' or Employees' Retirement Systems. All plans have provisions for early retirement, death and disability benefits. Participants become eligible for a vested retirement allowance after 5 years of service. The Plans are an agent multiple-employer public employee retirement system. The State Retirement and Pension System of Maryland is the administrator of the Systems. The System was established and benefits are provided by the State Personnel and Pensions Article of the Annotated Code of Maryland. The separately issued financial statements of the System may be obtained by contacting the administrator.

Commissioners of St. Mary's County  
Notes to Financial Statements  
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9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Library (continued)

Retirement and Pension Plan (continued)

Maryland State Pension Systems

The Maryland State Pension System is a retirement program for employees hired after January 1, 1980, and prior employees who elected to transfer from the Retirement system. The System provides retirement, death and disability benefits in accordance with State statutes. A member terminating employment before attaining retirement age, but after five years of service becomes eligible for a vested retirement allowance provided the member does not withdraw his or her accumulated contributions. Members of the Pension Systems may retire with full benefits after attaining the age of 62 with five years of service, or after completing 30 years of service, regardless of age.

A member of the Pension System enrolled prior to July 1, 2011, will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive year average final salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.8% of the highest three-consecutive year average final salary multiplied by the number of years of service credit after June 30, 1998. The annual benefit for a Pension System member who is employed by a participating governmental unit that does not provide enhanced pension benefits is equal to 0.8% of the member's highest three-consecutive year average final salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security Integration Level base. A member of either type of pension system enrolled prior to July 1, 2011, may retire with reduced benefits after attaining age 55 and completing 15 years of service.

For new Pension System members hired on or after July 1, 2011, benefit reforms enacted during the 2011 Legislative Session establish the pension benefit multiplier at 1.5% rather than 1.8%, calculate average final compensation based on the five highest consecutive years of service rather than the three highest, and allow vesting after ten years of eligible service rather than five years.

Maryland State Retirement Systems

The Maryland State Retirement Systems is a retirement program for substantially all state employees who are not members of the State Pension System. 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. The annual benefit for Retirement System members is equal to 1/55 (1.8%) of the member's highest three-year average final salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. A member enrolled prior to July 1, 2011, may retire with reduced benefits after attaining age 55 and completing 15 years of service.

Commissioners of St. Mary's County  
Notes to Financial Statements  
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9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Library (continued)

Funding Policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute from 5% to 7% of earnable compensation. Members of the pension systems are required to contribute 7% of compensation for the year ended June 30, 2014.

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

The unfunded actuarial liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct layers. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also, as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2013 legislative session, the Legislature changed the method used to fund the system. The unfunded liability as of June 30, 2013 for each System is being amortized over a single closed 25-year period.

The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and more than 150 participating governmental units make all of the employer and other contributions to the System.

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2014, the Library's total payroll and payroll for covered employees were \$2,038,101 and \$1,875,641, respectively. No contributions were made by the Library for the year ended June 30, 2014.

For fiscal year 2014, the State contributed \$291,609 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement Number 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 14.49% of covered payroll.

Actuarial Assumptions

- a. Investment Rate of Return – 7.70% compounded annually
- b. Projected payroll growth – 3.4% to 11.95% compounded annually due to inflation
- c. COLAs – 2.70%-3.45% for services prior to July 1, 2011 and 1.69% - 3.45% for services after June 30, 2011 (per year based on the system and provisions)



Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission

Retirement and pension plan

Nationwide Retirement Solutions

On March 18, 2004, MetCom adopted a Section 457 plan. Under the terms of the plan, employees may contribute up to 100% of their salary, up to the contribution limits, to the plan. No employer contributions are made to this plan.

Maryland State Pension Systems

Effective July 1, 2004, MetCom joined the Maryland State Retirement and Pension System. Under the terms of entry into the system, MetCom will grant 100% credit for prior service of eligible employees. The actuarial cost of entry into the Maryland State Retirement and Pension System for service prior to June 30, 2004, was \$3,392,774. All qualified career employees of MetCom are required to join the Maryland State Employees' Pension Plan.

Description

The State Retirement Agency (the "Agency") is the administrator of the Maryland State Retirement and Pension System (the "System"). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide provisions for early retirement, death and disability benefits. The Plan is an agent multiple-employer public employee retirement system. The separately issued financial statements of the System may be obtained by contacting the administrator.

Plan Provisions

Participants hired prior to July 1, 2011 become eligible for a vested retirement allowance after 5 years' service. Participants hired on or after July 1, 2011 become vested for a retirement allowance after 10 years' services. For members in the plan prior to July 1, 2011, pensions normally start at age 62 or after 30 years' service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest consecutive three years' pay; the benefit multiplier will be 1.2% for years of credit earned up to June 30, 1998 and 1.8% for years of earned credit after June 30, 1998. Cost of living increases are limited to 3% per annum. For members enrolled on and after July 1, 2011, vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; average final compensation will be a five year average; the benefit multiplier per year will be 1.5%; and, cost of living adjustments on all benefits will be the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate.

Commissioners of St. Mary's County  
Notes to Financial Statements  
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9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission (continued)

Funding policy

The State Personnel and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the Pension Systems were required to contribute 7% of earnable compensation for the year ended June 30, 2014.

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

The unfunded actuarial accrued liability (UAAL) was being amortized in distinct layers. The UAAL which existed as of the June 30, 2000 actuarial valuation was being amortized over the remaining 40-year period (as provided by law) from July 1, 1980. As provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2013 legislative session, the Legislature changed the method used to fund the System. The unfunded liability as of June 30, 2013 for each System is being amortized over a single closed 25-year period.

The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and more than 150 participating governmental units make all of the employer and other contributions to the System.

MetCom provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2014, MetCom's total payroll and payroll for covered employees was \$5,589,642 and \$4,580,188, respectively. MetCom's contribution to the System for the year ended June 30, 2014, was \$447,972.

Actuarial assumptions

- a. Investment Rate of Return – 7.70% compounded annually
- b. Projected payroll growth – 3.40% to 11.95% including a wage inflation of 3.5%
- c. Post-employment benefit increases ranging from 2.70%-3.45% per year for service prior to July 1, 2011 and 1.69%-3.45% for service after June 30, 2011 per year based on the System and provisions

Trend information

	<u>2013</u>	<u>June 30</u> <u>2012</u>	<u>2011</u>
Annual required contributions (in thousands)	\$2,149,985	\$2,146,624	\$2,035,401
Percentage contributed	76%	71%	74%

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10. Segment information for enterprise funds

The County maintains three enterprise funds. Recreation services are accounted for in the recreation revolving fund. The Wicomico Municipal Golf Course operates a golf course, restaurant, and retail shop. The Solid Waste and Recycling Divisions are responsible for solid waste management, convenience center/landfill operations and recycling. Selected segment information for the year ended June 30, 2014 is as follows:

	<u>Recreation Activity Fund</u>	<u>Wicomico Municipal Golf Course</u>	<u>Solid Waste/ Recycling Fund</u>	<u>Total Enterprise Funds</u>
Operating revenue	\$ 2,155,708	\$ 1,221,074	\$ 2,887,242	\$ 6,264,024
Depreciation	\$ 7,683	\$ 120,995	\$ 206,178	\$ 334,856
Operating income (loss)	\$ (28,928)	\$ (188,906)	\$ (669,279)	\$ (887,113)
General fund operating subsidy	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Change in net position	\$ 106,143	\$ (174,628)	\$ 356,068	\$ 287,583
Plant, property and equipment additions	\$ 108,869	\$ 28,820	\$ 104,406	\$ 242,095
Net working capital	\$ 366,505	\$ 39,864	\$ 1,735,885	\$ 2,062,559
Total assets	\$ 750,330	\$ 4,263,252	\$15,131,901	\$20,145,483
Total net position	\$ 485,036	\$ 2,911,282	\$14,429,563	\$17,825,881

11. Interfund balances

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2014:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Primary Government</u>		
<u>General Fund</u>		
Fire & Rescue Revolving Loan Fund	\$ -	\$ 1,725,547
Emergency Services Support Fund		1,546,855
Debt Service Fund	10,197	-
Capital Projects Fund	-	42,808,485
Enterprise Fund	-	1,426,419
<u>Special Revenue Funds</u>		
General Fund	3,272,402	-
<u>Debt Service Fund</u>		
General Fund	-	10,197

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11. Interfund balances (continued)

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Capital Projects Fund</u>		
General Fund	\$ 42,808,485	\$ -
<u>Enterprise Funds</u>		
General Fund	<u>1,426,419</u>	<u>-</u>
Total due from/to other funds	<u>\$ 47,517,503</u>	<u>\$ 47,517,503</u>
<u>Component Units</u>		
Component Unit-St. Mary's County Building Authority Commission	\$ 193,054	\$ -
Primary Government-General Fund	<u>-</u>	<u>193,054</u>
Total due to/from Primary Government to Component Unit	<u>\$ 193,054</u>	<u>\$ 193,054</u>

12. Commitments and contingencies

Primary Government

There are several pending lawsuits in which the County is involved. The County attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

The County participates in a number of federally assisted grant programs, principal of which are the Departments of Education, Health and Human Services and Health and Mental Hygiene grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for the year ended June 30, 2014 have not yet been completed. Accordingly, the County's compliance with applicable grant requirements will be verified in connection with performing the County's Single Audit. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

Commissioners of St. Mary's County  
Notes to Financial Statements  
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12. Commitments and contingencies (continued)

Component Units

St. Mary's County Public Schools

Legal Proceedings

In the normal course of operations, the School System is subject to lawsuits and claims. In the opinion of management, the disposition of such lawsuits and claims will not have a material effect on the School System's financial position or results of operations.

School Construction

As of June 30, 2014, the School System had entered into various school construction commitments which are not reflected in the Statement of Net Position or Balance Sheet – Governmental Funds, since they will be funded by the State of Maryland or County bond issues, totaling approximately \$4,603,677. Additionally, the School System had entered into a land purchase agreement as of June 30, 2014 in the amount of \$2,900,000 for future use for a high school site.

Grant Program

The School System participates in a number of state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations for the current year. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

Health Insurance

The School System has a claim made policy with CareFirst BlueCross BlueShield of Maryland for health insurance coverage. The School System underwrites between 80% - 90% of the cost of health insurance based on an estimate and the employees contribute between 10% - 20%, depending upon which of the 3 different type plans employees participate. The actual contribution by the School System may vary based on actual claims experience. The policy includes a stop-loss provision for claims in excess of \$200,000. The School System has accrued a liability in the General Fund in the amount of \$2,519,790 for estimated claims incurred but not reported as of June 30, 2014.

Commissioners of St. Mary's County  
Notes to Financial Statements  
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12. Commitments and contingencies (continued)

Component Units (continued)

St. Mary's County Library

Grant Audit

The Library receives federal funds, which are passed through the State of Maryland to the Library for specific purposes. The grants are subject to review and audit by the Maryland State Department of Education. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the granting agency. In the opinion of the Library's management, such disallowances, if any, will not be significant.

Support

The Library receives a substantial amount of its support from intergovernmental sources. A significant reduction in the level of this support, were this to occur, might have an effect on the Library's programs and activities.

13. Other post-employment benefits

Primary Government

The County adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, the County recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the County's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan description

The County provides health, prescription and vision care insurance benefits to eligible retirees and their eligible dependents and life insurance for retirees only. Eligible persons include employees, former employees, or beneficiaries who are receiving pensions, and meet the eligibility requirements of the Maryland State Retirement and Pension System. The County pays a percentage of premiums based on years of service. For employees retiring prior to July 1, 2010, the percentage ranges from 26.6% with five years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after July 1, 2010, range from 21.25% with 10 years of service to 85% with 25 years of service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by the Board of County Commissioners.

Membership

At June 30, membership consisted of:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Retirees and Their Beneficiaries Currently Receiving Benefits	380	384	366
Active Employees	<u>667</u>	<u>658</u>	<u>639</u>
Total	<u>1,047</u>	<u>1,042</u>	<u>1,005</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

13. Other post-employment benefits (continued)

Primary Government (continued)

Annual OPEB Costs and Net OPEB Obligation

The County's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) was calculated as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Required Contribution	\$ 5,925,000	\$ 5,740,000	\$ 5,496,000
Interest on Net OPEB	(1,194,000)	(970,000)	(970,000)
Adjustment to ARC	<u>1,141,000</u>	<u>899,000</u>	<u>874,000</u>
Annual OPEB Cost	5,872,000	5,669,000	5,400,000
Contributions Made to the Trust	4,459,954	6,433,864	5,046,386
Payments to Retirees	2,412,046	2,045,136	2,030,476
Net OPEB Obligation (Prepaid), Beginning of Year	<u>(20,658,485)</u>	<u>(17,848,485)</u>	<u>(16,171,623)</u>
Net OPEB Obligation (Prepaid), End of Year	<u><u>\$(21,658,485)</u></u>	<u><u>\$(20,658,485)</u></u>	<u><u>\$(17,848,485)</u></u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 93,108,000	\$ 84,788,000	\$ 79,275,000
Actuarial Value of Plan Assets	<u>44,764,558</u>	<u>36,614,000</u>	<u>31,418,000</u>
Unfunded Actuarial Accrued Liability	\$ 48,343,442	\$ 48,174,000	\$ 47,857,000
Funded Ratio (Value of Plan Assets/AAL)	48.1%	43.2%	39.6%
Covered Payroll (Active Plan Members)	\$ 36,772,533	\$ 35,221,122	\$ 35,208,044
UAAL as a percentage of covered payroll	131.47%	136.78%	135.93%

Funding Progress

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2013 actuarial valuation (report issued October 29, 2014), the liabilities were computed using the project unit credit method, with linear proration to assumed benefit commencement. The actuarial assumptions included a 6.0% annual rate of return and an initial annual healthcare cost trend rate of 8.0%, decreasing 1% per year to an ultimate rate of 5.0%. The UAAL is being amortized as a level percentage of projected payroll over 30 years.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

13. Other post-employment benefits (continued)

Component Units

St. Mary's County Library

The Library adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB Statement No. 45, the Library recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the Library's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability. The Library paid for these benefits on a pay-as-you-go basis prior to the adoption of GASB Statement No. 45 on July 1, 2007. For the year ended June 30, 2014, the cost of these post-employment benefits was \$54,611.

Plan description

The Library provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of five years of eligible Library service entering an immediate retirement, family members of retirees and family members of deceased employees. The Library pays a percentage of premiums based on the date of hire and number of years of service. For employees retiring prior to July 1, 2010, or hired before July 1, 1991, regardless of retirement date, the percentage ranges from 26.6% with five years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after July 1, 2010, range from 21.25% with 10 years of service to 85% with 25 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by The Library Board of Trustees.

Membership

At June 30, membership consisted of:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Retirees and Beneficiaries Currently Receiving Benefits	8	8	9
Active Employees	<u>17</u>	<u>17</u>	<u>17</u>
Total	<u>25</u>	<u>25</u>	<u>26</u>

Funding Policy

During FY08, the Library established a trust fund, the Retiree Health Benefit Trust of St. Mary's County Library, to fund certain retiree health benefits. The Library's funding policy is to contribute at least the funded expenses. The Net OPEB Obligation is overpaid by \$252,603 as of June 30, 2014.



Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Library (continued)

Annual OPEB Costs and Net OPEB Obligation

The Library's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) was calculated as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Required Contribution	\$ 108,000	\$ 121,000	\$ 115,000
Interest on Net OPEB	(8,000)	(3,000)	(16,000)
Adjustment to ARC	<u>7,000</u>	<u>3,000</u>	<u>15,000</u>
Annual OPEB Cost	107,000	121,000	114,000
Contributions Made	(123,444)	(219,717)	(195,950)
Net OPEB Obligation, Beginning of Year	<u>(236,159)</u>	<u>(137,442)</u>	<u>(55,492)</u>
Net OPEB Obligation, End of Year	<u>\$ (252,603)</u>	<u>\$ (236,159)</u>	<u>\$ (137,442)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,620,000	\$ 1,710,000	\$ 1,632,000
Actuarial Value of Plan Assets	<u>558,000</u>	<u>404,744</u>	<u>360,000</u>
Unfunded Actuarial Accrued Liability	<u>\$ 1,062,000</u>	<u>\$ 1,305,256</u>	<u>\$ 1,272,000</u>
Funded Ratio (Value of Plan Assets/AAL)	34.44%	23.67%	22.10%
Covered Payroll (Active Plan Members)	\$ 1,875,641	\$ 1,861,366	\$ 1,784,560
UAAL as a percentage of covered payroll	56.62%	70.12%	71.28%

Actuarial Methods and Assumptions

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

In the July 1, 2013 actuarial valuation, the liabilities were computed using the projected unit credit, with linear proration to assumed benefit commencement. The actuarial assumptions included a 6% annual rate of return and an initial annual healthcare cost trend rate of 8%, decreasing gradually each year to an ultimate rate of 4.20% in 2099 and a 3.5% payroll increase. The UAAL is being amortized as a level percentage of projected payroll over 30 years, closed basis, with 24 years remaining.

Commissioners of St. Mary's County  
Notes to Financial Statements  
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13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Library (continued)

Actuarial Methods and Assumptions (continued)

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

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial value of assets was based on the estimated July 1, 2013 asset figure of \$558,000.

Metropolitan Commission

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

Plan description

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

Membership

At June 30, membership consisted of:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Retirees and Beneficiaries Currently Receiving Benefits	10	10	9
Active Employees	<u>66</u>	<u>65</u>	<u>62</u>
Total	<u>76</u>	<u>75</u>	<u>71</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

13. Other post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission (continued)

Funding Policy

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY14 operating budget included fully funding the OPEB cost. MetCom contributed \$550,000 to the trust in FY14. The Net OPEB Obligation is overpaid by \$300,388 as of June 30, 2014.

Annual OPEB Costs and Net OPEB Obligation

MetCom's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of MetCom's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in MetCom's net OPEB obligation:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Required Contribution	\$ 552,000	\$ 582,000	\$ 541,000
Interest on Net OPEB	(20,000)	(20,000)	(20,000)
Adjustment to ARC	<u>18,000</u>	<u>18,000</u>	<u>17,000</u>
Annual OPEB Cost	550,000	580,000	538,000
Contributions Made	550,000	596,404	538,000
Net OPEB Obligation (Prepaid), Beginning of Year	<u>(300,388)</u>	<u>(283,984)</u>	<u>283,984)</u>
Net OPEB Obligation (Prepaid), End of Year	<u>\$ (300,388)</u>	<u>\$ (300,388)</u>	<u>\$ (283,984)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 6,595,000	\$ 6,518,000	\$ 5,920,000
Actuarial Value of Plan Assets	<u>2,957,000</u>	<u>2,344,144</u>	<u>2,054,000</u>
Unfunded Actuarial Accrued Liability	<u>\$ 3,638,000</u>	<u>\$ 4,173,856</u>	<u>\$ 3,866,000</u>
Funded Ratio (Value of Plan Assets/AAL)	44.84%	35.96%	34.70%
Covered Payroll (Active Plan Members)	\$ 4,320,628	\$ 4,319,527	\$ 4,162,094
UAAL as a percentage of covered payroll	84.20%	96.63%	92.89%

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

13. Other post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission (continued)

Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the liabilities were computed using the project unit credit method, with linear proration to assumed benefit commencement. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 8 and 5.0% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 2.5% rate of inflation assumption. The UAAL is being amortized as a 30-year level percentage of projected payroll, closed basis, with 23 years remaining.

Summary of significant accounting policies

The Trust's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable. The Trust assets are invested with the Maryland Local Government Investment Pool. The Trust does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or of another entity.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools

Plan description

The School System provides post-employment health care and life insurance benefits (OPEB) to employees, former employees, or beneficiaries who meet retirement eligibility requirements of the pension plans. Effective July 1, 2007, by terms of a negotiated contract with employee associations, the School System partially supports the group insurance plan for retired employees who have been employed by the School System for ten (10) or more years. These negotiated agreements provide that the School System will contribute from 45 percent to 65 percent of a retirees' group health insurance premium for years of experience ranging from 10 years to 30 or more years, respectively. In addition, the School System pays 100 percent of life insurance premiums based upon 50 percent of final salary coverage.

In March 2009, the School System established the Retiree Benefit Trust of the Board of Education of St. Mary's County (Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Trust is administered by the Maryland Association of Boards of Education Pooled OPEB Investment Trust. The School System reserves the right to establish and amend the provisions of the trust with respect to participants, any benefit provided thereunder, or its participation therein, in whole or in part at any time, by resolution of its governing body and upon advance written notice to the Trustees of the MABE Trust.

The MABE Trust was established to pool assets of the member Boards of Education for investment purposes only. Each member of the Investment Trust is required to designate a member trustee who is a trustee of the member trust. The member trustees of the MABE Trust shall ensure that the MABE Trust keep such records as are necessary in order to maintain a separation of the assets of the MABE Trust from the assets of trusts maintained by other governmental employers. Assets of the member trusts are reported in their respective financial statements using the economic resources measurement focus and the accrual basis of accounting, under which expenses are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, if available.

The MABE Trust issues a publicly available audited GAAP-basis report that includes financial statements and required supplementary information for the Investment Trust. This report may be obtained by writing to the Trust Administrator, Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401, or calling 410-841-5414.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Number of Participants

Membership of the OPEB Plan currently enrolled in medical /drug coverage consisted of the following at July 1, 2012, the date of the latest actuarial valuation:

Active employees	1,635
Retirees – pre-medicare*	196
Retirees – post-medicare*	<u>356</u>
	<u>2,187</u>

\*Does not include 209 participants who are not enrolled in medical / drug coverage but have life insurance coverage.

Funding policy

The School System contributes the pay as you go portion, along with an annually budgeted prefunding amount of the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of the GASB codification. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 10.45% of annual covered payroll. The ARC consisted of the normal cost of \$5,661,000 and the amortization of unfunded accrued liability of \$6,734,000. The School System contributed \$7,818,958 for the year ended June 30, 2014 including \$2,772,859 towards current healthcare and life insurance premiums and an additional \$5,046,099 to prefund future benefits to the retirement benefit trust fund.

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed as of July 1, 2012 to determine the funded status of the plan as of that date as well as the School System's ARC for the fiscal year ended June 30, 2014. The annual OPEB cost (expense) for the year ended June 30, 2014 was \$12,515,000 which was comprised of the ARC of \$12,395,000 discussed above plus net interest on the net OPEB obligation. A historical trend of the School System's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation is as follows:

Commissioners of St. Mary's County  
Notes to Financial Statements  
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13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$12,481,000	51.08%	\$25,033,380
2013	11,911,000	50.36%	30,945,928
2014	12,515,000	62.48%	35,641,970

Funded Status and Funding Progress

The funded status of the plan was as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarial Accrued Liability (AAL)	\$146,045,000	\$136,749,000	\$145,876,000
Actuarial Value of Plan Assets	<u>25,002,000</u>	<u>19,591,619</u>	<u>17,077,262</u>
Unfunded Actuarial Accrued Liability	<u>\$121,043,000</u>	<u>\$117,157,381</u>	<u>\$128,798,738</u>
Funded Ratio (Value of Plan Assets/AAL)	17.12%	14.33%	11.71%
Covered Payroll (Active Plan Members)	\$118,651,284	\$116,191,213	\$114,323,669
UAAL as a percentage of covered payroll	102.02%	100.83%	112.68%

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 School System are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Actuarial Methods and Assumptions (continued)

In the July 1, 2012 actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used include (a) a rate of return on the investment of 6.00% per year compounded annually, (b) projected salary increases of 3.5% compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 4.31% to 10.76% per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 8.00% initially, reduced annually to arrive at an ultimate healthcare cost trend of 3.4%, (e) rates of mortality based upon RP-2000 Fully Generational Combined Healthy Table, (f) termination of service rates based upon age and sex, ranging from 1.0% to 15.0%, (g) disablement rates based on age, ranging from 0.03% to 0.55%, (h) retirement rates based on age, sex, and length of service, ranging from 2.0% to 24.0%, and (i) medical claims including prescription drugs are based on actual experience during the period from July 1, 2010 through June 30, 2012, and were projected with annual increases of 9% for medical claims and 9% for prescription drug claims. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 25 years for year ended June 30, 2014.

14. Landfill closure and postclosure cost

State and federal laws and regulations require the Commissioners of St. Mary's County to place a final cover on landfill sites when the site stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Commissioners for St. Mary's County report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,825,000 reported as landfill closure and postclosure care liability at June 30, 2014, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

Estimated closure and postclosure costs were taken from a 1990 Cost Analysis, for cell numbers three and five, and from current contract commitments for closure for cell numbers one, two and four. A 3% inflation factor was assumed. Postclosure costs are budgeted and paid annually.

15. Pass-through Proceeds

The amount of grant funds passed through the County to the St. Mary's County Housing Authority for the fiscal year ended June 30, 2014 totaled \$200,000. These pass-through grants are recorded as pass-through revenue in the amount of \$200,000 and expenditures in the amount of \$200,000 on the Statement of Revenues and Expenditures.



Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2014

16. Risk management

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

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessment. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members.

Annual premiums are assessed for the various policy coverages. During fiscal year 2014, the County paid premiums of \$595,623 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000 for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

17. Self-insurance (Worker's Compensation)

The County self-insures its worker's compensation costs and liabilities. The County establishes its funding of claims liabilities as they occur. This funding level includes provisions for legal, medical and lost wages expenses which are all classified as incremental claim adjustment expenses. Unpaid claims in the self-insurance funds include liabilities for unpaid claims based upon individual case estimates for claims reported at June 30, 2014. The unpaid claims also include liabilities for incurred but not reported (IBNR) claims as of June 30, 2014.

18. Restated net position

The County adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, (as required for periods beginning after December 15, 2012) during the year ended June 30, 2014. The GASB statement changed the classifications of certain items on the statement of net position to the new classifications contained in GASB Statement No. 63 which was adopted during the year ended June 30, 2013. The County restated beginning net position at July 1, 2013 by \$(329,598) to expense bond issuance costs.

19. Prior Period Adjustment

The Net Pension Asset for the Sheriff's Office Retirement Plan (SORP) in the amount of \$1,305,000 was not listed as an asset on the Statement of Net Position in prior year.

20. Subsequent Events

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through November 7, 2014, the date the financial statements were to be available to be issued. No events occurred during the subsequent period requiring recognition or disclosure in these financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES  
AND OTHER FINANCING SOURCES AND USES  
BUDGET (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Favorable (Unfavorable) Variance
	Original	Final	Actual	
<b>REVENUES</b>				
Property Taxes	\$ 101,669,371	\$ 101,669,371	\$ 103,011,131	\$ 1,341,760
Income Taxes	82,000,000	79,652,868	77,384,719	(2,268,149)
Energy Taxes	1,300,000	1,300,000	1,446,551	146,551
Recordation Taxes	4,700,000	4,700,000	5,025,546	325,546
Other Local Taxes	1,240,000	1,240,000	1,207,209	(32,791)
Highway User Revenues	766,359	766,359	721,923	(44,436)
Licenses and Permits	1,558,815	1,558,815	1,504,387	(54,428)
State/Federal Grants	12,023,890	12,441,434	10,418,326	(2,023,108)
Charges for Services	2,693,482	2,704,796	2,739,279	34,483
Fines and Forfeitures	109,500	109,500	32,547	(76,953)
Investment and Other Revenues	150,900	164,360	197,617	33,257
Sub-total	208,212,317	206,307,503	203,689,235	(2,618,268)
Pass-Throughs	-	-	200,000	200,000
<b>TOTAL GENERAL FUND REVENUES</b>	208,212,317	206,307,503	203,889,235	(2,418,268)
<b>EXPENDITURES</b>				
General Government	21,866,462	21,665,206	20,232,093	1,433,113
Public Safety	40,782,988	40,301,478	38,308,139	1,993,339
Public Works	9,659,171	10,561,351	8,997,817	1,563,534
Health	6,587,759	6,627,038	6,605,425	21,613
Social Services	4,016,704	4,046,099	3,938,347	107,752
Primary and Secondary Education	92,102,448	92,102,748	91,990,408	112,340
Post-Secondary Education	3,873,943	3,873,943	3,873,943	-
Parks, Recreation, and Culture	3,795,542	3,703,294	3,601,772	101,522
Libraries	2,476,564	2,476,564	2,476,561	3
Conservation of Natural Resources	430,871	423,235	421,951	1,284
Economic Development and Opportunity	2,000,048	2,058,496	1,668,192	390,303
Debt Service	9,960,063	9,960,063	9,961,851	(1,788)
Inter-governmental	50,471	50,471	50,471	-
Other	6,993,000	6,993,000	6,795,953	197,047
Sub-total	204,596,034	204,842,986	198,922,923	5,920,062
Pass-Throughs	-	-	200,000	(200,000)
<b>TOTAL GENERAL FUND EXPENDITURES</b>	204,596,034	204,842,986	199,122,923	5,720,062
<b>OTHER FINANCING SOURCES AND USES</b>				
Fund Balance	13,453,000	13,638,445	13,453,000	(185,445)
Reserves - Grants (expenditures)	(1,000,000)	(2,890,428)	-	2,890,428
Reserves - Grants (revenues)	1,000,000	2,890,428	-	(2,890,428)
Reserves - OPEB	(2,053,468)	-	-	-
Reserves - Emergency Appropriations	(500,000)	-	-	-
Reserves - Bond Rating	(660,000)	(660,000)	(590,991)	69,009
General Fund Transfer/Pay-Go - Capital Projects	(12,855,816)	(12,855,816)	(12,855,816)	-
Solid Waste/Recycling - General Fund Transfer	(1,000,000)	(1,000,000)	(1,000,000)	-
Legal Settlement	-	(587,147)	(587,147)	-
<b>TOTAL OTHER FINANCING SOURCES AND USES</b>	(3,616,284)	(1,464,518)	(1,580,954)	(116,436)
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>				
	\$ -	\$ -	\$ 3,185,358	\$ 3,185,358

See Independent Auditor's Report.

COMMISSIONERS OF ST. MARY'S COUNTY  
 NOTES TO STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES  
 AND OTHER FINANCING SOURCES AND USES  
 BUDGET (NON-GAAP) BASIS AND ACTUAL  
 GENERAL FUND  
 JUNE 30, 2014

A reconciliation of the revenues and expenditures of the general fund from the budgetary basis to the GAAP basis is as follows:

	Net Change in Fund Balance	End of Year Fund Balance
	<hr/>	<hr/>
Budgetary Basis – General Fund	\$ 3,185,358	\$ 45,185,768
Minor revolving funds and general financing that relate to activities resulting from fees, fines, and other revenue sources that are not an element of the budget basis reporting	(1,704,409)	(742,892)
Beginning of year encumbrances, rolled into FY2014	(277,116)	-
Appropriation from prior year rolled to FY2014 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2014	277,116	277,116
Budgeted use of fund balance	(13,453,000)	-
Increase in bond rating reserve	590,991	-
End of year encumbrances included in budget basis expenditures, not included for GAAP	<u>234,800</u>	<u>234,800</u>
GAAP Basis	<u>\$ (7,737,442)</u>	<u>\$ 46,440,576</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SHERIFF'S OFFICE RETIREMENT PLAN  
 FOR THE YEAR ENDED JUNE 30, 2014

Schedules of employer contributions and funding progress for the Sheriff's Office Retirement Plan are presented below:

Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation (Asset)
06/30/03	\$1,204,825	100%	-
06/30/04	1,652,971	100%	-
06/30/05	2,036,981	100%	-
06/30/06	2,219,197	100%	-
06/30/07	2,393,713	100%	-
06/30/08	2,921,354	100%	-
06/30/09	3,823,341	100%	-
06/30/10	4,203,131	100%	-
06/30/11	4,514,584	100%	-
06/30/12	5,016,077	119%	(805,000)
06/30/13	4,903,976	111%	(500,000)
06/30/14	5,295,126	109%	(461,000)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/03	\$18,680,033	\$29,154,913	\$10,474,880	64.1%	\$ 7,165,684	146.2%
Before Assumption Change						
07/01/04	21,635,590	34,171,854	12,536,264	63.3%	7,881,721	159.1%
After Assumption Change						
07/01/04	21,635,590	35,481,603	13,846,013	61.0%	7,881,721	175.7%
07/01/06	25,046,412	45,025,479	19,979,067	55.6%	8,596,367	232.4%
07/01/08	31,714,844	60,049,310	28,334,466	52.8%	10,254,031	276.3%
07/01/10	39,168,790	67,693,933	28,525,143	57.9%	11,780,389	242.1%
07/01/12	49,435,239	81,590,876	32,155,637	60.6%	12,064,780	266.5%
07/01/14	62,771,964	95,349,004	32,577,040	65.8%	12,774,258	255.0%

Note: This liability was calculated using the entry age normal method. The projected unit credit method was used for later years.

See Independent Auditor's Report

COMMISSIONERS OF ST. MARY'S COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 RETIREE BENEFIT TRUST  
 FOR THE YEAR ENDED JUNE 30, 2014

Schedules of employer contributions and funding progress for the Retiree Benefit Trust are presented below:

Primary Government

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Costs	Employer Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
06/30/08	\$4,617,000	\$14,788,623	320%	(10,171,623)
06/30/09	4,762,000	10,762,000	226%	(16,171,623)
06/30/10	4,888,000	4,888,000	100%	(16,171,623)
06/30/11	5,145,000	5,145,000	100%	(16,171,623)
06/30/12	5,400,000	7,076,862	131%	(17,848,485)
06/30/13	5,669,000	8,479,000	150%	(20,658,485)
06/30/14	5,872,000	6,872,000	117%	(21,658,485)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/07	\$10,000,000	\$60,135,000	\$50,135,000	16.6%	\$34,115,335	146.96%
07/01/08	13,458,000	64,561,000	51,103,000	20.8%	35,716,358	143.08%
07/01/09	24,400,000	73,285,000	48,885,000	33.3%	35,562,940	137.46%
07/01/10	28,799,000	78,251,000	49,452,000	36.8%	35,556,564	139.08%
07/01/11	31,418,000	79,275,000	47,857,000	39.6%	35,208,044	135.93%
07/01/12	36,614,000	84,788,000	48,174,000	43.2%	35,221,122	136.78%
07/01/13	44,764,558	93,108,000	48,343,442	48.1%	36,772,533	131.47%

**OTHER SUPPLEMENTARY INFORMATION**

COMMISSIONERS OF ST. MARY'S COUNTY  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	<u>Special Assessments</u>	<u>Fire And Rescue Revolving Loan Fund</u>	<u>Emergency Services Support Fund</u>	<u>Total Non-Major</u>
<b>ASSETS</b>				
Due from other funds	\$ -	\$ 1,725,547	\$ 1,546,855	\$ 3,272,402
Special tax assessments receivable, current portion	2,602	-	-	2,602
Notes receivable, Fire and Rescue loans, current portion	-	296,228	-	296,228
Emergency Support Services taxes receivable	-	-	118,877	118,877
Notes receivable, Fire and Rescue loans (net of current portion)	-	901,223	-	901,223
Special tax assessments receivable (net of current portion)	783,025	-	-	783,025
<b>Total Assets</b>	<u>\$ 785,627</u>	<u>\$ 2,922,998</u>	<u>\$ 1,665,732</u>	<u>\$ 5,374,357</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ 10,127	\$ 10,127
Unearned revenue	784,804	1,602,162	-	2,386,966
Compensation - related liabilities	-	-	7,200	7,200
Due to other funds	10,197	-	-	10,197
<b>Total Liabilities</b>	<u>795,001</u>	<u>1,602,162</u>	<u>17,327</u>	<u>2,414,490</u>
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	-
Committed	-	1,320,836	1,648,405	2,969,241
Assigned	-	-	-	-
Unassigned	(9,374)	-	-	(9,374)
<b>Total Fund Balances</b>	<u>(9,374)</u>	<u>1,320,836</u>	<u>1,648,405</u>	<u>2,959,867</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 785,627</u>	<u>\$ 2,922,998</u>	<u>\$ 1,665,732</u>	<u>\$ 5,374,357</u>



COMMISSIONERS OF ST. MARY'S COUNTY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
<b>REVENUES</b>				
Fire and Rescue Loan Repayments	\$ -	\$ 581,566	\$ -	\$ 581,566
Special Assessments	200,872	-	-	200,872
Emergency Services Support Tax	-	-	1,951,012	1,951,012
Other	-	-	290,038	290,038
	<u>200,872</u>	<u>581,566</u>	<u>2,241,050</u>	<u>3,023,488</u>
<b>EXPENDITURES</b>				
Loans to Fire and Rescue	-	788,631	-	788,631
Debt Service	62,506	-	129,323	191,829
LOSAP	-	-	814,159	814,159
Operating Allocations	-	-	340,000	340,000
Advanced Life Support	-	-	604,140	604,140
Emergency Services Committee	-	-	151,267	151,267
Grants	-	-	87,919	87,919
	<u>62,506</u>	<u>788,631</u>	<u>2,126,808</u>	<u>2,977,945</u>
Net Increase/(Decrease) in Fund Balances	<u>138,366</u>	<u>(207,065)</u>	<u>114,242</u>	<u>45,543</u>
<b>FUND BALANCES</b>				
Beginning of Year	<u>(147,740)</u>	<u>1,527,901</u>	<u>1,534,163</u>	<u>2,914,324</u>
End of Year	<u>\$ (9,374)</u>	<u>\$ 1,320,836</u>	<u>\$ 1,648,405</u>	<u>\$ 2,959,867</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Favorable
	Original	Final		(Unfavorable)
				Variance
<b>PROPERTY TAXES</b>				
Real Property Taxes	\$ 97,495,706	\$ 97,495,706	\$ 98,001,235	\$ 505,529
Payments in Lieu of Taxes	382,887	382,887	338,091	(44,796)
Personal Property	161,078	161,078	94,599	(66,479)
Public Utilities	2,174,965	2,174,965	2,627,373	452,408
Ordinary Business Corporations	3,060,490	3,060,490	2,499,182	(561,308)
Additions and Abatements	(1,000,000)	(1,000,000)	7,645	1,007,645
Penalties and Interest	900,000	900,000	839,186	(60,814)
State Homeowners Credit (Circuit Breaker)	800,000	800,000	571,781	(228,219)
Homeowners Tax Credit (County)	(800,000)	(800,000)	(571,781)	228,219
Other Tax Credits	(1,505,755)	(1,505,755)	(1,396,180)	109,575
<b>Total Property Taxes</b>	<b>101,669,371</b>	<b>101,669,371</b>	<b>103,011,131</b>	<b>1,341,760</b>
<b>Income Tax</b>				
Local Income Tax	82,000,000	79,652,868	77,384,719	(2,268,149)
<b>Other Local Taxes</b>				
Recordation Taxes	4,700,000	4,700,000	5,025,546	325,546
Energy Taxes	1,300,000	1,300,000	1,446,551	146,551
Public Accommodations Tax	850,000	850,000	710,033	(139,967)
Trailer Park Tax	290,000	290,000	291,321	1,321
Admissions and Amusement	100,000	100,000	205,855	105,855
<b>Total Other Local Taxes</b>	<b>7,240,000</b>	<b>7,240,000</b>	<b>7,679,306</b>	<b>439,306</b>
State-Shared Taxes - Highway Users	766,359	766,359	721,923	(44,436)
<b>TOTAL TAXES</b>	<b>191,675,730</b>	<b>189,328,598</b>	<b>188,797,079</b>	<b>(531,519)</b>
<b>LICENSES AND PERMITS</b>				
Business	251,315	251,315	252,827	1,512
Marriage/Animal Licenses	12,000	12,000	11,474	(526)
Other	345,500	345,500	271,343	(74,157)
CATV Franchise Fees	950,000	950,000	968,743	18,743
<b>TOTAL LICENSES AND PERMITS</b>	<b>1,558,815</b>	<b>1,558,815</b>	<b>1,504,387</b>	<b>(54,428)</b>
<b>INTER-GOVERNMENTAL</b>				
General Government	821,641	746,191	858,184	111,993
Public Safety	3,154,214	3,299,056	2,414,111	(884,945)
Public Works	1,985,424	2,323,612	1,217,402	(1,106,210)
Social Services	908,539	909,289 #	871,673	(37,616)
Health	4,965,072	5,009,889	4,990,891	(18,998)
Parks, Recreation and Culture	129,000	34,850	21,518	(13,332)
Economic Development & Opportunity	60,000	118,547	44,547	(74,000)
<b>TOTAL INTER-GOVERNMENTAL</b>	<b>12,023,890</b>	<b>12,441,434</b>	<b>10,418,326</b>	<b>(2,023,108)</b>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014  
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
<b>CHARGES FOR SERVICES</b>				
General Government	\$ 624,898	\$ 627,398	\$ 824,202	\$ 196,804
Public Safety	1,415,365	1,415,365	1,292,359	(123,006)
Public Works	450,350	473,550	438,551	(34,999)
Social Services	98,687	98,687	112,152	13,465
Parks, Recreation and Culture	26,600	26,600	22,521	(4,079)
Reimbursement - Housing Authority	<u>77,582</u>	<u>63,196</u>	<u>49,494</u>	<u>(13,702)</u>
TOTAL CHARGES FOR SERVICES	<u>2,693,482</u>	<u>2,704,796</u>	<u>2,739,279</u>	<u>34,483</u>
<b>FINES AND FORFEITURES</b>				
General Government	105,500	105,500	30,647	(74,853)
Public Safety	<u>4,000</u>	<u>4,000</u>	<u>1,900</u>	<u>(2,100)</u>
TOTAL FINES AND FORFEITURES	<u>109,500</u>	<u>109,500</u>	<u>32,547</u>	<u>(76,953)</u>
<b>OTHER REVENUES</b>				
General Government				
Interest	100,000	100,000	54,000	(46,000)
Grant Reserve	1,000,000	2,890,428	-	(2,890,428)
Contributions and Donations	<u>50,900</u>	<u>64,360</u>	<u>143,617</u>	<u>79,257</u>
TOTAL OTHER REVENUES	<u>1,150,900</u>	<u>3,054,788</u>	<u>197,617</u>	<u>(2,857,171)</u>
TOTAL, BEFORE PASS-THROUGH PROCEEDS	<u>209,212,317</u>	<u>209,197,931</u>	<u>203,689,235</u>	<u>(5,508,696)</u>
Pass-through Proceeds	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>
<b>OTHER FINANCING SOURCES</b>				
Appropriation of Fund Balance	<u>13,453,000</u>	<u>13,638,445</u>	<u>13,453,000</u>	<u>(185,445)</u>
TOTAL REVENUES INCLUDING PASS-THROUGHS	<u>\$ 222,665,317</u>	<u>\$ 222,836,376</u>	<u>\$ 217,342,235</u>	<u>\$ (5,494,141)</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
<b>GENERAL GOVERNMENT</b>				
Legislative/County Commissioners				
Legislative/County Commissioners	\$ 467,737	\$ 468,747	\$ 447,165	\$ 21,582
County Administrator	358,143	348,043	337,029	11,014
Public Information	221,878	226,378	198,405	27,973
County Attorney	582,854	605,086	549,988	55,098
Legislative/County Commissioners	<u>1,630,612</u>	<u>1,648,254</u>	<u>1,532,587</u>	<u>115,667</u>
Department of Finance				
Administration/Budget	702,650	692,451	664,636	27,815
Accounting	546,915	540,215	524,277	15,938
Auditing	50,000	50,000	43,845	6,155
Procurement	273,081	273,897	265,278	8,619
Department of Finance	<u>1,572,646</u>	<u>1,556,563</u>	<u>1,498,036</u>	<u>58,527</u>
Department of Emergency Services & Technology				
Technology	<u>2,854,813</u>	<u>2,621,159</u>	<u>2,398,310</u>	<u>222,849</u>
Department of Human Resources				
Human Resources	628,093	623,743	602,862	20,881
Risk Management	743,150	755,100	608,856	146,244
Grants	-	-	203	(203)
Department of Human Resources	<u>1,371,243</u>	<u>1,378,843</u>	<u>1,211,921</u>	<u>166,922</u>
Department of Public Works & Transportation				
Building Services	3,844,409	3,886,073	3,558,354	327,719
Development Review	211,672	215,222	212,301	2,921
Mailroom/Messenger Services	167,583	167,983	165,261	2,722
Vehicle Maintenance Shop	1,363,424	1,368,023	1,380,306	(12,283)
Grants	-	92,800	14,347	78,453
Department of Public Works & Transportation	<u>5,587,088</u>	<u>5,730,101</u>	<u>5,330,569</u>	<u>399,532</u>
Department of Land Use & Growth Management				
Administration	683,419	705,219	623,902	81,317
Board of Electrical Examiners	9,850	9,850	9,388	462
Comprehensive Planning	795,390	685,190	616,088	69,102
Development Services	405,633	409,933	369,456	40,477
Inspections & Compliance	552,638	553,238	500,265	52,973
Permit Services	312,870	313,370	307,564	5,806
Zoning Administration	258,556	282,056	258,204	23,852
Building Code Appeals Board	1,000	1,000	-	1,000
Commission on the Environment	2,825	2,825	50	2,775
Plumbing & Gas Board	1,425	1,425	-	1,425
Planning Commission	23,301	23,301	21,815	1,486
Boards and Commissions	20,653	20,653	15,969	4,684
Historical Preservation	3,215	3,215	828	2,387
Grants	1,500	1,500	1,500	-
Department of Land Use & Growth Management	<u>3,072,275</u>	<u>3,012,775</u>	<u>2,725,029</u>	<u>287,746</u>
Circuit Court				
Administration	919,479	924,821	882,710	42,111
Law Library	60,666	60,666	65,238	(4,572)
Grants	462,787	391,389	513,898	(122,509)
Orphan's Court	33,925	47,825	45,760	2,065
Circuit Court	<u>1,476,857</u>	<u>1,424,701</u>	<u>1,507,606</u>	<u>(82,905)</u>
Office of the State's Attorney				
Judicial	2,341,323	2,336,573	2,244,903	91,670
Grants	608,986	610,318	547,391	62,927
Office of the State's Attorney	<u>2,950,309</u>	<u>2,946,891</u>	<u>2,792,294</u>	<u>154,597</u>
County Treasurer				
	<u>420,685</u>	<u>421,585</u>	<u>411,364</u>	<u>10,221</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014  
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
Alcohol Beverage Board	\$ 256,315	\$ 250,715	\$ 230,243	\$ 20,472
Supervisors of Elections	672,786	672,786	594,134	78,652
Ethics Commission	833	833	-	833
<b>Total General Government</b>	<b>\$ 21,866,462</b>	<b>\$ 21,665,206</b>	<b>\$ 20,232,093</b>	<b>\$ 1,433,113</b>
<b>PUBLIC SAFETY</b>				
Department of Emergency Services & Technology				
Emergency Management	395,577	403,373	360,899	42,474
Animal Control	720,542	722,366	646,273	76,093
Emergency Activation	-	-	-	-
Emergency Communications Center	2,562,810	2,526,241	2,400,279	125,962
Emergency Radio Communications	2,503,122	1,797,589	1,741,999	55,590
Grants	1,199,842	1,295,668	1,095,230	200,438
Department of Emergency Services & Technology	7,381,893	6,745,237	6,244,680	500,557
Office of the Sheriff				
Law Enforcement	20,515,301	20,583,696	20,220,456	363,240
Corrections	10,610,931	10,611,176	10,261,416	349,760
Training	285,235	289,853	252,848	37,005
Canine	31,900	31,900	25,945	5,955
Court Security	732,061	732,061	704,694	27,367
Grants	1,225,667	1,307,555	598,100	709,455
Office of the Sheriff	33,401,095	33,556,241	32,063,459	1,492,782
<b>Total Public Safety</b>	<b>\$ 40,782,988</b>	<b>\$ 40,301,478</b>	<b>\$ 38,308,139</b>	<b>\$ 1,993,339</b>
<b>PUBLIC WORKS</b>				
Department of PW and Transportation				
Administration	401,951	409,701	395,265	14,436
Engineering Services	715,160	729,460	716,111	13,349
Construction & Inspections	534,409	558,652	543,708	14,944
County Highways	4,041,977	4,625,816	4,532,617	93,199
Solid Waste/Recycling Subsidy	1,000,000	1,587,147	1,587,147	-
St Mary's County Airport	41,350	44,810	23,841	20,969
St. Mary's Transit System	3,924,324	4,192,912	2,786,275	1,406,637
Department of PW and Transportation	10,659,171	12,148,498	10,584,964	1,563,534
<b>Total Public Works</b>	<b>\$ 10,659,171</b>	<b>\$ 12,148,498</b>	<b>\$ 10,584,964</b>	<b>\$ 1,563,534</b>
<b>HEALTH</b>				
Operating Allocation				
Health Department	1,684,615	1,684,615	1,684,615	-
Mosquito Control	16,236	16,236	16,192	44
Operating Allocation	1,700,851	1,700,851	1,700,807	44
Human Services				
Human Services	389,177	389,177	374,297	14,880
Grants	4,497,731	4,537,010	4,530,321	6,689
Human Services	4,886,908	4,926,187	4,904,618	21,569
<b>Total Health</b>	<b>\$ 6,587,759</b>	<b>\$ 6,627,038</b>	<b>\$ 6,605,425</b>	<b>\$ 21,613</b>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014  
(CONTINUED)

SOCIAL SERVICES

Department on Aging				
Department on Aging	\$ 1,531,476	\$ 1,533,026	\$ 1,512,226	\$ 20,800
Grants	<u>1,039,366</u>	<u>1,066,911</u>	<u>983,026</u>	<u>83,885</u>
Department on Aging	<u>2,570,842</u>	<u>2,599,937</u>	<u>2,495,252</u>	<u>104,685</u>
Department of Social Services	<u>421,507</u>	<u>421,807</u>	<u>418,740</u>	<u>3,067</u>
Operating Allocation				
Hospice of St. Mary's	15,000	15,000	15,000	-
The ARC of Southern Maryland, Inc.	130,000	130,000	130,000	-
The Center for Family Advocacy	100,000	100,000	100,000	-
The Center for Life Enrichment	150,908	150,908	150,908	-
Greenwell Foundation	30,000	30,000	30,000	-
St. Mary's Caring, Inc.	3,000	3,000	3,000	-
Three Oaks Center	125,000	125,000	125,000	-
Tri-County Community Action (SMTCCAC, Inc.)	16,000	16,000	16,000	-
Tri-County Youth Services Bureau	110,000	110,000	110,000	-
Unified Commission for Afro-Americans	4,000	4,000	4,000	-
Walden/Sierra	<u>340,447</u>	<u>340,447</u>	<u>340,447</u>	<u>-</u>
Operating Allocation	<u>1,024,355</u>	<u>1,024,355</u>	<u>1,024,355</u>	<u>-</u>
Total Social Services	<u>\$ 4,016,704</u>	<u>\$ 4,046,099</u>	<u>\$ 3,938,347</u>	<u>\$ 107,752</u>
PRIMARY AND SECONDARY EDUCATION				
Board of Education	<u>89,910,979</u>	<u>89,910,979</u>	<u>89,910,980</u>	<u>-</u>
Non-Public School Bus Transportation	<u>2,181,469</u>	<u>2,181,769</u>	<u>2,069,428</u>	<u>112,341</u>
Operating Allocation				
Literacy Council of St. Mary's County	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total Primary and Secondary Education	<u>\$ 92,102,448</u>	<u>\$ 92,102,748</u>	<u>\$ 91,990,408</u>	<u>\$ 112,340</u>
POST-SECONDARY EDUCATION				
College of Southern Maryland - general operations	<u>3,833,943</u>	<u>3,833,943</u>	<u>3,833,943</u>	<u>-</u>
Operating Allocation				
Southern Md. Higher Education Center	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total Post-Secondary Education	<u>\$ 3,873,943</u>	<u>\$ 3,873,943</u>	<u>\$ 3,873,943</u>	<u>\$ -</u>
PARKS, RECREATION AND CULTURE				
Department of Recreation and Parks				
Administration	1,151,947	1,131,147	1,112,936	18,211
Parks Maintenance	1,909,143	1,928,395	1,879,453	48,942
Museum Division	503,452	506,902	485,864	21,038
Grants	<u>129,000</u>	<u>34,850</u>	<u>21,519</u>	<u>13,331</u>
Department of Recreation and Parks	<u>3,693,542</u>	<u>3,601,294</u>	<u>3,499,772</u>	<u>101,522</u>
Operating Allocation				
St. Mary's County Historical Society	10,000	10,000	10,000	-
Patuxent River Naval Air Museum	15,000	15,000	15,000	-
Lexington Park Rotary-Oyster Festival	3,000	3,000	3,000	-
Historic Sotterley, Inc.	60,000	60,000	60,000	-
St. Mary's College River Concert Series	5,000	5,000	5,000	-
Seventh District Optimist	<u>9,000</u>	<u>9,000</u>	<u>9,000</u>	<u>-</u>
Operating Allocation	<u>102,000</u>	<u>102,000</u>	<u>102,000</u>	<u>-</u>
Total Parks, Recreation and Culture	<u>\$ 3,795,542</u>	<u>\$ 3,703,294</u>	<u>\$ 3,601,772</u>	<u>\$ 101,522</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014  
(CONTINUED)

LIBRARIES				
County Funding - general operations	<u>\$ 2,476,564</u>	<u>\$ 2,476,564</u>	<u>\$ 2,476,561</u>	<u>\$ 3</u>
CONSERVATION OF NATURAL RESOURCES				
Cooperative Extension Service	203,854	195,918	194,616	1,302
Soil Conservation District	<u>68,703</u>	<u>68,703</u>	<u>71,583</u>	<u>(2,880)</u>
Conservation of Natural Resources	<u>272,557</u>	<u>264,621</u>	<u>266,199</u>	<u>(1,578)</u>
Allocation of Agriculture and Seafood (Division of DECD)	<u>139,814</u>	<u>140,114</u>	<u>137,252</u>	<u>2,862</u>
Operating Allocation				
SMC Forest Conservation District Board	500	500	500	-
Southern Md. Resource Conservation/Dev.	5,000	5,000	5,000	-
Watermen's Association	<u>13,000</u>	<u>13,000</u>	<u>13,000</u>	<u>-</u>
Operating Allocation	<u>18,500</u>	<u>18,500</u>	<u>18,500</u>	<u>-</u>
Total Conservation of Natural Resources	<u>\$ 430,871</u>	<u>\$ 423,235</u>	<u>\$ 421,951</u>	<u>\$ 1,284</u>
HOUSING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ECONOMIC DEVELOPMENT AND OPPORTUNITY				
Department of Economic & Community Development				
Administration/Office of the Director	206,695	144,156	73,107	71,049
Tourism Development	437,276	440,029	408,731	31,298
Agriculture & Seafood Development	186,418	186,818	183,002	3,816
Less Allocation (see above)	(139,814)	(140,114)	(137,252)	(2,862)
Business Development/Lexington Park Revitalization	687,155	694,104	530,618	163,486
Grants	<u>60,000</u>	<u>164,287</u>	<u>60,705</u>	<u>103,582</u>
Department of Economic & Community Development	<u>1,437,730</u>	<u>1,489,280</u>	<u>1,118,911</u>	<u>370,369</u>
Office of Community Services				
Office of Community Services	257,444	257,344	244,292	13,052
Grants	164,623	170,161	163,398	6,763
Human Relations Commission	1,850	1,850	1,759	91
Commission for the Disabled	2,300	2,300	2,272	28
Commission for Women	<u>4,500</u>	<u>5,960</u>	<u>5,960</u>	<u>-</u>
	<u>430,717</u>	<u>437,615</u>	<u>417,681</u>	<u>19,934</u>
Operating Allocation				
Navy Alliance	25,000	25,000	25,000	-
The Promise	12,400	12,400	12,400	-
Tri-County Council	<u>94,200</u>	<u>94,200</u>	<u>94,200</u>	<u>-</u>
Operating Allocation	<u>131,600</u>	<u>131,600</u>	<u>131,600</u>	<u>-</u>
Total Economic Development and Opportunity	<u>\$ 2,000,048</u>	<u>\$ 2,058,496</u>	<u>\$ 1,668,192</u>	<u>\$ 390,303</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014  
(CONTINUED)

DEBT SERVICE				
Debt Service	\$ 9,960,063	\$ 9,960,063	\$ 9,961,851	\$ (1,788)
INTER-GOVERNMENTAL				
Leonardtown Tax Rebate	50,471	50,471	50,471	-
Total Inter-Governmental	<u>\$ 50,471</u>	<u>\$ 50,471</u>	<u>\$ 50,471</u>	<u>\$ -</u>
OTHER				
Employer Contributions-Retiree Health Benefits	6,758,000	6,758,000	6,758,000	-
Unemployment Compensation	200,000	200,000	29,151	170,849
Bank Service Fees	35,000	35,000	8,802	26,198
Total Other	<u>\$ 6,993,000</u>	<u>\$ 6,993,000</u>	<u>\$ 6,795,953</u>	<u>\$ 197,047</u>
Total Expenditures, Before Pass-Throughs	<u>205,596,034</u>	<u>206,430,133</u>	<u>200,510,070</u>	<u>5,920,063</u>
Pass-Through Expenditures	-	-	200,000	(200,000)
Total Expenditures, Including Pass-Throughs	<u>205,596,034</u>	<u>206,430,133</u>	<u>200,710,070</u>	<u>5,720,063</u>
RESERVES				
Reserve - Grants	1,000,000	2,890,428	-	2,890,428
Reserve - OPEB	2,053,468	-	-	-
Reserve - Bond Rating	660,000	660,000	590,991	69,009
Reserve - Emergency Appropriations	500,000	-	-	-
Reserves	<u>4,213,468</u>	<u>3,550,428</u>	<u>590,991</u>	<u>2,959,437</u>
Total Reserves	<u>\$ 4,213,468</u>	<u>\$ 3,550,428</u>	<u>\$ 590,991</u>	<u>\$ 2,959,437</u>
Total Expenditures, Including Pass-Throughs and Reserves	<u>\$ 209,809,502</u>	<u>\$ 209,980,561</u>	<u>\$ 201,301,061</u>	<u>\$ 8,679,500</u>
Transfer				
Capital Projects - General Fund Transfer/Pay-Go	12,855,816	12,855,816	12,855,816	-
Total Expenditures and Other Financing Uses	<u>\$ 222,665,317</u>	<u>\$ 222,836,376</u>	<u>\$ 214,156,877</u>	<u>\$ 8,679,500</u>



COMMISSIONERS OF ST. MARY'S COUNTY  
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS  
 FOR THE YEAR ENDED JUNE 30, 2014

LAND PRESERVATION

Agriculture Preservation	\$ 3,308,209	
Critical Area Planting	<u>200,389</u>	\$ 3,508,598

HIGHWAYS

FDR Blvd. Extended	\$ 3,134,333	
Patuxent Park Neighborhood Preservation	1,415,825	
Dr. Johnson Rd. Bridge Structure	1,280,927	
Regional Water Quality & Nutrient Removal	1,142,394	
Buck Hewitt Road	946,348	
Roadside Obstacles	214,744	
Retrofit Sidewalk Program	158,338	
Asphalt Overlay	140,851	
Modified Seal Surface Treatment	104,167	
Traffic Control Signals	98,283	
Streetscape Improvements	56,624	
Bridge/Culvert Replacement	36,181	
Regional Stormwater Management	<u>29,044</u>	8,758,059

MARINE

St. Jerome's Creek Jetties	\$ 1,038,766	
St. Jerome's Creek Emergency Dredge	84,699	
Gibson Road	<u>8,192</u>	1,131,657

PUBLIC WORKS

Base Realignment & Closure	\$ 7,500,000	
800 MHz Radio Enhancement	5,147,784	
Patuxent River Naval Museum-New	4,162,895	
Detention Center Upgrades	1,246,621	
Emergency Communications Center Hardening	457,975	
Airport Wetlands Mitigation	404,666	
Leonardtown Library Renovation	401,533	
Workforce Housing Initiative	250,000	
Building Maintenance & Repairs	189,110	
Farmers Market Improvements	150,000	
Airport Master Plan	127,788	
Sheriff Substation	90,706	
Energy Efficiency & Conservation	71,902	
Tri-County Animal Shelter	60,334	
CSM Wellness & Pool	59,088	
Public Facilities Assessment	49,227	
STS Bus Barn	23,507	
Airport Improvements	20,962	
Agricultural Services Center	8,000	20,422,098

PIERS AND BOAT RAMPS

Piney Point Landing Peir	\$ 166,276	
Derelict Boat Removal	<u>10,000</u>	176,276

COMMISSIONERS OF ST. MARY'S COUNTY  
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS  
 FOR THE YEAR ENDED JUNE 30, 2014  
 (CONTINUED)

PUBLIC SCHOOLS

Spring Ridge Middle School Renovation	\$ 9,384,207	
Captain Walter Francis Duke Elementary School	5,685,484	
Site Acquisition Various	3,032,164	
Greenview Knolls HVAC	1,306,394	
Esperanza Middle School Soil Erosion	408,384	
Energy Efficiency LED Lighting	337,671	
Leonardtown HS Tennis/Track Resurfacing	328,821	
Playground Equipment	154,444	
Mechanicsville ES Bus/Parking Lot	48,744	
State Relocatable-site to be determined	43,338	
Flooring Replacement Various	24,061	
ADA Transition Plan	12,907	
Leonardtown MS Renovation	<u>5,881</u>	\$ 20,772,500

RECREATION & PARKS

Three Notch Trail	\$ 2,638,765	
Parks Land Acquisition	1,231,214	
Lancaster Park Improvements	610,060	
Leonardtown Park	210,968	
Civil War Memorial & Interpretive Center	153,974	
Recreation Facility Improvements	146,690	
Piney Point Lighthouse Museum	138,503	
St. Clements Island Museum Renovation	97,515	
Charlotte Hall Athletic Fields	72,913	
Nicolet Park Entrance	<u>65,000</u>	5,365,602

SOLID WASTE

Landfill Mitigation	\$ 1,426,285	
Convenience Center Expansion	<u>26,149</u>	<u>1,452,434</u>

Total		<u>\$ 61,587,224</u>
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Included in the above total is \$12,407,945 in unexpended State and Federal projects appropriations.



**Murphy & Murphy, CPA, LLC**  
**Certified Public Accountants**

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

To Commissioners of  
St. Mary's County, Maryland

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 Standard* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Commissioners of St. Mary's County, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Commissioners of St. Mary's County, Maryland's basic financial statements, and have issued our report thereon dated November 7, 2014. Our report includes a reference to other auditors who audited the financial statements of the St. Mary's County Public Schools, as described in our report on Commissioners of St. Mary's County, Maryland's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Commissioners of St. Mary's County, Maryland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Commissioners of St. Mary's County, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of Commissioners of St. Mary's County, Maryland'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

## Purpose of this Report

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
November 7, 2014