

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

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

YEAR ENDED JUNE 30, 2016**



Murphy & Murphy, CPA, LLC

Commissioners of St. Mary's County

June 30, 2016

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Commissioners of St. Mary's County

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of St. Mary's County

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, as of and for the year ended June 30, 2016, 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 65.54 percent, 65.79 percent and 89.68 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. 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 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 County Commissioners of St. Mary's County as of June 30, 2016, 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.

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 104 - 110 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 the Commissioners of St. Mary's County's basic financial statements. The combining and individual non-major 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 non-major 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 non-major 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 17, 2016, on our consideration of the 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 the Commissioners of St. Mary's County's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
November 17, 2016

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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, 2016. 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 and deferred outflows of the the County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$242.7 million (*net position*). Approximately \$18.5 million, or 7.6%, 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 3% of the total net position, or \$6.4 million (*unrestricted net position*), may be used to meet ongoing obligations to citizens and creditors. Other components of the net position are \$17.4 million of restricted net position and approximately \$219 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 position reflects a decrease of \$28.2 million over the prior year.
- Government activities total indebtedness decreased by \$4,372,126 during the fiscal year ended June 30, 2016. There was an increase in exempt financing of \$2,907,520 and payments on the debt totaled \$10,460,367. The estimated post-closure costs of the landfill increased by \$3,029,000 and there was a net increase in the accrual for compensated absences of \$151,724.
- As of June 30, 2016, the County's governmental funds reported combined fund balances of \$58.4 million, a decrease of \$11.4 million from the prior year. The general fund reflected a decrease of \$7,016,183. The capital projects fund reflected a decrease of \$3.2 million. The fund balance for the non-major funds decreased \$1,120,598. The County's governmental fund balances at June 30, 2016 include \$15.7 million for capital projects, \$41.6 million in general funds, and \$1.1 million for the other non-major funds. The general fund balance of \$41.6 million includes: \$2.1 million that is nonspendable, as well as, \$14.9 million which is committed to the following: \$13.3 million for the Bond Rating Reserve and \$1.625 million for County's Rainy Day Fund. In addition, the general fund reflects assigned designations of approximately \$1.2 million which includes encumbrances.
- With the FY2016 budget, the State's allocations/funding to the County continue to be lower than past years. Cost shifts continue and this budget continues to focus on funding recurring expenses with recurring revenues. There remains uncertainty with respect to the federal budget situation, with the possibility 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, and also the related impacts on the contractor community which is also a significant employment sector for the County. 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. The County approved a plan for the use of fund balance in FY2016 and maintained 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 business-type operating activities reflect a total increase in net position of \$315,046. Fee-based recreation activities posted an increase of \$249,228. 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 \$74,104, the subsidy from the general fund ended in FY2015. The Wicomico Golf Course reflects a decrease of \$8,286 in net position. Significant reduction in expenses was implemented in the FY2016 Budget to reduce this decline when compared to prior years. 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 FY2017, consideration will continue to be given to the fee schedules as well as cost control, to restore this activity to a balanced budget.

- At June 30, 2016, the unassigned fund balance for the general fund (primary operating fund) was \$21.5 million, or 9.9% of general fund expenditures. Assigned fund balance of the general fund was \$1.2 million, or 2.9% of the general fund total fund balance.

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 deferred outflows of resources liabilities and deferred inflows of resources, 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 in FY2016 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 basic governmental fund financial statements can be found on pages 20 to 21 of this report.

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 budget to actual statement can be found on page 104 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's 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, the Retiree Benefit Trust of St. Mary's County, Maryland, which addresses the County's retiree health benefits and the Length of Service Awards for Fire & Rescue. The basic fiduciary fund financial statements can be found on pages 26 to 31 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 32 to 103 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 104 to 110 of this report. Other supplementary information can be found on pages 111 to 121.

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 \$242.7 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 90% 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 7.2% 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 \$6.3 million (2.6% of total net position) which may be used to meet the government's ongoing obligations to citizens and creditors.

NET POSITION						
June 30, 2016 and 2015						
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current Assets	\$ 111,586,482	\$ 125,038,989	\$ 1,660,731	\$ 2,905,737	\$ 113,247,213	\$ 127,944,726
Other Non-Current Assets	2,636,521	2,278,749	-	-	2,636,521	2,278,749
Capital Assets, Net of Accumulated Depreciation	272,793,854	259,708,769	18,223,532	16,923,227	291,017,386	276,631,996
DEFERRED OUTFLOW OF RESOURCES						
Pension	16,046,423	240,756	-	-	16,046,423	240,756
Bond Refunding	2,006,421	2,303,585	-	-	2,006,421	2,303,585
Total Assets & Deferred Outflow of Resources	<u>\$ 405,069,701</u>	<u>\$ 389,570,848</u>	<u>\$ 19,884,263</u>	<u>\$ 19,828,964</u>	<u>\$ 424,953,964</u>	<u>\$ 409,399,812</u>
LIABILITIES						
Current Liabilities	\$ 26,884,801	\$ 24,472,479	\$ 749,930	\$ 1,017,391	\$ 27,634,731	\$ 25,489,870
Non-Current Liabilities	144,820,291	101,816,715	668,773	661,059	145,489,064	102,477,774
DEFERRED INFLOW OF RESOURCES						
Pension	445,363	1,821,698	-	-	445,363	1,821,698
Unavailable Income Tax Distribution	8,643,717	8,610,524	-	-	8,643,717	8,610,524
Total Liabilities & Deferred Inflow of Resources	<u>180,794,172</u>	<u>136,721,416</u>	<u>1,418,703</u>	<u>1,678,450</u>	<u>182,212,875</u>	<u>138,399,866</u>
NET POSITION						
Net Investment in Capital Assets	201,346,613	179,507,678	17,675,590	16,430,851	219,022,203	195,938,529
Restricted	17,364,249	23,295,813	-	-	17,364,249	23,295,813
Unrestricted	<u>5,564,667</u>	<u>50,045,941</u>	<u>789,970</u>	<u>1,719,663</u>	<u>6,354,637</u>	<u>51,765,604</u>
Total Net Position	<u>224,275,529</u>	<u>252,849,432</u>	<u>18,465,560</u>	<u>18,150,514</u>	<u>242,741,089</u>	<u>270,999,946</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$ 405,069,701</u>	<u>\$ 389,570,848</u>	<u>\$ 19,884,263</u>	<u>\$ 19,828,964</u>	<u>\$ 424,953,964</u>	<u>\$ 409,399,812</u>

At June 30, 2016, 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:

CHANGES IN NET POSITION

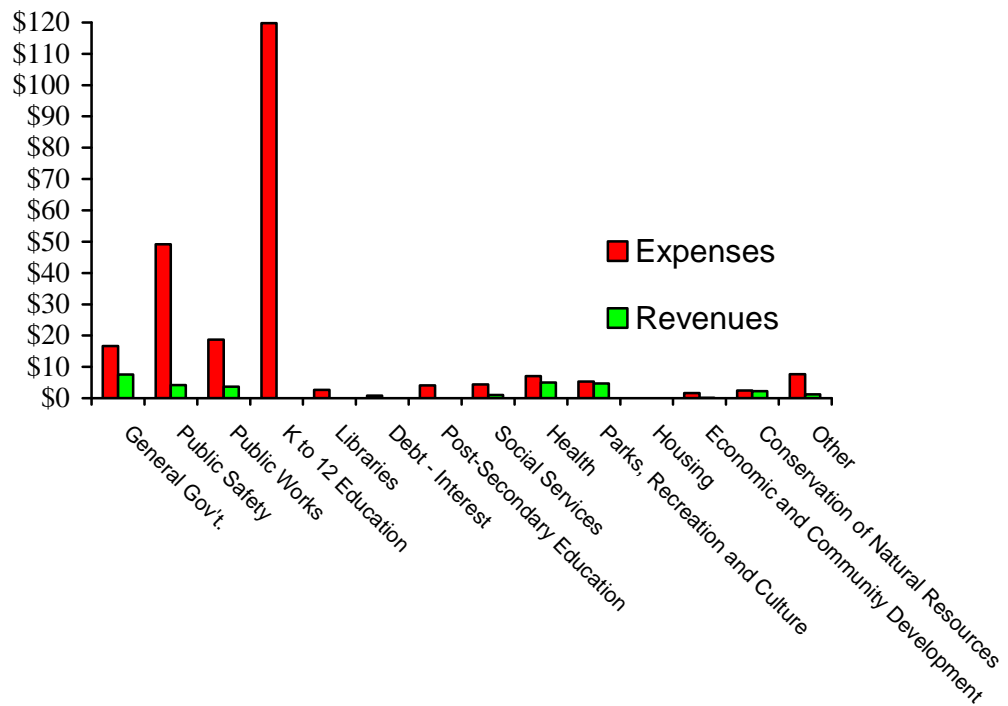
Years ended June 30, 2016 and 2015

	<u>Governmental Activities</u>		<u>Business -Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Program Revenues:						
Charges for Services	\$ 5,732,399	\$ 6,479,642	\$ 4,145,710	\$ 3,985,643	\$ 9,878,109	\$ 10,465,285
Environment/Solid Waste Fees	-	-	2,586,093	2,492,387	2,586,093	2,492,387
Operating Grants and Contributions	11,551,791	11,887,785	29,781	29,781	11,581,572	11,917,566
Capital Grants and Dedicated Fees or Taxes	2,672,055	11,243,351	-	-	2,672,055	11,243,351
General Revenues:						
Property Taxes	105,273,048	104,543,652	-	-	105,273,048	104,543,652
Income Taxes	85,525,116	81,002,813	-	-	85,525,116	81,002,813
Other Taxes	15,772,665	15,112,462	-	-	15,772,665	15,112,462
Investment Earnings	101,644	107,103	348	29,206	101,992	136,309
Subsidies to Enterprise Funds	-	(950,000)	-	950,000	-	-
Roads Constructed by Third Parties	6,481,726	11,226,666	-	-	6,481,726	11,226,666
Capital Transfer	(971,925)	-	971,925	-	-	-
Miscellaneous, principally Capital Projects Funding	<u>8,391,792</u>	<u>7,853,542</u>	<u>-</u>	<u>-</u>	<u>8,391,792</u>	<u>7,853,542</u>
Total Revenues	<u>240,530,311</u>	<u>248,507,016</u>	<u>7,733,857</u>	<u>7,487,017</u>	<u>248,264,168</u>	<u>255,994,033</u>
Program Expenses:						
General Government	21,014,903	16,690,077	-	-	21,014,903	16,690,077
Public Safety	45,640,450	49,157,196	-	-	45,640,450	49,157,196
Public Works	21,758,117	18,690,775	3,882,758	3,497,818	25,640,875	22,188,593
Health	7,383,969	7,038,830	-	-	7,383,969	7,038,830
Social Services	4,459,132	4,372,071	-	-	4,459,132	4,372,071
Primary and Secondary Education	104,971,797	119,750,654	-	-	104,971,797	119,750,654
Post-Secondary Education	4,311,220	4,054,715	-	-	4,311,220	4,054,715
Parks, Recreation, and Culture	7,086,204	5,343,231	3,536,053	3,664,566	10,622,257	9,007,797
Libraries	2,770,245	2,680,245	-	-	2,770,245	2,680,245
Conservation of Natural Resources	1,712,422	2,468,972	-	-	1,712,422	2,468,972
Economic Development and Opportunity	1,848,637	1,661,458	-	-	1,848,637	1,661,458
Interest on Debt	1,970,528	799,904	-	-	1,970,528	799,904
Intergovernmental	42,973	49,811	-	-	42,973	49,811
Other, principally Retirees' Health	<u>9,103,015</u>	<u>7,130,581</u>	<u>-</u>	<u>-</u>	<u>9,103,015</u>	<u>7,130,581</u>
Total Expenses	<u>234,073,612</u>	<u>239,888,520</u>	<u>7,418,811</u>	<u>7,162,384</u>	<u>241,492,423</u>	<u>247,050,904</u>
Increase/(Decrease) in Net position	<u>6,456,699</u>	<u>8,618,496</u>	<u>315,046</u>	<u>324,633</u>	<u>6,771,745</u>	<u>8,943,129</u>
Net Position – Beginning, as Previously Stated	252,849,432	262,580,052	18,150,514	17,825,881	270,999,946	280,405,933
Prior Period Adjustment	<u>(35,030,602)</u>	<u>(18,349,116)</u>	<u>-</u>	<u>-</u>	<u>(35,030,602)</u>	<u>(18,349,116)</u>
Net Position – Beginning, as Restated	<u>217,818,830</u>	<u>244,230,936</u>	<u>18,150,514</u>	<u>17,825,881</u>	<u>235,969,344</u>	<u>262,056,817</u>
Net Position - Ending	<u>\$ 224,275,529</u>	<u>\$ 252,849,432</u>	<u>\$ 18,465,560</u>	<u>\$ 18,150,514</u>	<u>\$ 242,741,089</u>	<u>\$ 270,999,946</u>

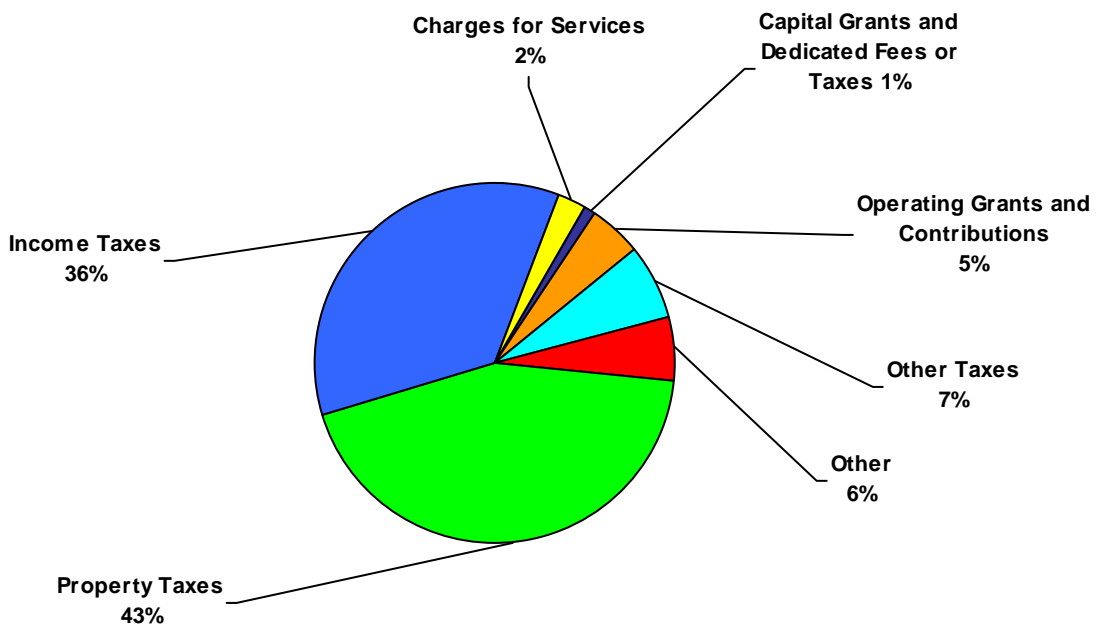
Governmental activities: Governmental activities reflected an increase in net position of \$6.5 million. The governmental funds reflected a net decrease of \$11.4 million.

Business-type activities: Business-type activities reflected an increase in net position of \$315,046.

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, *committed, assigned and unassigned 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, 2016, the Commissioners of St. Mary's County governmental funds reported combined ending fund balances of \$58.4 million, a decrease of \$11.4 million compared to the prior year. The Capital Projects fund accounts for \$15.7 million. Approximately \$22 million, or 37% of this total, constitutes *unassigned fund balance*, which is available for spending at the government's discretion in the General Fund. Assigned fund balance represents encumbrances and miscellaneous revolving fund reserved for specific uses. Restricted and committed fund balances include \$15.6 million for capital projects, \$13.3 million for the Bond Rating Reserve and \$1.625 million for Rainy Day Fund. Non-spendable fund balance includes \$1,253,760 committed to liquidate inventories, prepaid expenses of \$41,059 and \$888,041 in interfund advances. Unassigned fund balance represents almost 10% of general fund expenditures.

The fund balance of the Commissioners of St. Mary's County general fund has decreased \$7,016,183 in FY2016, when compared to the prior year increase of \$2.2 million. However, both FY2015 and FY2016 had planned use of fund balance for non-recurring expenses and application of capital project pay-go funding. The County prefers to use unassigned fund balance for non-recurring expenses.

The capital projects fund has a total fund balance of \$15.7 million. This balance reflects the accumulated unspent balance of impact fees, transfer taxes, and pay-go, which has been appropriated for specific projects, but remains unspent as of June 30, 2016. These funds have been budgeted, and the capital projects are in progress. A listing of the unexpended balances appears on pages 120 and 121.

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 year, the Wicomico Golf Course Fund reflected unrestricted net position of (\$918,020). The Recreation Activities Fund reflected unrestricted net position of \$563,842, and the unrestricted net position of the Solid Waste and Recycling Fund amounted to \$1,144,148. On a combined basis, there was a \$929,692 decrease in unrestricted net position over the prior year. 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 focuses generally on comparisons to the original approved budget. The “other supplementary information” on pages 113 through 119 reflects the original and revised budgets as well as the actual results in more detail. FY2016 actual results reflect actual revenues that are about \$1.7 million less than the original budget; however, this is largely attributable to the \$1.1 million negative variance in income tax and \$935,145 in grants (including the grant reserve). 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. Property Taxes had a positive variance of \$191,056. The FY2016 budget for income tax revenue is based upon an annual growth rate of 4% applied to tax year 2012 results based on returns filed. This growth percentage is the average from Tax Year 2011 through Tax Year 2013, 3.94%. As the information on pages 113 and 114 shows, there are a variety of smaller offsetting variances; these were considered when developing the revenue budget for FY2017. 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.

Expense variances fall into several categories. During the course of FY2016 there were a number of temporary vacancies within the County departments that resulted in turn-over and vacancy savings of almost \$900,000. The FY2017 budget is based on updated estimates for salaries and benefits. County departments also realized savings in fuel, utilities, non-public student bus contracts, STS transportation system, and other contract services of about \$2.4 million, combined. Unspent funds in the Sheriff’s operating budget were \$2.4 million, of which almost \$1.5 million is from personal services costs, which include position costs and overtime. The FY2016 budget included \$3.6 million for debt services costs related to selling bonds, this was deferred and this funding was transferred to the Commissioners emergency reserve along with \$3.3 million that was reverted from CIP Pay-Go. \$7 million was paid from the Commissioners reserve towards Landfill Settlement which is mentioned on page 91. Estimates for subsequent budgets will be reviewed in light of these recurring positive variances.

While the County’s financial situation is strong and sustainable, the County continues to take a very 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, 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 be a couple of years until the effect is known with certainty. As a part of each annual budget process, the County Commissioners approved a fund balance plan that utilizes funds not needed for operating reserves for transfers to pay-go for capital or use for other non-recurring items 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. Commissioners approved a new Fund Balance policy in August 2015 which reinforces using fund balance for non-recurring expenses and it also stipulates that County Reserves, which includes the 6% Bond Rating Reserve, Rainy Day Fund and Unassigned fund balance, should be at or above 15% of

general fund revenue. With the low property tax rate and an income tax rate that is less than the maximum allowed by the State, the County also has 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's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$291 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, 2016 is \$14,385,390. 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.

CAPITAL ASSETS						
(At Cost, Net of Accumulated Depreciation)						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 36,653,850	\$ 36,435,884	\$ 1,078,666	\$ 1,078,666	\$ 37,732,516	\$ 37,514,550
Building and Improvements	71,135,256	68,432,870	2,586,210	2,658,332	73,721,466	71,091,202
Facilities Under Construction	9,855,893	7,935,407	-	-	9,855,893	7,935,407
Solid Waste Facilities	-	-	13,220,472	12,248,547	13,220,472	12,248,547
Infrastructure	134,954,321	129,260,831	147,614	164,308	135,101,935	129,425,139
Vehicles	6,173,277	3,650,066	1,081,459	660,461	7,254,736	4,310,527
Equipment	<u>14,021,257</u>	<u>13,993,711</u>	<u>109,111</u>	<u>112,913</u>	<u>14,130,368</u>	<u>14,106,624</u>
	<u>\$ 272,793,854</u>	<u>\$ 259,708,769</u>	<u>\$ 18,223,532</u>	<u>\$ 16,923,227</u>	<u>\$ 291,017,386</u>	<u>\$ 276,631,996</u>

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

- Approximately \$10.1 million in road costs were capitalized, including \$6.5 million in roads developed /constructed by third parties.
- Approximately \$3.6 million in vehicle costs were capitalized, which includes \$2 million for the Sheriff's Department vehicles.
- Capitalized bridge costs of approximately \$1.8 million, most of which was Dr. Johnson Road bridge structure.

Additional information on the County's capital assets can be found in Note 3 of this report.

Long-term debt: At June 30, 2016, 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.

GENERAL OBLIGATION DEBT

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Amounts due within one year</u>
<u>Primary Government</u>			
General Obligation Bonds(GOB) – County	\$ 63,633,000	\$ 70,488,000	\$ 7,475,000
Water Quality Loans	874,656	1,344,218	324,784
State Loans	1,514,771	1,637,439	124,963
Surplus Property Transfer of Debt	300	442	147
Exempt Financing (Equipment & Vehicles)	<u>5,424,514</u>	<u>5,529,992</u>	<u>3,030,893</u>
	<u>\$ 71,447,241</u>	<u>\$ 79,000,091</u>	<u>\$ 10,955,787</u>
 <u>Business-Type Activities</u>			
Exempt Financing (Equipment)	<u>\$ 547,942</u>	<u>\$ 492,375</u>	<u>\$ 237,952</u>

The Commissioners of St. Mary's County's additions to debt were \$3,200,000, reflecting new exempt financing for equipment and vehicles.

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, which were confirmed with a visit to NY in June 2016. 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 expense 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 6 of this report.

Economic Factors and Next Year's Budgets and Rates

- The total general fund FY2017 expenditure budget is \$222.1 million; unassigned fund balance was not used in this budget. The property tax income is based on information provided by the State as to estimated taxable assessed value of \$12.2 billion, a small increase over the prior year's estimate of \$12.0 billion. The impact of triennial assessments that shows a minimal increase in the full value are somewhat mitigated by the County's cap of 5%. Assessments continue to reflect slow growth; this resulted in revenue estimate at 1.6% over the prior year. Initial billings for FY2017 are comparable to the estimates. The real property tax rate remains at .8523 per \$100 of assessed value, which is higher than the constant yield tax rate by .0055. The personal property tax rate, which is 2.5 times the real property tax rate, is \$2.1308. The income taxes were budgeted at \$89 million, based on a 4% growth in local tax returns. This represents an increase of 2.7% over the FY2016 budget, and reflects both the estimated County specific tax returns as well as \$3.5 million which are 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. A \$1 million reserve was set up in FY2013 for the settlement of the Wynne Case, actual refunds to taxpayers are being calculated now and refunds will be reduced from the County's Income Tax revenue starting in FY2019, this reserve was reversed and the \$1 million is also part of revenue estimate for FY2017. Preliminary

indications, based on the first of the four large distributions made by the State, indicate that budget will be met. Information has recently been received from the State showing TY2015 is 5.2% higher than TY2014, which is below the State average of 5.7%. This increase indicates that the tax base is recovering from impacts of furloughs and federal sequester actions in late calendar 2013. Continual monitoring of the property tax and income tax revenue, which represents 88% of the total revenues, will be a major part of the FY2018 budget development, any indications of reduction will be offset by reduced expenditures.

- Though the County may be impacted by the general and State economic situation, the activities and operations of the Patuxent Naval Air Base thus far have had a stabilizing effect. Operations at the base, which is the busiest flight center in the world, continued to grow. The number of jobs and related services, and the number and diversity of technology companies are relatively stable, actual jobs on the base have reached 25,000 as of May 2016. Nearing completion is the development of a Comprehensive Economic Development Strategy (CEDS) with University of Maryland and Towson University which will focus on the diversification of the County's future economy. The County's airport has been designated as an FAA UAS test site with the University of Maryland, while this designation is not for NAS Patuxent River, the local test site works with the Navy to arrange for testing within restricted air space as well as non-restricted air space, greatly enhancing the County's attractiveness to businesses pursuing unmanned and autonomous systems work.
- 24,000 square foot Patuxent River Naval Air Museum opened in 2016 which should attract many visitors to the County to learn the history of the Navy's presence in St. Mary's County.
- The population growth continues and was estimated at 111,000 as of July 1, 2015 and is estimated to grow to 125,150 by 2020.
- The County ranks near the top in the State for growth in the labor force, average weekly wages, and median household income. We consistently post unemployment rates that are well below State averages. These factors indicate a stable economy.
- Tourism and Hospitality Industry continues to be an important component of the local economy. A master plan is being developed for Tourism and Hospitality with completion by end of FY2017. The County's accommodations tax continues to reflect strong growth.

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. In the FY2016 and FY2017 Budget, OPEB was budgeted for current retirees only.

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 FY2017 budget remains level for over a decade, achieved through use of technology as well as operational stream-lining and privatization. Compensation study for Sheriff's Sworn was completed and provided a 9% and 7.8% increase to Law and Corrections, respectively in the FY2017 Budget. 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 Patuxent River NAS 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 FY2017 remain unchanged, and the County's property tax rate continues to be 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 volatile times through a variety of measures, 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 all those with an interest 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, 41770 Baldrige Street, P.O. Box 653, Leonardtown, Maryland 20650, or via email at Finance@stmarysmd.com.

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COMMISSIONERS OF ST. MARY'S COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
ASSETS							
Cash and cash equivalents	\$ 62,900,639	\$ 184,922	\$ 63,085,561	\$ 33,224,856	\$ 790,714	\$ 21,493,669	\$ -
Internal balances	(1,150,707)	1,150,707	-	-	-	-	-
Restricted cash and investments	1,461,058	156,273	1,617,331	85,217	139,743	-	-
Taxes receivable	2,577,635	-	2,577,635	-	-	-	-
Income tax reserve, funds held by the state	8,643,717	-	8,643,717	-	-	-	-
Due from other governments	-	-	-	8,414,978	78,664	-	191,654
Special assessments receivable	415,430	-	415,430	-	-	-	-
Notes receivable, Fire and Rescue loans	434,468	-	434,468	-	-	-	-
Accounts receivable	14,295,876	128,444	14,424,320	523,584	188,761	42,437,933	-
Inventory	1,253,760	31,821	1,285,581	174,066	-	257,922	-
Prepaid post-retirement benefit (OPEB)	20,295,753	-	20,295,753	-	182,732	300,388	-
Other, principally prepaid expenses	458,853	8,564	467,417	200	-	54,462	-
Unamortized bond discount	-	-	-	-	-	28,390	-
Fire and Rescue loans receivable, net of short-term portion	2,636,521	-	2,636,521	-	-	-	-
Capital assets	448,585,784	23,489,637	472,075,421	414,946,524	6,128,734	210,160,208	-
Accumulated depreciation	(175,791,930)	(5,266,105)	(181,058,035)	(150,610,709)	(4,754,259)	(59,182,468)	-
Capital assets, net of accumulated depreciation	<u>272,793,854</u>	<u>18,223,532</u>	<u>291,017,386</u>	<u>264,335,815</u>	<u>1,374,475</u>	<u>150,977,740</u>	<u>-</u>
DEFERRED OUTFLOW OF RESOURCES							
Pension	16,046,423	-	16,046,423	2,925,650	-	783,173	-
Bond refunding	<u>2,006,421</u>	<u>-</u>	<u>2,006,421</u>	<u>-</u>	<u>-</u>	<u>360,654</u>	<u>-</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 405,069,701</u>	<u>\$ 19,884,263</u>	<u>\$ 424,953,964</u>	<u>\$ 309,684,366</u>	<u>\$ 2,755,089</u>	<u>\$ 216,694,331</u>	<u>\$ 191,654</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, 2016

	Primary Government			Component Units			
	Governmental Activities	Business-type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
LIABILITIES							
<u>Current liabilities:</u>							
Accounts payable	\$ 7,892,520	\$ 187,789	\$ 8,080,309	\$ 4,575,819	\$ 151,342	\$ 3,130,156	\$ -
Compensation-related liabilities	10,261,879	319,752	10,581,631	16,612,406	128,443	834,169	-
Unearned revenue	3,755,540	242,389	3,997,929	6,874,603	-	25,611	-
Other liabilities	4,783,208	-	4,783,208	-	-	1,122,374	-
Due to other governments	191,654	-	191,654	2,174	71,891	-	-
Restrospective insurance premium call payable	-	-	-	232,047	-	-	-
<u>Non-current liabilities:</u>							
Due within one year	10,968,583	237,952	11,206,535	979,169	-	6,045,227	-
Due in more than one year	69,832,889	430,821	70,263,710	56,204,023	97,607	93,000,108	-
Net pension liability	64,018,819	-	64,018,819	12,514,609	-	4,394,022	-
DEFERRED INFLOW OF RESOURCES							
Pension	445,363	-	445,363	1,047,701	-	89,986	-
Unavailable income tax distribution	8,643,717	-	8,643,717	-	-	-	-
Total Liabilities and Deferred Inflow of Resources	180,794,172	1,418,703	182,212,875	99,042,551	449,283	108,641,653	-
NET POSITION							
Net investment in capital assets	201,346,613	17,675,590	219,022,203	263,570,366	1,374,475	87,486,749	-
Restricted for:							
Capital assets purchases	1,461,058	-	1,461,058	-	-	-	-
Capital projects	15,619,518	-	15,619,518	-	-	-	-
Other purposes	283,673	-	283,673	104,673	204,570	11,302,534	-
Unrestricted	5,564,667	789,970	6,354,637	(53,033,224)	726,761	9,263,395	191,654
Total Net Position	224,275,529	18,465,560	242,741,089	210,641,815	2,305,806	108,052,678	191,654
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 405,069,701	\$ 19,884,263	\$ 424,953,964	\$ 309,684,366	\$ 2,755,089	\$ 216,694,331	\$ 191,654

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, 2016

Program Revenues

Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes	Total Revenues
General government	\$ 21,014,903	\$ 2,669,287	\$ 885,130	\$ 1,273,213	\$ 4,827,630
Public safety	45,640,450	1,356,186	2,128,718	-	3,484,904
Public works	21,758,117	567,975	2,054,433	415,376	3,037,784
Health	7,383,969	-	5,151,544	-	5,151,544
Social services	4,459,132	3,695	1,036,707	-	1,040,402
Primary and secondary education	104,971,797	-	-	-	-
Post-secondary education	4,311,220	-	-	-	-
Parks, recreation, and culture	7,086,204	62,030	23,639	504,848	590,517
Libraries	2,770,245	-	-	-	-
Conservation of natural resources	1,712,422	-	-	295,218	295,218
Economic development and opportunity	1,848,637	42,987	271,620	-	314,607
Debt interest	1,970,528	-	-	-	-
Intergovernmental	42,973	-	-	-	-
Other, including OPEB	9,103,015	1,030,239	-	183,400	1,213,639
TOTAL GOVERNMENTAL ACTIVITIES	234,073,612	5,732,399	11,551,791	2,672,055	19,956,245
Business-type activities:					
Recreation activity	2,295,079	2,514,516	29,781	-	2,544,297
Wicomico	1,240,974	1,232,350	-	-	1,232,350
Solid waste/recycling	3,882,758	398,844	-	-	398,844
TOTAL BUSINESS-TYPE ACTIVITIES	7,418,811	4,145,710	29,781	-	4,175,491
TOTAL PRIMARY GOVERNMENT	241,492,423	9,878,109	11,581,572	2,672,055	24,131,736
COMPONENT UNITS:					
Public schools	251,639,002	2,917,719	44,045,059	11,361,369	58,324,147
Library	3,972,822	286,447	1,025,997	-	1,312,444
MetCom	24,611,055	21,712,521	-	-	21,712,521
Building authority	-	-	-	-	-
	<u>280,222,879</u>	<u>24,916,687</u>	<u>45,071,056</u>	<u>11,361,369</u>	<u>81,349,112</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
Environmental/solid waste fees
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
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, 2016

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Public Schools	Library	MetCom	Building Authority
\$ (16,187,273)	\$ -	\$ (16,187,273)	\$ -	\$ -	\$ -	\$ -
(42,155,546)	-	(42,155,546)	-	-	-	-
(18,720,333)	-	(18,720,333)	-	-	-	-
(2,232,425)	-	(2,232,425)	-	-	-	-
(3,418,730)	-	(3,418,730)	-	-	-	-
(104,971,797)	-	(104,971,797)	-	-	-	-
(4,311,220)	-	(4,311,220)	-	-	-	-
(6,495,687)	-	(6,495,687)	-	-	-	-
(2,770,245)	-	(2,770,245)	-	-	-	-
(1,417,204)	-	(1,417,204)	-	-	-	-
(1,534,030)	-	(1,534,030)	-	-	-	-
(1,970,528)	-	(1,970,528)	-	-	-	-
(42,973)	-	(42,973)	-	-	-	-
(7,889,376)	-	(7,889,376)	-	-	-	-
<u>(214,117,367)</u>	<u>-</u>	<u>(214,117,367)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	249,218	249,218	-	-	-	-
-	(8,624)	(8,624)	-	-	-	-
-	<u>(3,483,914)</u>	<u>(3,483,914)</u>	-	-	-	-
-	<u>(3,243,320)</u>	<u>(3,243,320)</u>	-	-	-	-
<u>(214,117,367)</u>	<u>(3,243,320)</u>	<u>(217,360,687)</u>	-	-	-	-
-	-	-	(193,314,855)	-	-	-
-	-	-	-	(2,660,378)	-	-
-	-	-	-	-	(2,898,534)	-
-	-	-	-	-	-	-
-	-	-	<u>(193,314,855)</u>	<u>(2,660,378)</u>	<u>(2,898,534)</u>	-
105,273,048	-	105,273,048	-	-	-	-
85,525,116	-	85,525,116	-	-	-	-
15,772,665	-	15,772,665	-	-	-	-
101,644	348	101,992	45,663	7,885	26,783	-
-	-	-	187,483,751	2,588,064	-	-
-	-	-	-	-	-	-
-	2,586,093	2,586,093	-	-	-	-
6,481,726	-	6,481,726	-	-	-	-
(971,925)	971,925	-	-	-	-	-
8,391,792	-	8,391,792	706,208	230	3,897,874	-
<u>220,574,066</u>	<u>3,558,366</u>	<u>224,132,432</u>	<u>188,235,622</u>	<u>2,596,179</u>	<u>3,924,657</u>	-
6,456,699	315,046	6,771,745	(5,079,233)	(64,199)	1,026,123	-
252,849,432	18,150,514	270,999,946	215,721,048	2,370,005	107,026,555	191,654
(35,030,602)	-	(35,030,602)	-	-	-	-
<u>217,818,830</u>	<u>18,150,514</u>	<u>235,969,344</u>	<u>215,721,048</u>	<u>2,370,005</u>	<u>107,026,555</u>	<u>191,654</u>
<u>\$ 224,275,529</u>	<u>\$ 18,465,560</u>	<u>\$ 242,741,089</u>	<u>\$ 210,641,815</u>	<u>\$ 2,305,806</u>	<u>\$ 108,052,678</u>	<u>\$ 191,654</u>

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, 2016

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 62,900,639	\$ -	\$ -	\$ 62,900,639
Due from other funds	-	16,203,496	1,046,973	17,250,469
Restricted cash and investments	1,461,058	-	-	1,461,058
Taxes receivable	2,525,446	-	52,189	2,577,635
Income tax reserve, funds held by the state	8,643,717	-	-	8,643,717
Special tax assessments receivable	-	-	1,228	1,228
Notes receivable, Fire and Rescue loans	-	-	434,468	434,468
Accounts receivable	11,408,896	2,886,980	-	14,295,876
Inventory	1,253,760	-	-	1,253,760
Other	458,853	-	-	458,853
Fire and Rescue loans receivable, net of short-term portion	-	-	2,636,521	2,636,521
Special tax assessments receivable, net of short-term portion	-	-	414,202	414,202
DEFERRED OUTFLOW OF RESOURCES				
Bond refunding	-	-	-	-
Total Assets and Deferred Outflow of Resources	<u>\$ 88,652,369</u>	<u>\$ 19,090,476</u>	<u>\$ 4,585,581</u>	<u>\$ 112,328,426</u>
LIABILITIES				
Accounts payable	\$ 4,532,976	\$ 3,348,528	\$ 11,016	\$ 7,892,520
Compensation-related liabilities	10,261,879	-	10,022	10,271,901
Unearned revenue	230,596	37,974	3,486,970	3,755,540
Other liabilities	4,773,186	-	-	4,773,186
Due to other funds	18,401,176	-	-	18,401,176
Due to other governments	191,654	-	-	191,654
DEFERRED INFLOW OF RESOURCES				
Unavailable income tax distribution	8,643,717	-	-	8,643,717
Total Liabilities and Deferred Inflow of Resources	<u>47,035,184</u>	<u>3,386,502</u>	<u>3,508,008</u>	<u>53,929,694</u>
FUND BALANCES				
Nonspendable	2,182,860	-	-	2,182,860
Restricted	1,744,731	15,619,518	-	17,364,249
Committed	14,955,021	-	1,077,573	16,032,594
Assigned	1,207,947	-	-	1,207,947
Unassigned	21,526,626	84,456	-	21,611,082
Total Fund Balances	<u>41,617,185</u>	<u>15,703,974</u>	<u>1,077,573</u>	<u>58,398,732</u>
Total Liabilities, Deferred Inflow and Resources and Fund Balances	<u>\$ 88,652,369</u>	<u>\$ 19,090,476</u>	<u>\$ 4,585,581</u>	<u>\$ 112,328,426</u>

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, 2016

	General Fund	Capital Projects	Non-Major	Total
REVENUES				
Property taxes	\$ 105,273,048	\$ -	\$ -	\$ 105,273,048
Income taxes	85,525,116	-	-	85,525,116
Energy taxes	939,672	-	-	939,672
Recordation taxes	5,463,166	-	-	5,463,166
Transfer taxes	-	5,954,659	-	5,954,659
Agricultural/development taxes	-	559,139	-	559,139
Impact fees	-	1,715,143	-	1,715,143
Other local taxes	1,389,142	-	-	1,389,142
Highway user revenues	901,966	-	-	901,966
Licenses and permits	1,574,154	-	-	1,574,154
Intergovernmental	9,859,122	3,710,722	447,265	14,017,109
Charges for services	2,679,243	-	-	2,679,243
Fines and forfeitures	212,776	-	-	212,776
Special assessments	-	-	183,400	183,400
Other revenues	345,909	-	2,258,584	2,604,493
Sub-total	214,163,314	11,939,663	2,889,249	228,992,226
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND REVENUES	214,163,314	11,939,663	2,889,249	228,992,226
EXPENDITURES				
General government	21,943,087	2,645,840	-	24,588,927
Public safety	43,357,839	1,860,384	2,860,897	48,079,120
Public works	9,288,129	7,921,401	-	17,209,530
Health	7,383,969	-	-	7,383,969
Social services	4,356,043	-	-	4,356,043
Primary and secondary education	99,922,025	3,504,772	-	103,426,797
Post-secondary education	4,257,845	-	-	4,257,845
Parks, recreation and culture	3,855,553	3,538,374	-	7,393,927
Libraries	2,588,064	-	-	2,588,064
Conservation of natural resources	478,171	1,234,250	-	1,712,421
Economic development and opportunity	1,818,051	-	-	1,818,051
Debt service - principal and interest	9,356,779	-	1,448,950	10,805,729
Other	9,700,366	-	-	9,700,366
Sub-total	218,305,921	20,705,021	4,309,847	243,320,789
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND EXPENDITURES	218,305,921	20,705,021	4,309,847	243,320,789
Excess of Revenues Over (Under) Expenditures	(4,142,607)	(8,765,358)	(1,420,598)	(14,328,563)
OTHER FINANCING SOURCES AND USES				
Exempt financing proceeds	2,917,045	-	-	2,917,045
Fire & rescue revolving loan fund - capital projects fund pay-go	-	(300,000)	300,000	-
Capital projects - general fund pay-go	(5,790,621)	5,790,621	-	-
Total other financing sources / uses	(2,873,576)	5,490,621	300,000	2,917,045
Net Increase/(Decrease) in Fund Balances	(7,016,183)	(3,274,737)	(1,120,598)	(11,411,518)
FUND BALANCE				
Beginning of the year	48,633,368	18,978,711	2,198,171	69,810,250
End of year	\$ 41,617,185	\$ 15,703,974	\$ 1,077,573	\$ 58,398,732

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, 2016

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

Fund Balance - Governmental Funds	\$ 58,398,732
Capital assets, net of accumulated depreciation, are not reported in the balance sheet for governmental funds	272,793,854
Prepaid OPEB is not reported in the balance sheet for governmental funds	20,295,753
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	(80,801,472)
Net pension liability	(64,018,819)
Deferred inflow of resources - pension obligation	(445,363)
Deferred outflow of resources - general obligation bond refunding	2,006,421
Deferred outflow of resources - pension obligation	<u>16,046,423</u>

Net position - governmental activities \$ 224,275,529

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	\$ (11,411,518)
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. Capital outlays:	24,211,507
Depreciation expense:	(11,064,145)
Cost of capital assets disposed less accumulated depreciation which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(62,276)
Repayment of debt	10,460,370
Issuance of long-term debt	(6,088,244)
Effect of refunding	(297,164)
Debt escrow not on balance sheet	(118,996)
Recognized pension costs less than the pension amount contributed	3,189,897
Decrease in prepaid OPEB not reported on balance sheet for governmental funds	<u>(2,362,732)</u>

Increase(decrease) in net position of governmental activities \$ 6,456,699

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, 2016

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
ASSETS				
<u>Current assets:</u>				
Cash and cash equivalents	\$ -	\$ 184,922	\$ -	\$ 184,922
Due from other funds	772,713	28,101	1,237,934	2,038,748
Restricted cash from Investments	-	-	156,273	156,273
Accounts receivable	68,337	461	59,646	128,444
Inventory	-	31,821	-	31,821
Other, prepaids	-	8,564	-	8,564
Total Current Assets	<u>841,050</u>	<u>253,869</u>	<u>1,453,853</u>	<u>2,548,772</u>
<u>Non-current assets:</u>				
Capital assets	305,389	6,467,833	16,716,415	23,489,637
Accumulated depreciation	<u>(168,277)</u>	<u>(2,698,498)</u>	<u>(2,399,330)</u>	<u>(5,266,105)</u>
Capital assets, net of accumulated depreciation	<u>137,112</u>	<u>3,769,335</u>	<u>14,317,085</u>	<u>18,223,532</u>
Total Assets	<u>\$ 978,162</u>	<u>\$ 4,023,204</u>	<u>\$ 15,770,938</u>	<u>\$ 20,772,304</u>
LIABILITIES				
<u>Current liabilities:</u>				
Accounts payable	\$ 31,699	\$ 45,195	\$ 110,895	\$ 187,789
Compensation-related liabilities	104,651	75,099	140,002	319,752
Unearned revenue	140,858	101,531	-	242,389
<u>Noncurrent Liabilities:</u>				
Due within one year:				
Financing agreements	-	9,059	228,893	237,952
Advance from general fund	-	70,365	-	70,365
Due in more than one year:				
Financing agreements	-	-	309,990	309,990
Advance from general fund	-	817,676	-	817,676
Compensated absences	-	62,023	58,808	120,831
Total Liabilities	<u>277,208</u>	<u>1,180,948</u>	<u>848,588</u>	<u>2,306,744</u>
NET POSITION				
Net investment in capital assets	137,112	3,760,276	13,778,202	17,675,590
Unrestricted	<u>563,842</u>	<u>(918,020)</u>	<u>1,144,148</u>	<u>789,970</u>
Total Net Position	<u>700,954</u>	<u>2,842,256</u>	<u>14,922,350</u>	<u>18,465,560</u>
Total Liabilities and Net Position	<u>\$ 978,162</u>	<u>\$ 4,023,204</u>	<u>\$ 15,770,938</u>	<u>\$ 20,772,304</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, 2016

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
OPERATING REVENUES				
Charges for services	\$ 2,448,190	\$ 1,232,350	\$ 398,844	\$ 4,079,384
Environmental/solid waste fees	-	-	2,586,093	2,586,093
	<u>2,448,190</u>	<u>1,232,350</u>	<u>2,984,937</u>	<u>6,665,477</u>
OPERATING EXPENSES				
Personal services	1,378,404	652,363	1,011,260	3,042,027
Operating supplies	252,601	222,337	34,404	509,342
Professional services	242,897	74,223	1,281,218	1,598,338
Communications	10,186	2,795	4,976	17,957
Transportation	50,168	22,620	55,512	128,300
Rentals	151,625	40,091	49,426	241,142
Public utilities	167,579	57,574	25,240	250,393
Other operating costs	9,507	20,211	-	29,718
Tipping fees	-	-	1,192,854	1,192,854
Retiree health benefits (OPEB)	-	36,000	23,000	59,000
Interest expense	-	323	6,873	7,196
Equipment	16,442	849	38,408	55,699
Depreciation	15,670	111,588	159,587	286,845
Total operating expenses	<u>2,295,079</u>	<u>1,240,974</u>	<u>3,882,758</u>	<u>7,418,811</u>
Operating Income (Loss)	153,111	(8,624)	(897,821)	(753,334)
Non-operating revenue:				
Other	10	338	-	348
Fraud recovery	66,326	-	-	66,326
Construction in progress	-	-	971,925	971,925
Grants revenue	29,781	-	-	29,781
General fund subsidy	-	-	-	-
Increase/(Decrease) in net position	<u>249,228</u>	<u>(8,286)</u>	<u>74,104</u>	<u>315,046</u>
NET POSITION				
Beginning of the year	451,726	2,850,542	14,848,246	18,150,514
End of year	<u>\$ 700,954</u>	<u>\$ 2,842,256</u>	<u>\$ 14,922,350</u>	<u>\$ 18,465,560</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, 2016

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Charges for services	\$ 2,375,608	\$ 1,240,365	\$ 3,002,978	\$ 6,618,951
Personal services	(1,343,161)	(728,765)	(1,159,930)	(3,231,856)
Other expenses	(920,789)	(490,161)	(2,787,404)	(4,198,354)
Net cash provided (used) by operating activities	<u>111,658</u>	<u>21,439</u>	<u>(944,356)</u>	<u>(811,259)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:				
Net change in interfund loans	(160,398)	56,014	1,273,963	1,169,579
Grant revenue	29,781	-	-	29,781
General operating subsidy	-	-	-	-
Net cash provided (used) by non-capital and related financing activities	<u>(130,617)</u>	<u>56,014</u>	<u>1,273,963</u>	<u>1,199,360</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Construction / purchase of capital assets	(47,377)	-	(567,848)	(615,225)
Proceeds from exempt financing	-	-	292,480	292,480
Principal payments on long-term debt	-	(8,947)	(227,966)	(236,913)
Fraud recoveries	66,326	-	-	66,326
Other reductions in long-term debt	-	(68,506)	-	(68,506)
Net cash used by capital and related financing activities	<u>18,949</u>	<u>(77,453)</u>	<u>(503,334)</u>	<u>(561,838)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	10	338	-	348
Net increase (decrease) in cash	-	338	(173,727)	(173,389)
CASH				
Beginning of year	-	184,584	330,000	514,584
End of year	<u>\$ -</u>	<u>\$ 184,922</u>	<u>\$ 156,273</u>	<u>\$ 341,195</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 153,111	\$ (8,624)	\$ (897,821)	\$ (753,334)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Depreciation	15,670	111,588	159,587	286,845
(Increase) decrease in accounts receivable	(46,419)	690	18,041	(27,688)
(Increase) decrease in inventory	-	(1,768)	-	(1,768)
(Increase) decrease in other prepaids	-	-	-	-
Increase (decrease) in accounts payable	(19,784)	(11,370)	(75,493)	(106,647)
Increase (decrease) in compensation-related liabilities	35,243	(76,402)	(148,670)	(189,829)
Increase (decrease) in unearned revenue	(26,163)	7,325	-	(18,838)
Net cash provided (used) by operating activities	<u>\$ 111,658</u>	<u>\$ 21,439</u>	<u>\$ (944,356)</u>	<u>\$ (811,259)</u>
SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES:				
Total capital asset additions	\$ 47,377	-	\$ 1,539,773	\$ 1,587,150
Less transfer of assets from other funds	-	-	(971,925)	(971,925)
Less amount financed	-	-	-	-
Net cash used for purchase of capital assets	<u>\$ 47,377</u>	<u>\$ -</u>	<u>\$ 567,848</u>	<u>\$ 615,225</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, 2016

	Sheriff's Office Retirement Plan
ASSETS	
Cash and cash equivalents	\$ 6,133,529
Restricted cash and investments	61,941,974
 Total assets	 \$ 68,075,503
NET POSITION	
Net position held in trust for pension benefits	\$ 68,075,503
 Total net position	 \$ 68,075,503

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, 2016

	Sheriff's Office Retirement Plan
ADDITIONS	
Contributions - employer	\$ 4,805,826
Contributions - employee	<u>1,020,935</u>
	<u>5,826,761</u>
Interest and dividends	1,221,750
Realized gain	(169,560)
Net unrealized loss on investments	<u>(2,582,315)</u>
	<u>(1,530,125)</u>
 Total additions	 <u>4,296,636</u>
DEDUCTIONS	
Benefits	(3,435,705)
Administrative costs	<u>(395,100)</u>
 Total deductions	 <u>(3,830,805)</u>
 Change in net position	 465,831
NET POSITION	
Beginning of year	<u>67,609,672</u>
End of year	<u>\$ 68,075,503</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, MARYLAND
JUNE 30, 2016

	Retiree Benefit Trust of St. Mary's County, Maryland
ASSETS	
Restricted cash and investments	\$ 63,602,482
Total assets	\$ 63,602,482
LIABILITIES	
Due to primary government	\$ 9,548
Total liabilities	9,548
NET POSITION	
Net position restricted for other post-employment benefits	63,592,934
Total liabilities and net position	\$ 63,602,482

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, MARYLAND
YEAR ENDED JUNE 30, 2016

	Retiree Benefit Trust of St. Mary's County, Maryland
ADDITIONS	
Contributions to the trust - employer	\$ -
Payments to retirees - employer	2,685,268
	2,685,268
Interest and dividends	1,658,107
Realized gain	137,109
Net unrealized gain/(loss) on investments	157,564
	1,952,780
Total additions	4,638,048
DEDUCTIONS	
Benefits paid directly to retirees	(2,685,268)
Administrative costs	(234,399)
	(2,919,667)
Total deductions	(2,919,667)
Change in net position	1,718,381
NET POSITION	
Beginning of year	61,874,553
End of year	\$ 63,592,934

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 - LENGTH OF SERVICE AWARDS
PROGRAM (LOSAP) OF ST. MARY'S COUNTY, MARYLAND
JUNE 30, 2016

	LOSAP of St. Mary's County, Maryland
ASSETS	
Restricted cash and investments	\$ <u>995,180</u>
Total assets	\$ <u><u>995,180</u></u>
NET POSITION	
Net position restricted for benefits	\$ <u>995,180</u>
Total liabilities and net position	\$ <u><u>995,180</u></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 - LENGTH OF SERVICE AWARDS
PROGRAM (LOSAP) OF ST. MARY'S COUNTY, MARYLAND
YEAR ENDED JUNE 30, 2016

	LOSAP of St. Mary's County, Maryland
ADDITIONS	
Contributions to the trust - employer	\$ 1,460,347
Interest and dividends	748
Total additions	1,461,095
DEDUCTIONS	
Benefits paid directly to retirees	(860,347)
Administrative costs	-
Total deductions	(860,347)
Change in net position	600,748
NET POSITION	
Beginning of year	394,432
End of year	\$ 995,180

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

Commissioners of St. Mary's County

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Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

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.

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

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

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

Financial reporting entity (continued)

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

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, 2016

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 trust 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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

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

Fund financial statements

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.

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. Non major funds by category are summarized into a single column.

Governmental funds

The measurement focus of the governmental fund financial statements is based 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 based upon determination of operating income, changes in net position, financial position, and cash flows. 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). 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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

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

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

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

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

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.

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

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

Budget and budgetary accounting (continued)

- 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.

Investments in the Pension Trust Fund of the Sheriff's Department Retirement Plan, the Length of Service Award Program 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. The trusts are governed by separate investment policies and allow investments in common stocks, equity funds, fixed income and alternative investments.

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

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

Annual, personal and sick leave benefits (continued)

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.

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

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

Capital assets (continued)

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
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

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

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

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

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 liability or asset is calculated on an actuarial basis consistent with the requirements of GASB Statement No 68 – Accounting and Financial Reporting for Pensions. Expenditures are recognized when paid or are expected to be paid with current available resources. The net pension liability (asset) is reported in the government-wide financial statements.

2. 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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

2. Cash, cash equivalents and investments (continued)

PRIMARY GOVERNMENT (continued)

Cash deposits

At year end, the carrying amount of the County's deposits was \$57,898,351 (in addition, petty cash totaling \$12,550 at various County Departments) and the collected bank balance was \$67,168,318. Of the collected bank balance, \$660,231 was covered by Federal Deposit Insurance Corporation (FDIC), and \$66,508,087 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.

Fair values of assets measured on a recurring basis at year end were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Government-wide financials:	
U.S. government securities – Cash Deposits and Treasuries	\$ 57,782,980
Money Market - Exempt Financing	1,617,331
Maryland Local Government Investment Pool (MLGIP)	5,302,581
Subtotal – Government-wide financials	\$ 64,702,892
Retiree Benefit Trust (OPEB):	
Cash and Equivalent	1,007,292
Common Stock/Equity Funds	38,301,826
Common/Collective Funds	966,212
Bond Funds	15,841,970
Venture/Limited Partnership/Closely Held	7,485,182
Subtotal – Retiree Benefit Trust (OPEB)	63,602,482
Length of Service Awards Program (LOSAP):	
Cash	995,180
Pension investments – Sheriff's Office Retirement Plan:	
Cash	6,133,529
Bond Funds	17,047,002
Common Stock	13,976,754
Venture/Limited Partnership/Closely Held	6,548,398
Equity Funds	24,113,253
Other – Miscellaneous	256,567
Subtotal – Sheriff's Office Retirement Plan	68,075,503
Total investments	\$ 197,376,057

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

2. Cash, cash equivalents and investments (continued)

PRIMARY GOVERNMENT (continued)

Investments (continued)

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. The MLGIP is rated "AAAM" by Standards and Poor's.

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

In FY2015, the County joined the Maryland Association of Counties (MACo) Pooled OPEB Trust (the "Trust"). There are nine members to this wholly-owned instrumentality of its members. The Trust is a common trust fund which is comprised of shares or units in a commingled fund that is not publicly traded. The assets of the Trust are managed by a Board of Trustees and consist of U.S. treasury obligations, U.S. government agencies, corporate & foreign bonds, municipal obligations, taxable fixed income securities, mutual funds, global funds and international equity securities.

At June 30, 2016 the net position of the Trust was valued at \$20.9 million; the County's interest was \$1.0 million. Contributions to the Trust Fund qualify as "contributions in relation to the actuarial required contribution" within the meaning of GASB Statement No. 45 and the Trust Fund qualifies as a "trust or equivalent arrangement" under the meaning of GASB Statement No. 43. The Trust is audited annually by an independent CPA firm. Separately issued financial statements may be obtained by sending a request to the following address: Board of the MACo Pooled Investment Trust, 169 Conduit Street, Annapolis, MD 21401.

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below.

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

2. Cash, cash equivalents and investments (continued)

PRIMARY GOVERNMENT (continued)

Investments (continued)

Equity and fixed income securities classified in level 1 are valued using prices quoted in active markets for those securities.

<u>June 30, 2016</u>	Investments at fair value			
	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S. Treasury obligations	\$ 2,384,035	\$ -	\$ -	\$ 2,384,035
U.S. Governmental agencies	88,948	-	-	88,948
Corporate & foreign bonds	3,604,936	-	-	3,604,936
Municipal obligations	102,665	-	-	102,665
Taxable fixed income funds	1,059,925	-	-	1,059,925
Equity Investments:				
Mutual funds	8,034,618	-	-	8,034,618
Global funds	1,016,288	-	-	1,016,288
International	2,606,141	-	-	2,606,141
Total	<u>\$ 18,897,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,897,556</u>

Transactions are recorded on the trade date. Realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis.

The County may terminate its membership in the Trust and withdrawal its allocated investment balance by providing written notification to the Trust six months prior to the intended withdrawal date.

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 unit's 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, 2016 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.

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, 2016, 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 of such investments were \$16,048,112, \$407,111, and \$599,051 for governmental activities, business-type activity, and fiduciary responsibilities, respectively.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

2. Cash, cash equivalents and investments (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Investments (continued)

The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is under the administration of the State Treasurer. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value. The pool is managed in a "Rule 2(a)-7 like" manner and is reported at amortized cost pursuant to Rule 2(a)-7 under the Investment Company Act of 1940.

St. Mary's County Library

Deposits

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

At June 30, 2016, the carrying amount of the Library's cash was \$409,965, and the bank balances totaled \$391,345. All of the bank balances in financial institutions were covered by federal depository insurance or collateral at June 30, 2016.

Investments

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. The separately issued financial statement of the MLGIP may be obtained by contacting the contractor.

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government Investment Pool	<u>\$ 380,749</u>	<u>\$ 380,749</u>
Restricted:		
The Vanguard Group	<u>\$ 139,743</u>	<u>\$ 139,743</u>

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

2. Cash, cash equivalents and investments (continued)

COMPONENT UNITS (continued)

St. Mary's County Metropolitan Commission

Deposits

The carrying amount of MetCom's deposits was \$14,213,573 at June 30, 2016, and the bank balance was \$15,438,132. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2016, with the remaining \$15,188,132, adequately covered by collateral.

Cash and cash equivalents consisted of the following:

Investments	\$ 7,279,196
Cash	14,213,573
Petty cash	<u>900</u>
	<u>\$ 21,493,669</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, 2016, 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, 2016 was \$7,279,196.

MetCom also joined the MACo Pooled OPEB trust in FY2015. Its interest in the trust at June 30, 2016 was \$3.4 million.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

3. Changes in capital assets

PRIMARY GOVERNMENT

A summary of changes in capital assets is as follows:

	Balance June 30, 2015	Additions	Transfers/ Disposals	Balance June 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 36,435,884	\$ 217,967	\$ (1)	\$ 36,653,850
Construction in progress	7,935,407	14,319,613	(12,399,127)	9,855,893
911 system & equipment	1,423,733	-	-	1,423,733
Total capital assets not being depreciated	<u>45,795,024</u>	<u>14,537,580</u>	<u>(12,399,128)</u>	<u>47,933,476</u>
Capital assets being depreciated:				
Buildings & improvements	111,471,581	4,834,323	-	116,305,904
Computer equipment	2,260,687	343,560	-	2,604,247
Other equipment	285,160	-	-	285,160
Vehicles - licensed	12,268,051	3,603,649	(586,932)	15,284,768
Off-road vehicles	2,097,761	65,921	(16,300)	2,147,382
Miscellaneous equipment	5,999,390	399,989	-	6,399,379
Roads	189,783,578	10,075,809	-	199,859,387
Curbing	946,791	-	-	946,791
Sidewalks	982,973	145,866	-	1,128,839
Guardrails	1,493,847	66,370	-	1,560,217
Airport infrastructure	4,677,970	232,754	-	4,910,724
Airport equipment	579,104	-	-	579,104
Baseball fields	802,670	-	-	802,670
Bridges	6,764,889	1,779,546	-	8,544,435
Parks & recreation	14,180,324	-	-	14,180,324
Marinas & docks	8,176,125	-	-	8,176,125
Irrigation systems	241,853	-	-	241,853
Signage	475,433	-	-	475,433
Parking lots	1,067,134	-	-	1,067,134
911 system & equipment	14,627,165	525,267	-	15,152,432
Total capital assets being depreciated	<u>379,182,486</u>	<u>22,073,054</u>	<u>(603,232)</u>	<u>400,652,308</u>
Accumulated depreciation for:				
Buildings & improvements	(43,038,711)	(2,131,937)	-	(45,170,648)
Computer equipment	(2,125,494)	(88,671)	-	(2,214,165)
Other equipment	(180,490)	(12,471)	-	(192,961)
Vehicles - licensed	(9,205,686)	(1,016,650)	524,656	(9,697,680)
Off-road vehicles	(1,510,060)	(67,433)	16,300	(1,561,193)
Miscellaneous equipment	(3,715,814)	(413,858)	-	(4,129,672)
Roads	(80,005,778)	(5,548,801)	-	(85,554,579)
Curbing	(728,322)	(19,524)	-	(747,846)
Sidewalks	(513,414)	(23,235)	-	(536,649)
Guardrails	(530,423)	(34,707)	-	(565,130)
Airport infrastructure	(4,551,797)	(30,309)	-	(4,582,106)
Airport equipment	(531,064)	(8,735)	-	(539,799)

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

3. Changes in capital assets (continued)

PRIMARY GOVERNMENT (continued)

	Balance June 30, 2015	Additions	Transfers/ Disposals	Balance June 30, 2016
Accumulated depreciation for: (continued)				
Baseball fields	\$ (451,522)	\$ (15,863)	\$ -	\$ (467,385)
Bridges	(2,786,267)	(153,390)	-	(2,939,657)
Parks & recreation	(4,785,883)	(439,362)	-	(5,225,245)
Marinas & docks	(5,045,034)	(262,581)	-	(5,307,615)
Irrigation systems	(130,862)	(5,787)	-	(136,649)
Signage	(420,166)	(7,975)	-	(428,141)
Parking lots	(383,288)	(65,321)	-	(448,609)
911 equipment	(4,628,666)	(717,535)	-	(5,346,201)
Total accumulated depreciation	<u>(165,268,741)</u>	<u>(11,064,145)</u>	<u>540,956</u>	<u>(175,791,930)</u>
Total capital assets being depreciated, net	<u>213,913,745</u>	<u>11,008,909</u>	<u>(62,276)</u>	<u>224,860,378</u>
Governmental activities capital assets, net	<u>\$ 259,708,769</u>	<u>\$ 25,546,489</u>	<u>\$ (12,461,404)</u>	<u>\$ 272,793,854</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,078,666	\$ -	\$ -	\$ 1,078,666
Solid waste facilities	12,248,547	971,925	-	13,220,472
Total capital assets not being depreciated	<u>13,327,213</u>	<u>971,925</u>	<u>-</u>	<u>14,299,138</u>
Capital assets being depreciated:				
Buildings & improvements	4,324,284	9,890	-	4,334,174
Computer equipment	57,188	-	-	57,188
Other equipment	39,359	-	-	39,359
Vehicles - licensed	2,001,734	479,043	(47,713)	2,433,064
Off-road vehicles	1,122,562	115,388	-	1,237,950
Miscellaneous equipment	567,874	10,904	-	578,778
Irrigation systems	509,986	-	-	509,986
Total capital assets being depreciated	<u>8,622,987</u>	<u>615,225</u>	<u>(47,713)</u>	<u>9,190,499</u>
Accumulated depreciation for:				
Buildings & improvements	(1,665,952)	(82,012)	-	(1,747,964)
Computer equipment	(57,188)	-	-	(57,188)
Other equipment	(38,634)	(130)	-	(38,764)
Vehicles - licensed	(1,608,366)	(116,080)	47,713	(1,676,733)
Off-road vehicles	(855,469)	(57,353)	-	(912,822)
Miscellaneous equipment	(455,686)	(14,576)	-	(470,262)
Irrigation systems	(345,678)	(16,694)	-	(362,372)
Total accumulated depreciation	<u>(5,026,973)</u>	<u>(286,845)</u>	<u>47,713</u>	<u>(5,266,105)</u>
Total capital assets being depreciated, net	<u>3,596,014</u>	<u>328,380</u>	<u>-</u>	<u>3,924,394</u>
Business-type activities capital assets, net	<u>\$ 16,923,227</u>	<u>\$ 1,300,305</u>	<u>\$ -</u>	<u>\$ 18,223,532</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

3. 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	\$	1,396,588
Public Safety		1,975,017
Public Works		6,533,499
Social Services		104,703
Post -Secondary Education		49,328
Parks, Recreation, and Culture		821,601
Libraries		182,181
Economic Development and Opportunity		<u>1,228</u>

Total Depreciation - Governmental Activities \$ 11,064,145

Business-type activities

Recreation Activity Fund	\$	15,669
Solid Waste/Recycling		159,588
Wicomico		<u>111,588</u>

Total Depreciation - Business-Type Activities \$ 286,845

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

3. Changes in capital assets (continued)

COMPONENT UNITS

St. Mary's County Public Schools

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deletions/ Transfers	Balance June 30, 2016
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 2,862,240	\$ 773,833	\$ -	\$ 3,636,073
Construction in process	<u>38,670,956</u>	<u>11,873,367</u>	<u>(29,014,551)</u>	<u>21,529,772</u>
	<u>41,533,196</u>	<u>12,647,200</u>	<u>(29,014,551)</u>	<u>25,165,845</u>
Capital assets being depreciated:				
Buildings and improvements	345,869,521	26,395,840	-	372,265,361
Furniture and equipment	8,319,043	850,655	(179,335)	8,990,363
Equipment leased under financing agreements	<u>6,676,139</u>	<u>-</u>	<u>-</u>	<u>6,676,139</u>
	<u>360,864,703</u>	<u>27,246,495</u>	<u>(179,335)</u>	<u>387,931,863</u>
Accumulated depreciation for:				
Buildings and improvements	(130,220,543)	(8,223,793)	-	(138,444,336)
Furniture and equipment	<u>(9,211,535)</u>	<u>(1,825,152)</u>	<u>160,146</u>	<u>(10,876,541)</u>
	<u>(139,432,078)</u>	<u>(10,048,945)</u>	<u>160,146</u>	<u>(149,320,877)</u>
Governmental activities capital assets, net	<u>\$ 262,965,821</u>	<u>\$ 29,844,750</u>	<u>\$ (29,033,740)</u>	<u>\$ 263,776,831</u>
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,851,824	\$ 18,292	\$ (21,300)	\$ 1,848,816
Accumulated depreciation for:				
Furniture and equipment	<u>(1,218,149)</u>	<u>(92,983)</u>	<u>21,300</u>	<u>(1,289,832)</u>
Business-type activities capital Assets, net	<u>\$ 633,675</u>	<u>\$ (74,691)</u>	<u>\$ -</u>	<u>\$ 558,984</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

3. Changes in capital assets (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2016, as follows:

Governmental activities

Administration	\$	25,448
Mid-level administration		29,726
Other instructional costs		952,742
Special education		6,869
Student personnel services		682
Student transportation services		103,642
Operation of plant		8,915,760
Maintenance of plan		<u>14,076</u>

Total governmental activities depreciation expenses \$ 10,048,945

Business-type activities

Food services	\$	<u>92,983</u>
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St. Mary's County Library

Activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deletions/ Transfers	Balance June 30, 2016
Capital assets:				
Furnishings and equipment	\$ 1,021,566	\$ 5,580	\$ 74,611	\$ 952,535
Leasehold improvements	87,735	-	-	87,735
Vehicles	34,944	-	-	34,944
Books	<u>5,060,786</u>	<u>415,635</u>	<u>422,901</u>	<u>5,053,520</u>
	<u>6,205,031</u>	<u>421,215</u>	<u>497,512</u>	<u>6,128,734</u>
Accumulated depreciation:				
Furnishings and equipment	950,986	24,784	74,611	901,159
Leasehold improvements	8,775	1,755	-	10,530
Vehicles	25,042	1,828	-	26,870
Books	<u>3,825,654</u>	<u>412,947</u>	<u>422,901</u>	<u>3,815,700</u>
	<u>4,810,457</u>	<u>441,314</u>	<u>497,512</u>	<u>4,754,259</u>
Net capital assets	<u>\$ 1,394,574</u>	<u>\$ (20,099)</u>	<u>\$ -</u>	<u>\$ 1,374,475</u>

Governmental activities depreciation expense of \$441,314 was charged to Library services.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

3. Changes in capital assets (continued)

COMPONENT UNITS (continued)

St. Mary's County Metropolitan Commission

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets:				
Utility plants	\$ 106,564,122	\$ 34,658,356	\$ 7,304,727	\$ 133,917,751
Water plant systems	39,963,541	7,950,851	1,332,689	46,581,703
Equipment	8,468,753	603,249	310,727	8,761,275
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,899,703</u>	<u>-</u>	<u>33,072</u>	<u>3,866,631</u>
Subtotal	159,714,320	43,212,456	8,981,215	193,945,561
Not being depreciated:				
Utility plant construction in process	28,372,251	14,194,613	34,658,356	7,908,508
Water Plant construction in process	9,015,154	6,175,018	7,950,850	7,239,322
Land/land rights	<u>879,562</u>	<u>187,255</u>	<u>-</u>	<u>1,066,817</u>
	<u>197,981,287</u>	<u>63,769,342</u>	<u>51,590,421</u>	<u>210,160,208</u>
Accumulated depreciation:				
Utility plants	40,413,276	6,824,637	7,304,727	39,933,186
Water plant systems	10,541,752	1,904,106	1,332,689	11,113,169
Equipment	5,744,218	698,513	310,727	6,132,004
Capitalized interest	335,462	16,364	-	351,826
Buildings	<u>1,525,652</u>	<u>159,703</u>	<u>33,072</u>	<u>1,652,283</u>
	<u>58,560,360</u>	<u>9,603,323</u>	<u>8,981,215</u>	<u>59,182,468</u>
Net capital assets	<u>\$ 139,420,927</u>	<u>\$ 54,166,019</u>	<u>\$ 42,609,206</u>	<u>\$ 150,977,740</u>

Depreciation expenses of \$9,603,323 was charged to activities as follows:

Sewer activities	\$ 7,237,249
Water activities	2,224,072
Engineering activities	32,609
Administrative	<u>109,393</u>
Total	<u>\$ 9,603,323</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

4. 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 if the 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, 2016, was \$.8523 per \$100 of assessed value based on the full valuation method. The Constant Yield tax rate for FY2016 was \$.8523. The personal property tax rate during the year ended June 30, 2016 was \$2.1308 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, 2016, net of the allowance for uncollectibles of \$784,383, is \$1,998,060 (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).

5. 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, 2016, the amount of delinquent special assessment receivables due from taxpayers was \$266.

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, 2016, of \$2,612,196.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

5. 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 of prefunding in the amount of \$4,000,000 for construction projects at Spring Ridge Middle School, \$23,994 for funding related to an energy efficient lighting project, and 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 \$156,576 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2017.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations

PRIMARY GOVERNMENT

<u>Governmental activities</u>	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Repayment</u>	<u>June 30, 2016</u>	<u>Amounts due within one year</u>
General obligation bonds - county	\$ 70,488,000	\$ -	\$ -	\$ (6,855,000)	\$ 63,633,000	\$ 7,475,000
Water quality loans	1,344,218	-	-	(469,562)	874,656	324,784
State loans	1,637,439	-	3	(122,665)	1,514,771	124,963
Surplus property transfer of debt	442	-	-	(142)	300	147
Exempt financing	5,529,992	2,907,520	-	(3,012,998)	5,424,514	3,030,893
	<u>79,000,091</u>	<u>2,907,520</u>	<u>3</u>	<u>(10,460,367)</u>	<u>71,447,241</u>	<u>10,955,787</u>
Landfill post-closure costs	1,201,000	3,029,000	-	-	4,230,000	-
Compensated absences (long-term)	4,972,507	151,724	-	-	5,124,231	12,796
	<u>6,173,507</u>	<u>3,180,724</u>	<u>-</u>	<u>-</u>	<u>9,354,231</u>	<u>12,796</u>
Amount reported in statement of net position	<u>\$ 85,173,598</u>	<u>\$ 6,088,244</u>	<u>\$ 3</u>	<u>\$ (10,460,367)</u>	<u>\$ 80,801,472</u>	<u>\$ 10,968,583</u>
 <u>Business-type activities</u>						
Exempt financing	\$ 492,375	\$ 292,480	\$ -	\$ (236,913)	\$ 547,942	\$ 237,952
Compensated absences (long-term)	168,684	-	47,853	-	120,831	-
Amount reported in statement of net position	<u>\$ 661,059</u>	<u>\$ 292,480</u>	<u>\$ 47,853</u>	<u>\$ (236,913)</u>	<u>\$ 668,773</u>	<u>\$ 237,952</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, 2016

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities

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 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 refunded these bonds to reduce its total debt service payments and to obtain an economic gain of \$626,595.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities (continued)

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, 2016, based on the final loan amount of \$3,934,347, are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative fee</u>	<u>Total</u>
2017	\$ 324,784	\$ 9,621	\$ 11,448	\$ 345,853
2018	328,356	6,049	11,448	345,853
2019	221,516	2,437	11,448	235,401
Total	<u>\$ 874,656</u>	<u>\$ 18,107</u>	<u>\$ 34,344</u>	<u>\$ 927,107</u>

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, 2016, the principal and interest payments through 2018 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 147	\$ 11	\$ 158
2018	153	6	159
Total	<u>\$ 300</u>	<u>\$ 17</u>	<u>\$ 317</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities (continued)

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, 2015, \$11,100,000 has been drawn to pay for eligible purchases. 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 exempt financing equipment lease as of June 30, 2016, based on the total final lease amount of \$11,100,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,149,366	\$ 20,333	\$ 2,169,699
Total	<u>\$ 2,149,366</u>	<u>\$ 20,333</u>	<u>\$ 2,169,699</u>

2015 Exempt financing equipment lease

On February 17, 2015, Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$1,910,000 for the purchase of vehicles. The lease bears interest at a rate of 1.49% per annum, payable annually through 2019. 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 2015 exempt financing equipment lease as of June 30, 2016, based on the total final lease amount of \$1,910,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 312,198	\$ 14,164	\$ 326,362
2018	316,849	9,513	326,362
2019	321,427	4,791	326,218
Total	<u>\$ 950,474</u>	<u>\$ 28,468</u>	<u>\$ 978,942</u>

2016 Exempt financing equipment lease

On October 29, 2016, Commissioners of St. Mary's County entered into an agreement with Banc of America Public Capital Corp. to borrow \$3,200,000 for the purchase of vehicles. The lease bears interest at a rate of 1.37% per annum, payable annually through 2020. 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 2016 exempt financing equipment lease as of June 30, 2016, based on the total final lease amount of \$3,200,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 569,329	\$ 31,934	\$ 601,263
2018	577,150	24,113	601,263
2019	585,079	16,185	601,264
2020	593,116	8,148	601,264
Total	<u>\$ 2,324,674</u>	<u>\$ 80,380</u>	<u>\$ 2,405,054</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities (continued)

Long-term obligations at June 30, 2016 consist of the following:

Description	Due	Rate	Amount
<u>MD Water quality loans and other state loans</u>			
<u>Maryland department of natural resources:</u>			
Point Breeze	1993-2018	None	\$ 16,284
Holly Point Shores	2008-2032	None	160,455
Murray Road Revetment	2004-2028	None	43,584
Maryland Water Quality Loan	2005-2019	1.10%	874,656
Piney Point Lighthouse	2009-2026	None	336,370
Villas on Water Edge	2009-2032	None	348,736
Kingston Creek II	2010-2037	None	221,415
North Patuxent Beach	2009-2025	None	254,727
Thomas Road	2016-2030	None	133,200
	Total state loans		<u>2,389,427</u>
<u>General obligation bonds</u>			
2009 Refunding Bonds, Series A	2010-2020	2.5-4.0%	5,515,000
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%	10,120,000
2011 Refunding Bonds	2012-2024	2.25-2.41%	21,603,000
2014 Refunding Bonds	2016-2025	2.32%	9,450,000
	Total general obligation bonds		<u>63,633,000</u>
Total state loans and bonds			66,022,427
Surplus property transfer of debt			300
Accrued landfill closure and postclosure costs			4,230,000
Exempt Financing			5,424,514
Accumulated unpaid annual leave			5,124,231
Total			<u>\$ 80,801,472</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Business-type activities

2012 Exempt financing equipment lease

The annual requirements to amortize the business-type activities portion of the 2012 exempt financing equipment lease as of June 30, 2016, based on the total final lease amount of \$11,100,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 115,508	\$ 1,093	\$ 116,601
Total	<u>\$ 115,508</u>	<u>\$ 1,093</u>	<u>\$ 116,601</u>

2015 Exempt financing equipment lease

The annual requirements to amortize the business-type activities portion of the 2015 exempt financing equipment lease as of June 30, 2016, based on the total final lease amount of \$1,910,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 65,172	\$ 2,957	\$ 68,129
2018	66,143	1,986	68,129
2019	67,270	1,000	68,270
Total	<u>\$ 198,585</u>	<u>\$ 5,943</u>	<u>\$ 204,528</u>

2016 Exempt financing equipment lease

The annual requirements to amortize the business-type activities portion of the 2016 exempt financing equipment lease as of June 30, 2016, based on the total final lease amount of \$3,200,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 57,272	\$ 3,212	\$ 60,484
2018	58,058	2,426	60,484
2019	58,856	1,628	60,484
2020	59,663	820	60,483
Total	<u>\$ 233,849</u>	<u>\$ 8,086</u>	<u>\$ 241,935</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2016 is composed of the following loans payable to the Maryland Department of Natural Resources:

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.	\$ 160,455
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.	348,736
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>221,415</u>
	<u>\$ 730,606</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, 2016

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2016, including interest of \$9,946,549, 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>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	8,206,821	1,128,350	9,335,171
2021	5,979,821	926,324	6,906,145
2022-2026	19,756,802	2,538,038	22,294,840
2027-2031	7,703,509	556,282	8,259,791
2032-2036	84,535	-	84,535
2037-2038	10,536	-	10,536
Total	<u>\$ 65,147,771</u>	<u>\$ 9,946,549</u>	<u>\$ 75,094,320</u>

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

	General Obligation	State Loans	Special	Total
	Bonds		Assessment	
Principal	\$ 63,633,000	\$ 784,165	\$ 730,606	\$ 65,147,771
Interest	<u>9,946,549</u>	<u>-</u>	<u>-</u>	<u>9,946,549</u>
	<u>\$ 73,579,549</u>	<u>\$ 784,165</u>	<u>\$ 730,606</u>	<u>\$ 75,094,320</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

COMPONENT UNITS

St. Mary's County Public Schools

Long-term liabilities

Long-term debt at June 30, 2016, consists of equipment financing obligations, accumulated compensated absences payable, net OPEB obligation, and net pension liability. The following is a summary of changes in the School System's long-term liabilities for the year ended June 30, 2016.

	June 30, 2015	Additions	Deductions	June 30, 2016	Amounts due within one year
Governmental activities:					
Equipment financing agreements	\$ 2,825,673	\$ -	\$ (2,060,224)	\$ 765,449	\$ 460,534
Compensated absences	4,496,779	994,158	(561,072)	4,929,865	504,608
Net OPEB obligation	40,997,310	16,413,000	(6,108,261)	51,302,049	-
Net pension obligation	<u>9,640,511</u>	<u>2,874,098</u>	<u>-</u>	<u>12,514,609</u>	<u>-</u>
	<u>\$ 57,960,273</u>	<u>\$ 20,281,256</u>	<u>\$ (8,729,557)</u>	<u>\$ 69,511,972</u>	<u>\$ 965,142</u>
Business-type activities:					
Compensated absences	<u>\$ 151,736</u>	<u>\$ 46,102</u>	<u>\$ (12,009)</u>	<u>\$ 185,829</u>	<u>\$ 14,027</u>

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

During previous years, 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 \$47,810, and quarterly payments of \$1,824, at interest rates ranging from 3.74% to 7.88% expiring through April 2020. 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 when due. Principal payments are reported as reductions of long-term obligations in the government-wide financial statements.

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, 2016:

June 30, 2015	Increases	Decreases	June 30, 2016	Amounts due within one year
<u>\$ 107,380</u>	<u>\$ -</u>	<u>\$ (9,773)</u>	<u>\$ 97,607</u>	<u>\$ -</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission

Long-term debt - bonds

Long-term bonds payable as of June 30, 2016 are as follows:

<u>Bonds payable description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Twenty-third Issue	2008-2027	3.5 - 4.25%	\$ 1,613,300	\$ 130,404
Twenty-seventh Issue	2011-2030	0.75 - 4.31%	9,570,300	3,117,424
Thirtieth Issue	2012-2029	2.96 - 3.4%	1,115,402	248,994
Thirty-first Issue	2013-2032	0.61 - 3.42%	7,231,900	2,004,537
Thirty-sixth Issue	2014-2033	4.31%	14,115,000	6,344,543
Thirty-eighth issue	2015-2034	3.51%	20,428,000	7,627,183
Thirty-ninth issue	2015-2021	1.31%	2,110,000	60,339
Fortieth issue	2015-2027	2.08%	<u>5,594,000</u>	<u>853,798</u>
			61,777,902	20,387,222
Less current portion			<u>3,772,809</u>	<u>2,018,814</u>
			<u>\$ 58,005,093</u>	<u>\$ 18,368,408</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2016 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017 (current)	\$ 3,772,809	\$ 2,018,814	\$ 5,791,623
2018	3,880,834	1,945,893	5,826,727
2019	3,968,206	1,861,366	5,829,572
2020	3,410,908	1,765,971	5,176,879
2021	3,446,339	1,681,952	5,128,291
2022-2026	18,486,333	6,897,130	25,383,463
2027-2031	17,707,473	3,666,167	21,373,640
2032-2034	<u>7,105,000</u>	<u>549,929</u>	<u>7,654,929</u>
Total	<u>\$ 61,777,902</u>	<u>\$ 20,387,222</u>	<u>\$ 82,165,124</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

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

On August 6, 2015 MetCom refinanced \$1,645,000 of this debt with TD bank. This bond was paid in full as of June 30, 2016.

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.

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.

On August 6, 2015 MetCom refinanced \$432,600 of this debt with TD bank. This bond was paid in full as of June 30, 2016.

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, 2015, MetCom had drawn only \$10,101,170 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.

On August 6, 2015 MetCom refinanced \$5,914,800 of this debt with TD bank.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Long-term debt - bonds (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, 2016, the unspent proceeds were \$2,467,518.

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

Thirtieth issue

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

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 19, 2012, the Commission issued \$8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2016, the unspent proceeds were \$4,739,483.

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, 2016

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Long-term debt - bonds (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, 2016, the unspent proceeds were \$10,701,202.

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, 2014 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.

Thirty-eighth issue

On August 28, 2014, the Commission issued \$22,075,230 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2016, the unspent proceeds were \$17,646,141.

The bonds mature on May 1, in 20 annual installments, beginning in 2015 and ending in 2034. The average interest yield on these bonds is 3.51%. Interest was payable on May 1, 2015 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, 2024. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Thirty-ninth issue

On August 6, 2015, MetCom issued Refinancing Bonds Series 2015A in the principal amount of \$2,157,000. These bonds were issued with a true interest cost of 1.31% to refund certain maturities of MetCom's Refunding Bonds of 2003, the Seventeenth Issue, with a coupon rate ranging from 2.75% to 4.4% and certain maturities of MetCom's 2006 Series A Bonds, the Twenty-first Issue, issued in conjunction with the Maryland Community Development Administration (CDA), with a coupon rate ranging from 3.65% to 4.275% and for the cost to refinance the loans.

These bonds were issued to take advantage of a favorable interest rate environment. Funds in the amount of \$449,973 were deposited with an escrow agent to provide for all future debt service payments of the refinanced bonds. Funds in the amount of \$1,680,395 were used to complete the defeasance of MetCom's Refunding Bonds of 2003. The remaining proceeds were used for prepayment fees and bond issuance costs.

MetCom refunded these bonds at a premium to reduce its total debt service payments by \$87,229 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$102,135.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Long-term debt - bonds (continued)

Fortieth issue

On August 6, 2015, MetCom issued Refinancing Bonds Series 2015B in the principal amount of \$5,619,000. These bonds were issued with a true interest cost of 2.08% to refund certain maturities of MetCom's 2007 Series B Bonds, the Twenty-third Issue, issued in conjunction with the Maryland Community Development Administration (CDA), with a coupon rate ranging from 3.5% to 4.25% and for the cost to refinance the loans.

These bonds were issued to take advantage of a favorable interest rate environment. Funds in the amount of \$6,310,569 were deposited with an escrow agent to provide for all future debt service payments of the refinanced bonds. The remaining proceeds were used for prepayment fees and bond issuance costs.

MetCom refunded these bonds at a premium to reduce its total debt service payments by \$537,674 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$431,337.

Notes, leases, and loans payable

Notes, leases and loans payable as of June 30, 2016 are as follows:

<u>Note description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Undrawn</u>
Sixth Issue	2017	6.682%	\$ 16,847	\$ 1,126	\$ -
MD Water Quality Loan #11	2017	4.260%	300,088	12,784	-
MD Water Quality Loan #15	2020	2.700%	204,343	24,830	-
MD Water Quality Loan #16	2023	1.200%	178,152	16,387	-
MD Water Quality Loan #18	2025	1.100%	2,248,418	238,243	-
MD Water Quality Loan #19	2024	1.100%	435,653	44,105	-
MD Water Quality Loan #20	2024	1.100%	442,050	37,425	-
MD Water Quality Loan #22	2027	1.100%	629,643	72,317	-
MD Water Quality Loan #25	2029	1.000%	134,174	16,782	-
MD Water Quality Loan #26	2030	1.000%	419,786	54,636	-
MD Water Quality Loan #28	2030	2.200%	344,273	80,633	-
SunTrust Bank Loan #29	2016	2.030%	23,700	120	-
MD Water Quality Loan #32	2034	1.800%	4,083,306	961,910	572,496
MD Water Quality Loan #33	2033	1.700%	357,305	76,542	-
MD Water Quality Loan #34	2035	2.100%	18,750,200	5,305,375	1,473,124
MD Water Quality Loan #35	2035	2.100%	4,687,550	1,326,363	368,281
MD Water Quality Loan #37	2034	2.000%	2,306,445	557,823	-
Leonardtwn #41	2037	1.800%	1,705,500	459,069	-
			37,267,433	9,286,470	\$ 2,413,901
Less current portion			2,272,418	844,453	
			\$ 34,995,015	\$ 8,442,017	

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's 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, 2016, are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017 (current)	\$ 2,272,418	\$ 844,453	\$ 3,116,871
2018	2,038,328	809,411	2,847,739
2019	2,075,230	770,637	2,845,867
2020	2,112,840	732,935	2,845,775
2021	2,070,440	691,795	2,762,235
2022-2026	9,979,823	2,846,211	12,826,034
2027-2031	9,289,970	1,836,720	11,126,690
2032-2036	7,327,892	747,816	8,075,708
2037	<u>100,492</u>	<u>6,492</u>	<u>106,984</u>
Total	<u>\$ 37,267,433</u>	<u>\$ 9,286,470</u>	<u>\$ 46,553,903</u>

As of June 30, 2016, 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 thirty-two in the amount of \$4,874,202 is for the Radio Read Meter Project. As of June 30, 2016, MetCom had drawn \$4,301,706 of the proceeds. Loan number thirty-three in the amount of \$394,000 is for the Shangri La Drive/South Essex Drive Sewer Rehabilitation. Loan number thirty-four in the amount of \$21,082,400 is for the Marlay-Taylor Wastewater Reclamation Facility Enhanced Nutrient Removal, ENR, project. Loan number thirty-five in the amount of \$5,270,600 is also for Marlay-Taylor Wastewater Reclamation Facility ENR project. This loan will be paid for by Navy charges and is therefore taxable. As of June 30, 2016, MetCom has drawn \$24,511,594 of the proceeds on loans thirty-four and thirty-five. Loan number thirty-seven in the amount of \$2,420,291 is for the Route 235 and Route 712 Interceptor Rehabilitation. As of June 30, 2016, MetCom had drawn \$2,420,291 of the proceeds.

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 forty-one in the amount of \$1,705,500 is for MetCom's share of Leonardtown's MDE loan for the ENR project.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2016 were as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2016</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 65,166,391	\$ 7,776,000	\$ 11,164,489	\$ 61,777,902	\$ 3,772,809
Notes, Leases and loans payable	<u>29,201,907</u>	<u>10,428,666</u>	<u>2,363,140</u>	<u>37,267,433</u>	<u>2,272,418</u>
Total long-term debt	<u>\$ 94,368,298</u>	<u>\$ 18,204,666</u>	<u>\$ 13,527,629</u>	<u>\$ 99,045,335</u>	<u>\$ 6,045,227</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

7. Fund balances

A summary of the nonspendable, restricted, committed, assigned and unassigned fund balances as of June 30, 2016 is as follows:

	Special Revenue Funds			Debt Service Fund	
	General Fund	Fire & Rescue Revolving	Emergency Support	Special Assessments	Capital Projects Fund
Nonspendable					
Inventory	\$ 1,253,760	\$ -	\$ -	\$ -	\$ -
Prepaid expenses	41,059				
Interfund advance (Wicomico)	888,041	-	-	-	-
Total nonspendable	2,182,860	-	-	-	-
Restricted					
Domestic Violence Programs	2,385	-	-	-	-
County matching funds for approved grants	281,288	-	-	-	-
Funding sources specified for capital projects					
Land preservation	-	-	-	-	1,451,941
Various capital projects - transfer tax	-	-	-	-	10,199,785
Roads- impact fees	-	-	-	-	155,486
Roads- mitigation	-	-	-	-	511,794
Parks- impact fees	-	-	-	-	848,254
Parks- mitigation	-	-	-	-	46,753
Schools-impact fees	-	-	-	-	2,371,380
Schools-mitigation	-	-	-	-	34,125
Capital asset purchases	1,461,058	-	-	-	-
Total restricted	1,744,731	-	-	-	15,619,518
Committed					
Bond rating reserve	13,330,021	-	-	-	-
CIP pay-go	(2,972,992)	-	-	-	9,532,486
Rainy day fund	1,625,000	-	-	-	-
Operating budget, non-recurring items	2,972,992	-	-	-	-
Other, net, including grants	-	171,824	644,261	261,488	(9,448,030)
Total committed	14,955,021	171,824	644,261	261,488	84,456
Assigned	1,207,947	-	-	-	-
Unassigned	21,526,626	-	-	-	-
Total fund balances	\$ 41,617,185	\$ 171,824	\$ 644,261	\$ 261,488	\$ 15,703,974

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

7. 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, 2016, 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 FY2016, but for which the period extends beyond June 30, 2016. 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

Bond Rainy Day Fund – established by the Commissioners for unanticipated events.

Fund balance appropriated as a part of the FY2017 budget for the transfer of pay-go funding to the FY2017 capital budget and other non-recurring.

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:

Encumbrances	\$ 481,380
Miscellaneous revolving fund	<u>726,567</u>
	<u>\$1,207,947</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

7. Fund balances (continued)

As a part of our FY2017 budget process, unassigned fund balance was not used.

When unassigned fund balance is used, it is for one-time, non-recurring expenses. We intend to apply the fund balance in ways that will reduce future annual operating costs for periods up to 20 years. For example, 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 returns can be achieved by applying fund balance to pay down the accrued liability for unfunded retiree health benefits.

In May 2016, as a part of the approval of the FY2017 budget, the Board approved not to use unassigned fund balance to increase reserves percent to revenue above 15% per fund balance policy.

UNASSIGNED (\$16,680,164)

Remains unassigned; to help avoid sudden disruption or elimination of services, by allowing time for a plan to be developed to address such changes, revenue shortfalls, or cost shifts. And, 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.

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, 2016

8. Retirement plans

PRIMARY GOVERNMENT

For the year ended June 30, 2016, the County recognized aggregated pension expense of \$11,717,855 for all three pension systems.

State retirement and pension system of Maryland

Plan description

All permanent, full-time employees of the County, (other than those covered by the Sheriff's Office Retirement Plan) are eligible to participate in the 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, calling (800) 492-5909 or www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2015.pdf. 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.

Eligible 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 to maintain all benefits, including unlimited cost-of-living adjustments; Plan B – member continued pre-1984 contribution rate 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.

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, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

Plan benefits (continued)

1. Members of the Employees' Pension Retirement System hired prior to July 1, 2011 (Alternate Contributory Pension Selection (ACPS))
 - Members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances:
 - a. age 62, & five years of eligibility service
 - b. age 63, & four years of eligibility service
 - c. age 64, & three years of eligibility service
 - d. age 65 or older, & two years of eligibility service
 - The annual pension allowance is equal to 1.2% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998 plus 1.8% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 1998. Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.
 - The cost of living adjustments for ACPS limits the increase the retiree may receive to a maximum of 3%, compounded annually. The adjustment is capped at 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.
2. Members of the Employees' Pension System hired on or after July 1, 2011 (Reformed Contributory Pension Benefit (RCPB))
 - 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 for the five highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 2011. Members are eligible for early service pension allowances upon attaining age 60 with at least 15 years of eligibility service.
 - The cost of living adjustments for RCPB is capped at 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 (currently 7.5%). The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate.

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.

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

Plan benefits (continued)

The System has adopted Governmental Accounting Standards Board (GASB) Statement No.67, *Financial Reporting for Pension Plans* and amendment of GASB Statement No. 27.

Actuarial assumptions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years for State system, 24 years for LEOPS Muni, and 31 years for CORS Muni as of June 30, 2015. For ECS Muni, 5 years remaining as of June 30, 2015 for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.70% general, 3.20% wage
Salary Increases	3.20% to 8.95% including inflation
Discount Rate	7.55%
Investment Rate of Return	7.55%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period 2006-2010
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience
Note	There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2015 valuation: Investment return assumption changed from 7.65% to 7.55% Inflation assumption changed from 2.90% to 2.70%

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

Investments

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	<u>1%</u>	0.00%
Total	<u>100%</u>	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2015.

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.

The unfunded actuarial liability (UAAL) was being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000, actuarial valuation was being amortized over a 40-year period (as provided by law) from July 1, 1980 and as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, was being amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the System. The unfunded liability for each System is being amortized over a single closed 25-year period. Employee contributions, which are applied to normal cost, for fiscal year 2015 totaled approximately \$755,444,000. The County's contribution to the System for the year ended June 30, 2016 was \$1,953,519.

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 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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

Discount rate

A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability

The following presents the plan's net pension liability, calculated using a single discount rate of 7.55%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher.

	(Expressed in thousands)		
	1% Decrease to 6.55%	Current Discount Rate 7.55%	1% Increase to 8.55%
Total System Net Pension Liability	\$29,371,763	\$20,781,713	\$13,658,848

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2016, Commissioners of St. Mary's County reported liability of \$21,747,150 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of that date. Commissioners of St. Mary's County's portion of the net pension liability was based on Commissioners of St. Mary's County's share of contributions to the pension plan relative to the contribution of all participating employers. At June 30, 2016, Commissioners of St. Mary's County proportion was .104646%.

For the year ended June 30, 2016, Commissioners of St. Mary's County recognized pension expense of \$2,679,244 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 1,088,617	\$ -
Net difference between projected and actual investment earnings	1,915,471	-
Difference between actual and expected experience	-	445,363
Contributions subsequent to measurement date	1,973,642	-
Total	\$ 4,977,730	\$ 445,363

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

Pension liabilities, pension expense and deferred outflows of resources and deferred Inflows of resources related to pensions (continued)

The \$1,973,642 reported as deferred outflows of resources related to pensions resulting from Commissioners of St. Mary's County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. The \$1,088,617 from the change in assumptions, and the \$445,363 from the difference between actual and expected experience, will be amortized over the service life of all employees, and the difference between projected and actual earnings of \$1,915,471 will be amortized over a five year period. The amortization is as follows:

<u>Year ending June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$751,022	\$111,341
2018	\$751,022	\$111,341
2019	\$751,022	\$111,341
2020	\$751,022	\$111,340
2021 and thereafter	-	-

Sheriff's office retirement plan

Plan description

The County administers the Sheriff's Office Retirement Plan which is a single employer defined benefit pension plan. The effective date of the plan is July 1, 1986, with amendments effective October 2000, September 2006, June 2007, July 2008 and January 2013. 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) hired after June 30, 1986 participated in the plan. Also, each Sheriff's Department covered employee who was 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.

The membership data related to the St. Mary's County Sheriff's Office Retirement Plan at July 1, 2014 was as follows:

Retirees and beneficiaries currently receiving benefits	81
Terminated plan members entitled to but not yet receiving benefits	31
Active plan members	<u>206</u>
 Total	 <u>318</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

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, reduced by 25% for benefit accrual purposes.
- 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.

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

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
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

Pre-retirement death benefit

Lump sum benefit

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

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 five 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
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement 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.

The Commissioners assign the authority to establish and amend the benefit provisions of the plan.

Net pension liability of the county

The components of the net pension liability of the Sheriff's plan at June 30, 2016, were as follows:

Total pension liability	\$ 110,347,172
Plan fiduciary net position	<u>(68,075,503)</u>
County's net pension liability	<u>\$ 42,271,669</u>
 Plan fiduciary net position as a percentage of the total pension liability	 61.69%

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2014 rolled forward to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Rates vary by participant service
Investment rate of return	7.25 percent, net of pension plan investment expense, including Inflation
Mortality	RP-2000 Combined Healthy tables with Blue Collar adjustment and generational projection by Scale AA

The above is a summary of key actuarial assumptions. Full descriptions of the actuarial assumptions are available in the July 1, 2014 actuarial valuation report.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

Sensitivity of the net pension liability to changes in the discount rate

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Sheriff's Plan net pension liability	\$59,003,811	\$42,271,669	\$28,704,353

Asset allocation

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

Asset Class	Allocation
Equity investments	51.5%
Fixed income	25%
Cash equivalents	7.9%
Alternatives (including real estate, hedge funds, multi-strategy & private equity)	15.6%
Total	100%

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2016, the Sheriff's office retirement plan reported a net pension liability of \$42,271,669. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2016.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

Pension liabilities, pension expense and deferred outflows of resources and deferred Inflows of resources related to pensions (continued)

For the year ended June 30, 2016, the Sheriff's office retirement plan recognized pension expense of \$8,178,264 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 2,460,896	\$ -
Net difference between projected and actual earnings on pension plan investments	8,607,797	-
Net difference between actual and expected experience	-	-
Contributions subsequent to measurement date	-	-
Total	<u>\$ 11,068,693</u>	<u>\$ -</u>

The \$2,460,896 from the change in assumptions will be amortized over the service life of all employees, and the \$8,607,797 from the difference between projected and actual earnings on pension plan investments will be amortized over a five year period as follows:

<u>Year ending June 30,</u>	
2017	\$2,908,955
2018	\$2,908,955
2019	\$2,908,956
2020	\$1,849,647
2021	\$ 492,180
2022 and thereafter	\$ -

Discount rate

The current discount rate on the Sheriff's Office plan is 7.25%.

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

Recommended contribution level

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.

The county is required to contribute at an actuarially determined rate, currently 37.8% of covered payroll. Contribution requirements of plan members and the county are established and may be amended by the Commissioners. The amount of the Sheriff's Department's current year covered payroll is \$14,700,662 and the Sheriff's Department's total payroll for all employees is \$18,111,224. The following employer contributions were made during the fiscal year ended June 30, 2016:

	<u>Contributions</u>	<u>% of Covered Payroll</u>
Actuarially determined	\$ 4,815,590	37.8%

Volunteer fire departments, rescue squads and advanced life support unit

Plan description

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Volunteer fire departments, rescue squads and advanced life support unit (continued)

Eligibility and benefits (continued)

- 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.

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).

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Volunteer fire departments, rescue squads and advanced life support unit (continued)

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.
- 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, 2016 was \$1,460,347.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

8. Retirement plans (continued)

COMPONENT UNITS

The component units are covered under the same State retirement plan as the County.

St. Mary's County Public Schools

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 \$5,726,545 or 4.73% of current covered payroll, and the State of Maryland made contributions on behalf of the School System totaling \$13,152,926 or 10.86% of current covered payroll for fiscal year 2016. 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.

At June 30, 2016, the School System reported a liability of \$12,514,609 or .06% of the total liability of \$20,781,712,000.

St. Mary's County Library

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2016, the Library's total payroll and payroll for covered employees were \$2,197,646 and \$1,806,916, respectively. No contributions were made by the Library for the year ended June 30, 2016.

For fiscal year 2016, the State contributed \$323,711 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement No. 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 17.91% of covered payroll.

St. Mary's Metropolitan Commission

Retirement and pension plan

MetCom's contribution to the System was \$419,241 for year ended June 30, 2016.

At June 30, 2016, MetCom reported a liability of \$4,394,022 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MetCom's proportion of the net pension liability was based on MetCom's share of contributions to the pension plan relative to the contribution of all participating employers. At June 30, 2016, MetCom's proportion was .02114%

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

9. Interfund balances

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2016:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>PRIMARY GOVERNMENT</u>		
<u>General fund</u>		
Fire & Rescue Revolving Loan Fund	\$ -	\$ 171,824
Emergency Services Support Fund	-	613,110
Debt Service Fund	262,039	-
Capital Projects Fund	-	16,203,496
Enterprise Fund	-	1,150,707
 <u>Special Revenue Funds</u>		
General Fund	784,934	-
 <u>Debt Service Fund</u>		
General Fund	-	262,039
 <u>Capital Projects Fund</u>		
General Fund	16,203,496	-
 <u>Enterprise Funds</u>		
General Fund	<u>1,150,707</u>	<u>-</u>
Total due from/to other funds	<u>\$ 18,401,176</u>	<u>\$ 18,401,176</u>
 <u>COMPONENT UNITS</u>		
St. Mary's County Building Authority Commission	<u>\$ 191,654</u>	<u>\$ -</u>
Primary Government-General Fund	<u>\$ 191,654</u>	<u>\$ 191,654</u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

10. 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.

Marcas, LLC vs Board of County Commissioners of St. Mary's County was settled in FY2016. The owner of land adjacent to landfill owned and operated by St. Mary's County was awarded \$7,000,000 in damages related to settlement of case involving land that had been contaminated by the migration of methane gas.

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, 2016 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.

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, 2016, 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 \$4,590,976.

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 is under a modified retrospective billing arrangement with a commercial insurance carrier to provide group health coverage. Under this arrangement, the insurance carrier assesses an initial charge paid by the School System through monthly premiums. At the end of the coverage period, there is a settlement of the difference between the billed premium and the actual claims and expenses. A deficiency in the billed premium represents the callable margin, which is owed by the School System, up to a maximum of 5%. If the actual claims and expenses are less than the billed premium, the School System would be entitled to a refund. For the year ended June 30, 2016, management does not anticipate a material deficiency or refund, and no such amount has been recorded.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

10. 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.

11. Other post-employment benefits

The reporting entity 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.

PRIMARY GOVERNMENT

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 (General Employees) and the St. Mary's County Sheriff's Department Retirement Plan (Sheriff Employees). 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>2016</u>	<u>2015</u>	<u>2014</u>
Retirees and their Beneficiaries Currently Receiving Benefits	418	391	380
Active Employees	<u>668</u>	<u>655</u>	<u>667</u>
Total	<u><u>1,086</u></u>	<u><u>1,046</u></u>	<u><u>1,047</u></u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

11. 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>2016</u>	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 5,021,000	\$ 6,097,000	\$ 5,925,000
Interest on Net OPEB	(1,360,000)	(1,255,000)	(1,194,000)
Adjustment to ARC	1,387,000	1,237,000	1,141,000
Annual OPEB Cost	<u>5,048,000</u>	<u>6,079,000</u>	<u>5,872,000</u>
Contributions Made to the Trust	-	4,797,918	4,459,954
Payments to Retirees	2,685,268	2,281,082	2,412,046
Net OPEB Obligation (Prepaid), Beginning of Year	<u>(22,658,485)</u>	<u>(21,658,485)</u>	<u>(20,658,485)</u>
Net OPEB Obligation (Prepaid), End of Year	<u>\$ (20,295,753)</u>	<u>\$ (22,658,485)</u>	<u>\$ (21,658,485)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 95,612,000	\$ 98,927,000	\$ 93,108,000
Actuarial Value of Plan Assets	<u>63,635,000</u>	<u>49,035,000</u>	<u>42,404,000</u>
Unfunded Actuarial Accrued Liability	<u>\$ 31,977,000</u>	<u>\$ 49,892,000</u>	<u>\$ 50,704,000</u>
Funded Ratio (Value of Plan Assets/AAL)	66.56%	49.57%	45.54%
Covered Payroll (Active Plan Members)	\$ 35,433,314	\$ 36,772,533	\$ 35,221,122
UAAL as a percentage of covered payroll	90.25%	135.68%	143.96%

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, 2015 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, 3.5% annual salary increases and an initial annual healthcare cost trend rate of 8.0%, decreasing gradually to an ultimate rate of 5.0%. The UAAL is being amortized as a level percentage of projected payroll over 30 years with 22 years remaining.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

11. Other post-employment benefits (continued)

COMPONENT UNITS

St. Mary's County Library

For the year ended June 30, 2016, the cost of post-employment benefits was \$44,768.

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>2016</u>	<u>2015</u>	<u>2014</u>
Retirees and Beneficiaries Currently Receiving Benefits	11	9	8
Active Employees	<u>21</u>	<u>20</u>	<u>17</u>
Total	<u>32</u>	<u>29</u>	<u>25</u>

Funding policy

During FY2008, 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 \$182,732 as of June 30, 2016

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

11. 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>2016</u>	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 94,000	\$ 112,000	\$ 108,000
Interest on Net OPEB	(14,000)	(8,000)	(8,000)
Adjustment to ARC	14,000	8,000	7,000
Annual OPEB Cost	<u>94,000</u>	<u>112,000</u>	<u>107,000</u>
Contributions Made	(44,768)	(91,361)	(123,444)
Net OPEB Obligation, Beginning of Year	<u>(231,964)</u>	<u>(252,603)</u>	<u>(236,159)</u>
Net OPEB Obligation, End of Year	<u>\$ (182,732)</u>	<u>\$ (231,964)</u>	<u>\$ (252,603)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,540,000	\$ 1,712,000	\$ 1,620,000
Actuarial Value of Plan Assets	<u>800,000</u>	<u>646,000</u>	<u>558,000</u>
Unfunded Actuarial Accrued Liability	<u>\$ 740,000</u>	<u>\$ 1,066,000</u>	<u>\$ 1,062,000</u>
Funded Ratio (Value of Plan Assets/AAL)	51.95%	37.73%	34.44%
Covered Payroll (Active Plan Members)	\$ 1,806,916	\$ 1,951,389	\$ 1,875,641
UAAL as a percentage of covered payroll	40.95%	54.63%	56.62%

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, 2015 actuarial valuation, the liabilities were computed using the projected unit credit method, with linear proration to assumed benefit commencement. The actuarial assumptions included a 6% annual rate of return and 3.5% annual payroll increase. The initial annual healthcare cost trend rate was 8%, decreasing gradually each year to a rate of 4.20% in 2099. The UAAL is being amortized as a level percentage of projected payroll over closed 22 year period for the year ended June 30, 2016.

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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Library (continued)

Actuarial methods and assumptions (continued)

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits. The actuarial value of assets was based on the estimated July 1, 2015 asset figure of \$800,000.

St. Mary's Metropolitan commission

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>2016</u>	<u>2015</u>	<u>2014</u>
Retirees and their Beneficiaries Currently Receiving Benefits	10	10	10
Active Employees	<u>71</u>	<u>67</u>	<u>66</u>
Total	<u><u>81</u></u>	<u><u>77</u></u>	<u><u>76</u></u>

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's 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 FY 2016 Operating Budget included fully funding the OPEB cost. MetCom contributed \$507,000 to the trust in FY 2016. The net OPEB obligation is overpaid by \$300,388 as of June 30, 2016.

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>2016</u>	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 508,000	\$ 574,000	\$ 552,000
Interest on Net OPEB	(21,000)	(20,000)	(20,000)
Adjustment to ARC	<u>20,000</u>	<u>19,000</u>	<u>18,000</u>
Annual OPEB Cost	507,000	573,000	550,000
Contributions Made	507,000	573,000	550,000
Net OPEB Obligation, Beginning of Year	<u>(300,388)</u>	<u>(300,388)</u>	<u>(300,388)</u>
Net OPEB Obligation, End of Year	<u>\$ (300,388)</u>	<u>\$ (300,388)</u>	<u>\$ (300,388)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 6,763,000	\$ 7,238,000	\$ 6,595,000
Actuarial Value of Plan Assets	<u>3,908,000</u>	<u>3,575,000</u>	<u>2,957,000</u>
Unfunded Actuarial Accrued Liability	<u>\$ 2,855,000</u>	<u>\$ 3,663,000</u>	<u>\$ 3,638,000</u>
Funded Ratio (Value of Plan Assets/AAL)	57.79%	49.39%	44.84%
Covered Payroll (Active Plan Members)	\$ 5,195,578	\$ 4,911,310	\$ 4,320,628
UAAL as a percentage of covered payroll	54.95%	74.58%	84.20%

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's 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 November 13, 2014 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 6.5% and 4.2% 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 21 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 (MLGIP) and the Maryland Association of Counties (MACo) Pooled Other Post Employment Benefits (OPEB) Trust. 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.

St. Mary's County Public Schools

Post-employment healthcare and life insurance plan

Plan description

In addition to providing the pension benefits described previously, the School System provides post-employment health care and life insurance benefits (OPEB Plan) 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 10 or more years. These negotiated agreements provide that the School System will contribute from 45% to 65% 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% of life insurance premiums based upon 50% 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 (Benefit Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Benefit Trust established a trust account with, and became a member of, the Maryland Association of Boards of Education Pooled OPEB Investment Trust (MABE Trust). The School System reserves the right to establish and amend the provisions of its relationship with the MABE Trust with respect to participants, any benefit provided there under, 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.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Post-employment healthcare and life insurance plan (continued)

Plan description (continued)

The MABE Trust was established to pool assets of its 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 21401-1112, or calling 410-841-5414.

Number of participants

Membership of the OPEB Plan currently enrolled in medical /drug coverage consisted of the following at July 1, 2014, the date of the latest actuarial valuation:

Active employees	1,573
Retirees – pre-medicare*	270
Retirees – post-medicare*	<u>474</u>
	<u>2,317</u>

*Does not include 193 participants who are not enrolled in medical/drug coverage but have life insurance coverage.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

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 30 years. The current ARC rate is 13.62% of annual covered payroll. The ARC consisted of the normal cost of \$7,743,000 and the amortization of unfunded accrued liability of \$8,760,000. The School System contributed \$6,108,261 for the year ended June 30, 2016, entirely consisting of contributions towards current healthcare and life insurance premiums accounted for in the general fund with no additional contributions in the current year 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, 2014, 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, 2016. The annual OPEB cost (expense) for the year ended June 30, 2016, was \$16,413,000, which was comprised of the ARC of \$16,503,000 discussed above, less 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:

<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>
2014	\$ 12,515,000	62.48%	\$ 35,641,970
2015	\$ 13,550,000	60.48%	\$ 40,997,310
2016	\$ 16,413,000	37.22%	\$ 51,302,049

Funded status and funding progress

The funded status of the plan was as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial Accrued Liability (AAL)	\$ 199,826,000	\$ 188,006,000	\$ 146,045,000
Actuarial Value of Plan Assets	<u>39,645,000</u>	<u>34,714,382</u>	<u>25,002,000</u>
Unfunded Actuarial Accrued Liability	<u>\$ 160,181,000</u>	<u>\$ 153,291,618</u>	<u>\$ 121,043,000</u>
Funded Ratio (Value of Plan Assets/AAL)	19.84%	18.46%	17.12%
Covered Payroll (Active Plan Members)	\$ 121,123,057	\$ 115,255,917	\$ 118,651,284
UAAL as a percentage of covered payroll	132.25%	133.00%	102.02%

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Funded status and funding progress (continued)

As of July 1, 2015, the plan was 19.84% funded. The actuarially accrued liability for benefits was \$199,826,000, and the actuarial value of assets was \$39,645,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$160,181,000. The covered payroll (annual payroll of active employees covered by the plan) was \$121,123,057, and the ratio of UAAL to the covered payroll was 132.25%. 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. 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 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.

In the July 1, 2014 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 5.25% per year compounded annually, (b) projected salary increases of 3.50% 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 4.00%, (e) rates of mortality based upon RP 2000 Combined Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.00% to 18.00%, (g) disablement rates based on age, ranging from 0.03% to 0.49%, (h) retirement rates based on age, sex, and length of service, ranging from 2.00% to 45.00%, and (i) medical claims including prescription drugs are based on actual experience during the period from July 1, 2012 through June 30, 2014, and were projected with annual increases of 8.00% for medical claims and 8.00% 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 23 years for the year ended June 30, 2016.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

12. 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 Commissioners of 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 \$4,230,000 reported as landfill closure and postclosure care liability at June 30, 2016, 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.

13. 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 2016 the County paid premiums of \$519,016 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.

14. Self-insurance (Worker's Compensation)

The County self-insures its worker's compensation costs and liabilities. The County establishes funding of claim 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, 2016. The unpaid claims also include liabilities for incurred but not reported (IBNR) claims as of June 30, 2016.

Commissioners of St. Mary's County
Notes to Financial Statements
June 30, 2016

15. Change in accounting principles/correction of an error

The County adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*, during fiscal year ending June 30, 2015. Although the County determined the Sheriff's Office Retirement Plan net pension liability of \$35,030,602, this amount was inadvertently excluded from the Statement of Net Position as required. The County restated beginning Net Position at July 1, 2015 by (\$35,030,602) for the net pension liability as of June 30, 2015.

The County adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year ended June 30, 2016. This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.

16. Subsequent events

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through November 17, 2016, the date the financial statements were available to be issued.

On August 9, 2016, the County issued \$25,000,000 in consolidated Public Improvement Bonds to finance various capital projects.

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, 2016

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
REVENUES				
Property taxes	\$ 105,081,992	\$ 105,081,992	\$ 105,273,048	\$ 191,056
Income taxes	86,700,000	86,700,000	85,525,116	(1,174,884)
Energy taxes	1,300,000	1,300,000	939,672	(360,328)
Recordation taxes	5,300,000	5,300,000	5,463,166	163,166
Other Local taxes	1,100,000	1,100,000	1,389,142	289,142
Highway user revenues	783,038	783,038	901,966	118,928
Licenses and permits	1,559,550	1,559,550	1,574,154	14,604
State/federal grants	10,314,745	10,729,792	9,859,122	(870,670)
Charges for services	2,707,308	2,723,933	2,658,430	(65,503)
Fines and forfeitures	44,500	44,500	31,929	(12,571)
Investment and other revenues	86,411	90,264	188,672	98,408
Sub-total	<u>214,977,544</u>	<u>215,413,069</u>	<u>213,804,417</u>	<u>(1,608,652)</u>
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND REVENUES	<u>214,977,544</u>	<u>215,413,069</u>	<u>213,804,417</u>	<u>(1,608,652)</u>
EXPENDITURES				
General government	23,876,053	23,872,135	22,041,066	1,831,069
Public safety	42,788,779	43,705,440	41,085,507	2,619,933
Public works	9,643,843	9,773,303	8,405,478	1,367,825
Health	7,159,579	7,482,629	7,383,969	98,660
Social services	4,253,439	4,121,614	4,133,352	(11,738)
Primary and secondary education	100,202,216	100,202,216	99,922,025	280,191
Post-secondary education	4,257,845	4,257,845	4,257,845	-
Parks, recreation and culture	3,973,804	3,898,581	3,743,517	155,064
Libraries	2,588,064	2,588,064	2,588,064	-
Conservation of natural resources	508,400	477,768	463,704	14,064
Economic development and opportunity	1,672,447	1,986,018	1,877,281	108,737
Debt service	13,006,486	9,393,428	9,349,279	44,149
Inter-governmental	42,973	42,973	42,973	-
Other	2,885,000	2,885,000	2,657,398	227,602
Sub-total	<u>216,858,928</u>	<u>214,687,014</u>	<u>207,951,458</u>	<u>6,735,556</u>
Pass-throughs	-	-	-	-
TOTAL GENERAL FUND EXPENDITURES	<u>216,858,928</u>	<u>214,687,014</u>	<u>207,951,458</u>	<u>6,735,556</u>
OTHER FINANCING SOURCES AND USES				
Fund balance	11,872,005	12,589,004	11,872,005	(716,999)
Reserves - grants (expenditures)	(500,000)	(64,475)	-	64,475
Reserves - grants (revenues)	500,000	64,475	-	(64,475)
Reserves - OPEB	-	-	-	-
Reserves - emergency appropriations	(500,000)	(124,438)	-	124,438
Reserves - bond rating	(400,000)	(400,000)	(401,368)	(1,368)
General fund transfer/pay-go - capital projects	(9,090,621)	(5,790,621)	(5,790,621)	-
Solid waste/recycling - general fund transfer	-	-	-	-
Legal settlement	-	(7,000,000)	(7,000,000)	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>1,881,384</u>	<u>(726,055)</u>	<u>(1,319,984)</u>	<u>(593,929)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,532,975</u>	<u>\$ 4,532,975</u>

See Independent Auditor's Report.

COMMISSIONERS OF ST. MARY'S COUNTY
NOTES TO THE 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, 2016

A reconciliation of the revenues and expenditures of the general fund

	<u>Net Change in Fund Balance</u>	<u>End of Year Fund Balance</u>
Budgetary basis – general fund	\$ 4,532,975	\$ 40,575,967
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	(440,905)	(239,689)
Beginning of year encumbrances, rolled into FY2016	(918,523)	-
Appropriation from prior year rolled to FY2016 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2016	918,523	918,523
Budgeted use of fund balance	(11,872,005)	-
Increase in bond rating reserve	401,368	-
Restricted cash & investments:		
FY2016	1,461,058	1,461,058
FY2015	(1,580,054)	(1,580,054)
End of year encumbrances included in budget basis expenditures, not included for GAAP	<u>481,380</u>	<u>481,380</u>
GAAP basis	<u>\$ (7,016,183)</u>	<u>\$ 41,617,185</u>

COMMISSIONERS OF ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 RETIREMENT PLANS
 FOR THE YEAR ENDED JUNE 30, 2016

Maryland State Retirement and Pension Plan

Schedule of net pension liability and related ratios

Date	Proportion of Collective NPL (a)	Proportionate Share of Collective NPL (b)	Covered Payroll (c)	NPL as a Percentage of Covered Payroll (b/c)	Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Collective)
06/30/15	0.0937813%	\$ 16,643,117	\$ 20,945,112	79.46%	71.87%
06/30/16	0.1046456%	\$ 21,747,150	\$ 22,117,812	98.32%	68.78%

Schedule of contributions and related ratios

Date	Actuarially Determined Contribution (a)	Actual Contribution (b)	Contribution Deficiency (Excess) (c)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
06/30/15	\$ 2,185,443	\$ 2,169,353	\$ 16,090	\$ 20,945,112	10.36%
06/30/16	\$ 2,205,647	\$ 2,187,861	\$ 17,786	\$ 22,117,812	9.89%

The County implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. Information for prior years is not available.

COMMISSIONERS OF ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 RETIREMENT PLANS
 FOR THE YEAR ENDED JUNE 30, 2016

Maryland State Retirement and Pension Plan (continued)

Changes in benefit terms

There were no benefit changes during the year.

Changes in assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2015 valuation:

- Investment return assumption changed from 7.65% to 7.55%
- Inflation assumption changed from 2.90% to 2.70%

Method and assumptions used in calculations of actuarially determined contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years for State system, 24 years for LEOPS Muni, and 31 years for CORS Muni as of June 30, 2015. For ECS Muni, 5 years remaining as of June 30, 2015 for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.70% general, 3.20% wage
Salary Increases	3.20% to 8.95% including inflation
Rate of Return	7.55%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

COMMISSIONERS OF ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 RETIREMENT PLANS
 FOR THE YEAR ENDED JUNE 30, 2016

Sheriff's Office Retirement Plan

Changes in the county's net pension liability and related ratios
 Last 10 fiscal years (dollar amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 3,826	\$ 3,687	\$ 3,475
Interest	7,317	6,564	6,286
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	3,445	-
Benefit payments, including refunds of member contributions	<u>(3,436)</u>	<u>(3,193)</u>	<u>(2,862)</u>
Net change in total pension liability	7,707	10,503	6,899
Total pension liability – beginning	<u>102,640</u>	<u>92,137</u>	<u>85,238</u>
Total pension liability – ending (a)	<u>\$ 110,347</u>	<u>\$ 102,640</u>	<u>\$ 92,137</u>
Plan fiduciary net position			
Contributions – employer	\$ 4,816	\$ 5,197	\$ 5,605
Contributions – member	1,011	945	1,082
Net investment income	(1,803)	(465)	8,480
Benefit payments, including refunds of member contributions	(3,436)	(3,193)	(2,862)
Administrative expense	(122)	(79)	(78)
Other	-	-	-
Net change in plan fiduciary net position	466	2,405	12,227
Plan fiduciary net position – beginning	<u>67,609</u>	<u>65,204</u>	<u>52,977</u>
Plan fiduciary net position – ending (b)	<u>\$ 68,075</u>	<u>\$ 67,609</u>	<u>\$ 65,204</u>
County's Net Pension Liability – ending (a) – (b)	<u>\$ 42,272</u>	<u>\$ 35,031</u>	<u>\$ 26,933</u>
Plan fiduciary net position as a percentage of the total pension liability	61.69%	65.87%	70.77%
Covered employee payroll	12,740	12,774	13,537
County's net pension liability as a percentage of covered employee payroll	331.81%	274.24%	198.96%
Expected average remaining service years of all participants	7	7	8

Notes to Schedule:

Information for FY2013 and earlier is not available.

Benefit changes: None.

Changes of assumptions: For FY2015, the expected rate of return on plan investments was reduced from 7.50% to 7.25% net of investment related expenses.

COMMISSIONERS OF ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 RETIREMENT PLANS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2016

Sheriff's Office Retirement Plan (continued)

Schedule of county contributions
 Last 10 fiscal years (Dollar amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 4,816	\$ 5,197	\$ 5,144
Contributions in relation to the actuarially determined contribution	<u>4,816</u>	<u>5,197</u>	<u>5,605</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>(461)</u>
Covered employee payroll	<u>\$ 12,740</u>	<u>\$ 12,774</u>	<u>\$ 13,537</u>
Contributions as a percentage of covered employee payroll	37.80%	40.68%	41.41%
Notes to schedule			

Valuation date: Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the two years immediately following the fiscal year. Actuarial valuations are performed every other year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll over all years of service
Remaining amortization period	22 years (closed)
Asset valuation method	5-year smoothed market
Inflation	3.0 percent compounded annually
Salary increases	Rates vary by participant service
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation
Retirement age	Rates vary by participant age and service
Mortality	RP-2000 Combined Healthy tables with Blue Collar adjustment with generational projection by Scale AA

COMMISSIONERS OF ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 RETIREE BENEFIT TRUST
 FOR THE YEAR ENDED JUNE 30, 2016

Schedules of employer contributions and funding progress for the retiree benefit trust are presented below:

Primary government

Schedule of employer contributions

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Employer Contributions</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
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)
06/30/15	6,079,000	7,079,000	116%	(22,658,485)
06/30/16	5,048,000	2,685,268	53%	(20,295,753)

Schedule of funding progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
06/30/08	\$ 10,000,000	\$ 60,135,000	\$ 50,135,000	16.6%	\$ 34,115,335	147.0%
06/30/09	13,458,000	64,561,000	51,103,000	20.8%	35,716,358	143.1%
06/30/10	24,400,000	73,285,000	48,885,000	33.3%	35,562,940	137.5%
06/30/11	28,799,000	78,251,000	49,452,000	36.8%	35,556,564	139.1%
06/30/12	31,418,000	79,275,000	47,857,000	39.6%	35,208,044	135.9%
06/30/13	36,614,000	84,788,000	48,174,000	43.2%	35,221,122	136.8%
06/30/14	42,404,000	93,108,000	50,704,000	45.5%	36,772,533	137.9%
06/30/15	49,035,000	98,927,000	49,892,000	49.6%	37,522,510	133.0%
06/30/16	63,635,000	95,612,000	31,977,000	66.6%	35,433,314	90.2%

OTHER SUPPLEMENTARY INFORMATION

COMMISSIONERS OF ST. MARY'S COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2016

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
ASSETS				
Due from other funds	\$ 262,039	\$ 171,824	\$ 613,110	\$ 1,046,973
Special tax assessments receivable, current portion	1,228	-	-	1,228
Notes receivable, fire and rescue loans, current portion	-	434,468	-	434,468
Emergency support services taxes receivable	-	-	52,189	52,189
Notes receivable, fire and rescue loans (net of current portion)	-	2,636,521	-	2,636,521
Special tax assessments receivable (net of current portion)	<u>414,202</u>	<u>-</u>	<u>-</u>	<u>414,202</u>
Total assets	<u>\$ 677,469</u>	<u>\$ 3,242,813</u>	<u>\$ 665,299</u>	<u>\$ 4,585,581</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 11,016	\$ 11,016
Unearned revenue	415,981	3,070,989	-	3,486,970
Compensation - related liabilities	-	-	10,022	10,022
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>415,981</u>	<u>3,070,989</u>	<u>21,038</u>	<u>3,508,008</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Committed	261,488	171,824	644,261	1,077,573
Assigned	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>261,488</u>	<u>171,824</u>	<u>644,261</u>	<u>1,077,573</u>
Total liabilities and fund balances	<u>\$ 677,469</u>	<u>\$ 3,242,813</u>	<u>\$ 665,299</u>	<u>\$ 4,585,581</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, 2016

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
REVENUES				
Fire and rescue loan repayments	\$ -	\$ 447,265	\$ -	\$ 447,265
Special assessments	183,400	-	-	183,400
Emergency services support tax	-	-	1,990,584	1,990,584
Other	-	-	268,000	268,000
	<u>183,400</u>	<u>447,265</u>	<u>2,258,584</u>	<u>2,889,249</u>
EXPENDITURES				
Debt service:				
Loans to fire and rescue	-	1,400,000	-	1,400,000
Debt service	48,950	-	117,646	166,596
Public safety:				
LOSAP, pension and OPEB	-	-	1,490,607	1,490,607
Fire & rescue operating allocations	-	-	609,956	609,956
Advanced life support	-	-	403,275	403,275
Emergency services committee	-	-	162,042	162,042
Emergency management	-	-	77,371	77,371
	<u>48,950</u>	<u>1,400,000</u>	<u>2,860,897</u>	<u>4,309,847</u>
Excess of Revenues Over (Under) Expenditures	134,450	(952,735)	(602,313)	(1,420,598)
Other Financing Sources and Uses	-	300,000	-	300,000
Net increase/(decrease) in fund balances	<u>134,450</u>	<u>(652,735)</u>	<u>(602,313)</u>	<u>(1,120,598)</u>
FUND BALANCES				
Beginning of year	127,038	824,559	1,246,574	2,198,171
End of year	<u>\$ 261,488</u>	<u>\$ 171,824</u>	<u>\$ 644,261</u>	<u>\$ 1,077,573</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, 2016

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		Variance
PROPERTY TAXES:				
Real property taxes	\$ 100,193,705	\$ 100,193,705	\$ 100,068,279	\$ (125,426)
Payments in lieu of taxes	338,091	338,091	464,406	126,315
Personal property	182,530	182,530	56,252	(126,278)
Public utilities	2,669,083	2,669,083	2,300,566	(368,517)
Ordinary business corporations	3,468,083	3,468,083	3,134,834	(333,249)
Additions and abatement	(1,000,000)	(1,000,000)	(199,585)	800,415
Penalties and interest	800,000	800,000	954,660	154,660
State homeowners credit (circuit breaker)	800,000	800,000	855,051	55,051
Homeowners tax credit (county)	(800,000)	(800,000)	(855,051)	(55,051)
Other tax credits	(1,569,500)	(1,569,500)	(1,506,364)	63,136
	<u>105,081,992</u>	<u>105,081,992</u>	<u>105,273,048</u>	<u>191,056</u>
Income Tax				
Local income tax	<u>86,700,000</u>	<u>86,700,000</u>	<u>85,525,116</u>	<u>(1,174,884)</u>
Other Local Taxes				
Recordation taxes	5,300,000	5,300,000	5,463,166	163,166
Energy taxes	1,300,000	1,300,000	939,672	(360,328)
Public accommodations tax	725,000	725,000	958,383	233,383
Trailer park tax	290,000	290,000	301,388	11,388
Admissions and amusement	85,000	85,000	129,371	44,371
	<u>7,700,000</u>	<u>7,700,000</u>	<u>7,791,980</u>	<u>91,980</u>
State-shared taxes - highway users	<u>783,038</u>	<u>783,038</u>	<u>901,966</u>	<u>118,928</u>
	<u>200,265,030</u>	<u>200,265,030</u>	<u>199,492,110</u>	<u>(772,920)</u>
TOTAL TAXES				
LICENSES AND PERMITS:				
Business	252,550	252,550	279,937	27,387
Marriage/animal licenses	12,000	12,000	9,423	(2,577)
Other	320,000	320,000	254,495	(65,505)
CATV franchise fees	975,000	975,000	1,030,299	55,299
	<u>1,559,550</u>	<u>1,559,550</u>	<u>1,574,154</u>	<u>14,604</u>
TOTAL LICENSES AND PERMITS				
INTER-GOVERNMENTAL:				
General government	799,965	827,162	737,626	(89,536)
Public safety	1,614,982	1,762,885	1,666,066	(96,819)
Public works	1,755,696	1,741,493	1,145,642	(595,851)
Social services	1,003,353	825,639	867,415	41,776
Health	5,006,749	5,226,961	5,151,544	(75,417)
Parks, recreation and culture	94,000	92,285	23,639	(68,646)
Economic development & opportunity	40,000	253,367	267,190	13,823
	<u>10,314,745</u>	<u>10,729,792</u>	<u>9,859,122</u>	<u>(870,670)</u>
TOTAL INTER-GOVERNMENTAL				

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, 2016
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
CHARGES FOR SERVICES:				
General government	\$ 614,936	\$ 619,736	\$ 622,787	\$ 3,051
Public safety	1,324,509	1,324,509	1,377,037	52,528
Public works	454,850	466,675	452,480	(14,195)
Social services	103,146	103,146	119,953	16,807
Parks, recreation and culture	149,867	149,867	43,186	(106,681)
Reimbursement - housing authority	<u>60,000</u>	<u>60,000</u>	<u>42,987</u>	<u>(17,013)</u>
TOTAL CHARGES FOR SERVICES	<u>2,707,308</u>	<u>2,723,933</u>	<u>2,658,430</u>	<u>(65,503)</u>
FINES AND FORFEITURES:				
General government	40,500	40,500	28,533	(11,967)
Public safety	<u>4,000</u>	<u>4,000</u>	<u>3,396</u>	<u>(604)</u>
TOTAL FINES AND FORFEITURES	<u>44,500</u>	<u>44,500</u>	<u>31,929</u>	<u>(12,571)</u>
OTHER REVENUES				
General Government				
Interest	25,211	25,211	89,582	64,371
Grant reserve	500,000	64,475	-	(64,475)
Contributions and donations	<u>61,200</u>	<u>65,053</u>	<u>99,090</u>	<u>34,037</u>
TOTAL OTHER REVENUES	<u>586,411</u>	<u>154,739</u>	<u>188,672</u>	<u>33,933</u>
TOTAL, BEFORE PASS-THROUGH PROCEEDS	<u>215,477,544</u>	<u>215,477,544</u>	<u>213,804,417</u>	<u>(1,673,127)</u>
Pass-through proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES				
Appropriation of fund balance	<u>11,872,005</u>	<u>12,589,004</u>	<u>11,872,005</u>	<u>(716,999)</u>
TOTAL REVENUES INCLUDING PASS-THROUGHS	<u>\$ 227,349,549</u>	<u>\$ 228,066,548</u>	<u>\$ 225,676,422</u>	<u>\$ (2,390,126)</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, 2016

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
GENERAL GOVERNMENT:				
Legislative/county commissioners:				
Legislative/county commissioners	\$ 472,409	\$ 478,265	\$ 461,526	\$ 16,739
County administrator	398,717	389,253	378,960	10,293
Public information	240,002	237,558	228,020	9,538
County attorney	644,755	656,923	630,686	26,237
Legislative/county commissioners	<u>1,755,883</u>	<u>1,761,999</u>	<u>1,699,192</u>	<u>62,807</u>
Department of finance:				
Administration/budget	725,929	679,693	645,056	34,637
Accounting	575,017	555,889	550,880	5,009
Auditing	45,290	45,290	41,078	4,212
Procurement	300,846	277,170	273,267	3,903
Department of finance	<u>1,647,082</u>	<u>1,558,042</u>	<u>1,510,281</u>	<u>47,761</u>
Department of emergency services & technology:				
Technology	<u>3,002,666</u>	<u>3,061,312</u>	<u>2,967,840</u>	<u>93,472</u>
Department of human resources:				
Human resources	858,143	849,550	770,391	79,159
Risk management	808,009	816,565	569,668	246,897
Grants	-	1,800	-	1,800
Department of human resources	<u>1,666,152</u>	<u>1,667,915</u>	<u>1,340,059</u>	<u>327,856</u>
Department of public works & transportation:				
Building services	4,034,836	4,053,741	3,341,013	712,728
Grants (STS)	-	27,299	104,763	(77,464)
Development review	224,992	226,332	224,056	2,276
Mailroom/messenger services	138,796	139,541	138,444	1,097
Vehicle maintenance shop	1,543,734	1,596,663	1,606,082	(9,419)
Department of public works & transportation	<u>5,942,358</u>	<u>6,043,576</u>	<u>5,414,358</u>	<u>629,218</u>
Department of land use & growth management:				
Administration	761,698	711,248	657,084	54,164
Board of electrical examiners	14,300	14,300	13,994	306
Comprehensive planning	828,046	771,949	689,742	82,207
Development services	433,971	356,535	344,117	12,418
Inspections & compliance	640,515	617,263	574,931	42,332
Permit services	342,782	342,477	332,091	10,386
Zoning administration	310,458	302,114	285,793	16,321
Building code appeals board	2,900	2,900	-	2,900
Commission on the environment	2,825	2,825	25	2,800
Plumbing & gas board	2,350	2,350	-	2,350
Planning commission	23,308	23,403	21,875	1,528
Boards and commissions	21,692	19,186	16,795	2,391
Historical preservation	3,570	3,570	990	2,580
Grants	34,700	1,500	1,500	-
Department of land use & growth management	<u>3,423,115</u>	<u>3,171,620</u>	<u>2,938,937</u>	<u>232,683</u>
Circuit court:				
Administration	965,429	965,361	914,654	50,707
Law library	64,666	64,666	62,696	1,970
Grants	494,464	541,229	431,505	109,724
Orphan's court	44,684	46,009	48,488	(2,479)
Circuit court	<u>1,569,243</u>	<u>1,617,265</u>	<u>1,457,343</u>	<u>159,922</u>
Office of the state's attorney:				
Judicial	2,581,534	2,670,534	2,619,714	50,820
Grants	623,250	636,032	608,851	27,181
Office of the state's attorney	<u>3,204,784</u>	<u>3,306,566</u>	<u>3,228,565</u>	<u>78,001</u>
County treasurer	<u>419,911</u>	<u>438,131</u>	<u>430,464</u>	<u>7,667</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, 2016
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
Alcohol beverage board	\$ 259,848	\$ 260,698	\$ 245,543	\$ 15,155
Supervisors of elections	984,178	984,178	807,834	176,344
Ethics commission	833	833	650	183
Total general government	\$ 23,876,053	\$ 23,872,135	\$ 22,041,066	\$ 1,831,069
PUBLIC SAFETY:				
Department of emergency services & technology:				
Emergency management	\$ 349,166	\$ 353,623	\$ 287,736	\$ 65,887
Animal control	736,132	746,452	679,983	66,469
Emergency activation	-	904,771	905,056	(285)
Emergency communications center	2,907,862	2,792,179	2,616,182	175,997
Emergency radio communications	2,033,578	2,379,013	2,363,688	15,325
Grants	738,838	682,085	676,500	5,585
Department of emergency services & technology	6,765,576	7,858,123	7,529,145	328,978
Office of the sheriff:				
Law enforcement	22,607,149	22,587,229	21,293,006	1,294,223
Corrections	12,036,727	11,632,530	10,790,465	842,065
Training	379,849	379,849	305,993	73,856
Canine	33,400	46,000	41,163	4,837
Court security	746,078	780,803	774,404	6,399
Grants	220,000	420,906	351,331	69,575
Office of the sheriff	36,023,203	35,847,317	33,556,362	2,290,955
Total public safety	\$ 42,788,779	\$ 43,705,440	\$ 41,085,507	\$ 2,619,933
PUBLIC WORKS:				
Department of PW and transportation:				
Administration	\$ 426,791	\$ 441,984	\$ 434,794	\$ 7,190
Engineering services	763,255	768,205	765,007	3,198
Construction & inspections	549,831	571,149	560,018	11,131
County highways	4,385,023	4,505,627	4,365,067	140,560
Solid waste/recycling subsidy	-	-	-	-
St Mary's county airport	41,470	41,470	18,202	23,268
St. Mary's transit system	3,477,473	3,444,868	2,262,390	1,182,478
Department of PW and transportation	9,643,843	9,773,303	8,405,478	1,367,825
Total public works	\$ 9,643,843	\$ 9,773,303	\$ 8,405,478	\$ 1,367,825
HEALTH:				
Operating allocation:				
Health department	\$ 2,052,586	\$ 2,052,586	\$ 2,052,586	\$ -
Mosquito control	16,241	16,781	16,774	7
Operating allocation	2,068,827	2,069,367	2,069,360	7
Human services:				
Human services	386,721	386,721	359,132	27,589
Grants	4,704,031	5,026,541	4,955,477	71,064
Human services	5,090,752	5,413,262	5,314,609	98,653
Total health	\$ 7,159,579	\$ 7,482,629	\$ 7,383,969	\$ 98,660

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, 2016
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
SOCIAL SERVICES:				
Department on aging:				
Department on aging	\$ 1,686,019	\$ 1,656,503	\$ 1,641,105	\$ 15,398
Grants	1,110,434	1,007,387	1,039,222	(31,835)
Department on aging	<u>2,796,453</u>	<u>2,663,890</u>	<u>2,680,327</u>	<u>(16,437)</u>
Department of social services	<u>447,631</u>	<u>448,369</u>	<u>443,670</u>	<u>4,699</u>
Operating allocation:				
Hospice of St. Mary's	-	-	-	-
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	340,447	340,447	340,447	-
Operating allocation	<u>1,009,355</u>	<u>1,009,355</u>	<u>1,009,355</u>	<u>-</u>
Total social services	<u>\$ 4,253,439</u>	<u>\$ 4,121,614</u>	<u>\$ 4,133,352</u>	<u>\$ (11,738)</u>
PRIMARY AND SECONDARY EDUCATION:				
Board of Education	\$ 98,015,001	\$ 98,015,001	\$ 98,015,001	\$ -
Non-public school bus transportation	2,177,215	2,177,215	1,897,024	280,191
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>\$ 100,202,216</u>	<u>\$ 100,202,216</u>	<u>\$ 99,922,025</u>	<u>\$ 280,191</u>
POST-SECONDARY EDUCATION:				
College of Southern Maryland - general operations	\$ 4,197,845	\$ 4,197,845	\$ 4,197,845	\$ -
Operating allocation:				
St. Mary's College Scholarship Fund	20,000	20,000	20,000	-
Southern Md. Higher Education Center	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total post-secondary education	<u>\$ 4,257,845</u>	<u>\$ 4,257,845</u>	<u>\$ 4,257,845</u>	<u>\$ -</u>
PARKS, RECREATION AND CULTURE:				
Department of recreation and parks:				
Administration	\$ 1,182,924	\$ 1,173,207	\$ 1,154,010	\$ 19,197
Parks maintenance	2,022,877	1,994,983	1,951,742	43,241
Museum division	581,003	545,106	524,178	20,928
Grants	<u>100,000</u>	<u>98,285</u>	<u>26,587</u>	<u>71,698</u>
Department of recreation and parks	<u>3,886,804</u>	<u>3,811,581</u>	<u>3,656,517</u>	<u>155,064</u>
Operating Allocation:				
St. Mary's County Historical Society	10,000	10,000	10,000	-
Patuxent River Naval Air Museum	-	-	-	-
Rotary Club of St. Mary's	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>87,000</u>	<u>87,000</u>	<u>87,000</u>	<u>-</u>
Total parks, recreation and culture	<u>\$ 3,973,804</u>	<u>\$ 3,898,581</u>	<u>\$ 3,743,517</u>	<u>\$ 155,064</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, 2016
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
LIBRARIES:				
County funding - general operations	\$ 2,588,064	\$ 2,588,064	\$ 2,588,064	\$ -
CONSERVATION OF NATURAL RESOURCES:				
Cooperative Extension Service	\$ 258,686	\$ 226,291	\$ 214,175	\$ 12,116
Soil Conservation District	71,557	71,752	71,693	59
Conservation of natural resources	<u>330,243</u>	<u>298,043</u>	<u>285,868</u>	<u>12,175</u>
Allocation of agriculture and seafood (Division of DECD)	<u>151,527</u>	<u>153,095</u>	<u>151,206</u>	<u>1,889</u>
Operating allocation:				
SMC Forest Conservation District Board	2,000	2,000	2,000	-
Southern Md. Resource Conservation/Dev.	11,630	11,630	11,630	-
Watermen's Association	13,000	13,000	13,000	-
Operating allocation	<u>26,630</u>	<u>26,630</u>	<u>26,630</u>	<u>-</u>
Total conservation of natural resources	<u>\$ 508,400</u>	<u>\$ 477,768</u>	<u>\$ 463,704</u>	<u>\$ 14,064</u>
ECONOMIC DEVELOPMENT AND OPPORTUNITY:				
Department of economic & community development:				
Administration/office of the director	\$ 409,184	\$ 412,027	\$ 404,195	\$ 7,832
Tourism development	476,645	477,300	437,471	39,829
Agriculture & seafood development	202,036	204,126	201,608	2,518
Less allocation (see above)	(151,527)	(153,095)	(151,206)	(1,889)
Business development/lexington park revitalization	287,712	393,409	339,133	54,276
Grants	40,000	253,367	268,247	(14,880)
Department of economic & community development	<u>1,264,050</u>	<u>1,587,134</u>	<u>1,499,448</u>	<u>87,686</u>
Office of Community Services:				
Office of community services	258,147	248,431	242,749	5,682
Human relations commission	1,850	123	-	123
Commission for the disabled	2,300	2,300	2,230	70
Commission for women	4,500	6,430	6,254	176
	<u>266,797</u>	<u>257,284</u>	<u>251,233</u>	<u>6,051</u>
Operating allocation:				
Navy Alliance	25,000	25,000	10,000	15,000
The Promise	12,400	12,400	12,400	-
Tri-County Council	104,200	104,200	104,200	-
Operating allocation	<u>141,600</u>	<u>141,600</u>	<u>126,600</u>	<u>15,000</u>
Total economic development and opportunity	<u>\$ 1,672,447</u>	<u>\$ 1,986,018</u>	<u>\$ 1,877,281</u>	<u>\$ 108,737</u>
DEBT SERVICE:				
Debt service	<u>\$ 13,006,486</u>	<u>\$ 9,393,428</u>	<u>\$ 9,349,279</u>	<u>\$ 44,149</u>
INTER-GOVERNMENTAL:				
Leonardtown tax rebate	<u>\$ 42,973</u>	<u>\$ 42,973</u>	<u>\$ 42,973</u>	<u>\$ -</u>
Total inter-governmental	<u>\$ 42,973</u>	<u>\$ 42,973</u>	<u>\$ 42,973</u>	<u>\$ -</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, 2016
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
OTHER:				
Employer contributions-retiree health benefits	\$ 2,800,000	\$ 2,800,000	\$ 2,635,816	\$ 164,184
Unemployment compensation	50,000	50,000	13,110	36,890
Bank service fees	35,000	35,000	8,472	26,528
Total other	<u>\$ 2,885,000</u>	<u>\$ 2,885,000</u>	<u>\$ 2,657,398</u>	<u>\$ 227,602</u>
Total expenditures, before pass-throughs	\$ 216,858,928	\$ 214,687,014	\$ 207,951,458	\$ 6,735,556
Pass-through expenditures	-	-	-	-
Total expenditures, including pass-throughs	<u>\$ 216,858,928</u>	<u>\$ 214,687,014</u>	<u>\$ 207,951,458</u>	<u>\$ 6,735,556</u>
RESERVES:				
Reserve - grants	\$ 500,000	\$ 64,475	\$ -	\$ 64,475
Reserve - OPEB	-	-	-	-
Reserve - bond rating	400,000	400,000	401,368	(1,368)
Reserve - emergency appropriations	500,000	7,124,438	7,000,000	124,438
Reserves	<u>1,400,000</u>	<u>7,588,913</u>	<u>7,401,368</u>	<u>187,545</u>
Total reserves	<u>\$ 1,400,000</u>	<u>\$ 7,588,913</u>	<u>\$ 7,401,368</u>	<u>\$ 187,545</u>
Total expenditures, including pass-throughs and reserves	\$ 218,258,928	\$ 222,275,927	\$ 215,352,826	\$ 6,923,101
Transfer:				
Capital projects - general fund transfer/pay-go	9,090,621	5,790,621	5,790,621	-
Total expenditures and other financing uses	<u>\$ 227,349,549</u>	<u>\$ 228,066,548</u>	<u>\$ 221,143,447</u>	<u>\$ 6,923,101</u>

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2016

LAND PRESERVATION

Agriculture Preservation	\$ 4,970,584	
Critical Area Planting	<u>285,097</u>	\$ 5,255,681

HIGHWAYS

FDR Blvd. Extended	12,127,990	
Regional Water Quality & Nutrient Removal	5,638,609	
Patuxent Park Neighborhood Preservation	2,212,408	
Buck Hewitt Road	926,481	
Asphalt Overlay	279,555	
Roadside Obstacles	213,457	
Retrofit Sidewalk Program	174,134	
Traffic Control Signals	93,756	
Bridge/Culvert Replacement	72,967	
Buck Hewitt Road - Northside	43,828	
Roadway Base Widening & Repairs	25,891	
Dr. Johnson Rd. Bridge Structure	12,275	
Modified Seal Surface Treatment	6,032	
Streetscape Improvement	<u>5,272</u>	21,832,655

MARINE

St. Jerome's Creek Jetties	<u>1,038,766</u>	1,038,766
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PUBLIC WORKS

800 MHz Radio Enhancement	5,824,304	
Airport Master Plan	4,754,082	
Base Realignment & Closure	3,200,000	
So MD Higher Education Center Building Three	1,000,000	
Leonardtown Library Renovation	946,613	
Building Maintenance & Repairs	594,846	
Navy Museum Buildings B & C Upgrades	570,000	
Garvey Senior Center Replacement Facility	540,001	
ADC Upgrades	515,950	
Advanced Life Support New Building	172,864	
Farmers Market Improvements	150,000	
Energy Efficiency and Conservation	146,712	
Sheriff District 4 Office	135,471	
Airport Wetlands Mitigation	86,353	
Airport Improvements	51,462	
Parking and Site Improvements	36,914	
Tri-County Animal Shelter	25,100	
Patuxent River Naval Museum-New	<u>6,968</u>	18,757,640

COMMISSIONERS OF ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

PIERS AND BOAT RAMPS

Clarkes Landing Boat Ramp	\$ 223,015	
Derelict Boat Removal	11,500	\$ 234,515

PUBLIC SCHOOLS

Spring Ridge Middle School Renovation	941,653	
Leonardtown High School Tennis/Track Resurfacing	775,546	
State Relocatable-site to be determined	430,494	
Captain Duke Elementary School	350,386	
Esperanza Middle School Soil Erosion	310,842	
Site Acquisition Various	276,456	
Lettie Dent ES Roof Top Unit	241,000	
Great Mills HS Roof Top Unit	185,000	
Fairlead Academy Building	125,000	
Playground Equipment	115,292	
Margaret Brent MS Chiller Replacement	68,339	
New Elementary School Central County	50,000	
Piney Point Elementary School Roof Replacement	49,268	
Spring Ridge MS Relocatables	42,889	
Site Paving - Parking Lots & Sidewalks	29,141	
Qualified Zone Academy Bond	26,362	
Greenview Knolls HVAC	12,565	
Aging School Program	11,459	
Carver ES Relocatables	783	
Flooring Replacement Various	332	
		4,042,807

RECREATION & PARKS

Lancaster Park Improvements	2,031,004	
Parks Land Acquisition	1,203,580	
Leonardtown Park	614,462	
Three Notch Trail	346,934	
Piney Point Lighthouse Museum	138,855	
Fireman's Heritage Museum	105,000	
Nicolet Park Entrance	75,048	
Recreation Facility Improvements	59,331	
Elms Beach Park Improvements	57,470	
Park Planning Grant	40,000	
		4,671,684

SOLID WASTE

Landfill Mitigation	63,845	
St. Andrews Landfill Scale Replacement	5,300	
Convenience Center Expansion	157	
		69,302

Total

\$ 55,903,050



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 the Commissioners of St. Mary's County

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 the Commissioners of St. Mary's County, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commissioners of St. Mary's County's basic financial statements, and have issued our report thereon dated November 17, 2016. 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 the Commissioners of St. Mary's County'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 the Commissioners of St. Mary's County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commissioners of St. Mary's County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commissioners of St. Mary's County'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 17, 2016