

**THE COUNTY COMMISSIONERS FOR
ST. MARY'S COUNTY, MARYLAND**

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

YEAR ENDED JUNE 30, 2013



Murphy & Murphy, CPA, LLC

The County Commissioners for St. Mary's County

June 30, 2013

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-14
<u>Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Position	15-16
Statement of Activities	17-18
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	19
Statement of Revenues, Expenditures and Changes in Fund Balance	20
Reconciliations of the Governmental Funds to the Governmental Activities	21
Proprietary Fund Financial Statements	
Statement of Net Position	22
Statement of Revenues, Expenses, and Changes in Net Position	23
Statement of Cash Flows	24
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Position – Sheriff's Office Retirement Plan	25
Statement of Changes in Fiduciary Net Position – Sheriff's Office Retirement Plan	26
Statement of Fiduciary Net Position – Retiree Benefit Trust	27
Statement of Changes in Fiduciary Net Position – Retiree Benefit Trust	28

The County Commissioners for St. Mary's County

June 30, 2013

Table of Contents

	<u>Page</u>
Notes to Financial Statements Index	
Notes to Financial Statements	29-105
Required Supplementary Information	
Statement of Revenues, Expenditures, Encumbrances and Other Financing Sources and Uses – Budget (Non-GAAP) Basis and Actual – General Fund	106
Sheriff's Office Retirement Plan	107
Retiree Benefit Trust	108
Other Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	109
Combining Statement of Revenues, Expenditures and Changes In Fund Balance – Nonmajor Governmental Funds	110
Schedule of Revenues and Other Financing Sources – Budgetary (Non-GAAP) Basis and Actual – General Fund	111-112
Schedule of Expenditures and Other Financing Uses - Budgetary (Non-GAAP) Basis and Actual – General Fund	113-117
Schedule of Unexpended Appropriations for Capital Projects	118-119
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 <i>Government Auditing Standards</i>	120-121



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County Commissioners for 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 34 percent, 36 percent and 46 percent, respectively, of the assets, net position, and revenues of the total reporting entity. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the St. Mary's County Public Schools, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

information of the County Commissioners for St. Mary's County's as of June 30, 2013, 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 3-14 and 106-108 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 County Commissioners for St. Mary's County's basic financial statements. The combining and individual nonmajor fund financial statements, budget schedules and unexpended appropriations for capital projects are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013, on our consideration of the County Commissioners for 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 County Commissioners for St. Mary's County's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
December 31, 2013

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 St. Mary's County Government for the fiscal year ended June 30, 2013. We encourage readers to use the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets of St. Mary's County Government exceeded its liabilities at the close of the most recent fiscal year by \$266.7 million (*net position*). Approximately \$17.5 million, or 6.6%, 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 30% of the total net position, or \$80.6 million (*unrestricted net position*), may be used to meet ongoing obligations to citizens and creditors. Other components of the net position are \$35.7 million of restricted net position and approximately \$150.4 million of net investment in capital assets. The net investment in capital assets represents the capitalized assets, net of accumulated depreciation and outstanding debt.
- The Government's overall net asset position reflects an increase of \$12.3 million over the prior year.
- As of June 30, 2013, the County's governmental funds reported combined fund balances of \$95.5 million, an increase of \$1.7 million over the prior year. The general fund reflected a decrease of \$5.9 million. The capital projects fund reflected an increase of \$7.0 million. The fund balance for the non-major funds increased \$634,313. The County's governmental fund balances at June 30, 2013 include \$38.4 million for capital projects, \$54.2 million in general funds, and \$2.9 million for the other non-major funds. The general fund balance of \$54.2 million includes: \$2 million that is nonspendable as well as \$26.1 million which is committed to the following: \$501,486 for the NextGen contract, \$12.2 million for the Bond Rating Reserve, and \$12,930,000 budgeted for use in the Approved FY2014 Budget and Other operating, non-recurring items of \$523,000. In addition, the general fund reflects assigned designations of approximately \$2.4 million which includes encumbrances and a Rainy Day Fund of \$1.625 million. The County's unassigned fund balance is approximately \$23.5 million, of which \$17 million reflects funds accumulated over the four years ended June 30, 2011. In the several years leading up to that, the County experienced significant positive variances in revenues, which it determined were due to the economic volatility of the time, and likely well above the amount that would be expected in future years. During that time, the County, recognizing both the economic reality and the State's fiscal difficulties, chose to retain a fund balance as a measure of flexibility should revenues or State funding decline, or should the State shift costs to the County. In the intervening years, the State has reduced its allocations significantly as well as shifted significant costs to the County. During that same period, the County based its recurring expenditure budget using sustainable revenue levels, thus avoiding recurring cost commitments that could not be funded by recurring revenues. With the FY2013 budget, the State's principal actions with respect to County funding and cost shifts were identified. Though significant, the County programmed these impacts into its outer year estimates, and expects to continue to rely on its recurring revenues, balanced by continued cost control measures, to fund recurring expenses. 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 (Pax River), 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. As a part of the FY2014 budget process, the County approved a plan for the use of fund balance that includes both FY2014 and FY2015, and maintains significant balances that can be used to mitigate the impact or at least allow the County to transition to the potential new levels of economic activity, without undue and/or unnecessary disruption to citizen services. The non-major funds are special purpose funds that correspond to special assessments, the Emergency Services Support Fund, and a revolving loan fund set up to assist volunteer fire and rescue squads in financing their acquisition of capital assets. The special assessments fund

reflects a deficit because expenditures are incurred by the County and then are reimbursed by various entities pursuant to written agreements over varying periods of time, which correspond to the underlying asset.

- The business-type operating activities reflect a net increase in net position of \$435,188. Fee-based recreation activities posted an increase of \$147,388. 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 \$368,402, of which \$94,437 is the funding for the landfill extraction system capital project. Beginning with the FY2012 budget, the County's subsidy for this activity was set at \$1 million annually, with any changes in funding needed coming through expenditure adjustment or revenue enhancement. The Wicomico Golf Course reflects a decrease of \$80,602, which approximates the decline in charges from the prior year. The enterprise funds are reviewed for sustainability, as a part of the annual budget process.
- At June 30, 2013, the unassigned fund balance for the general fund (primary operating fund) was \$23.5 million, or 11.7% of general fund expenditures. Assigned fund balance of the general fund was \$2.4 million, or 4.5% of the general fund total fund balance.
- Governmental activities' total indebtedness, including general obligation bonds, water quality loans and exempt financing, increased by \$10.6 million during the fiscal year ended June 30, 2013. Payments on the debt totaled \$10.7 million. An increase in the amount of \$1,650,000 was made, representing the revision of estimated post-closure costs of the landfill, and there was a net increase in the accrual for compensated absences of \$330,861.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to St. Mary's County Government's basic financial statements. St. Mary's County Government's basic financial statements comprise 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 St. Mary's County Government's finances, in a manner comparable to a private-sector business.

The *statement of net position* presents information on all of St. Mary's County Government's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of St. Mary's County Government 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 St. Mary's County Government 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 St. Mary's County Government 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 St. Mary's County Government in FY2013 include Wicomico Golf Course, Solid Waste and Recycling Activities and the Recreation Activities.

The government-wide financial statements include not only St. Mary's County Government itself (known as the *primary government*), but also legally separate component units. St. Mary's County Government 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 15 to 18 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. St. Mary's County Government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of St. Mary's County Government 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*.

St. Mary's County Government 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.

St. Mary's County Government adopts an annual appropriated budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, the County's primary fund. The basic governmental fund financial statements can be found on pages 19 to 20 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. St. Mary's County Government 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 22 to 24 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 St. Mary's County Government'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 and the Retiree Benefit Trust of St. Mary's County, Maryland, which addresses the County's retiree health benefits. The basic fiduciary fund financial statements can be found on pages 25 to 28 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 29 to 105 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning St. Mary's County Government's progress in funding its obligations to retiree benefits. Required supplementary information can be found on pages 106 to 108 of this report. Other supplementary information can be found on pages 109 to 119.

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 \$266.7 million at the close of the current fiscal year. St. Mary's County Government's net position is divided into three categories: invested in capital assets, net of related debt; restricted net position; and unrestricted net position. Approximately 56.4% of the County's net position reflects its investment in capital assets net of depreciation (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 13.4% 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 \$80.6 million (30.2% of total net position) which may be used to meet the government's ongoing obligations to citizens and creditors.

ST. MARY'S COUNTY GOVERNMENT'S NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>
ASSETS						
Current Assets	\$139,924,722	\$141,230,389	\$ 1,704,684	\$ 1,968,164	\$141,629,406	\$143,198,553
Other Non-Current Assets	1,699,797	16,247,102	-	-	1,699,797	16,247,102
Capital Assets, net of accumulated depreciation	<u>229,721,777</u>	<u>224,245,584</u>	<u>17,186,323</u>	<u>17,247,860</u>	<u>246,908,100</u>	<u>241,493,444</u>
Total Assets	<u>\$371,346,296</u>	<u>\$381,723,075</u>	<u>\$ 18,891,007</u>	<u>\$ 19,216,024</u>	<u>\$390,237,303</u>	<u>\$400,939,099</u>
LIABILITIES						
Current Liabilities	\$ 21,585,327	\$ 31,821,529	\$ 751,195	\$ 764,944	\$ 22,336,522	\$ 32,586,473
Non-current Liabilities	<u>100,573,982</u>	<u>112,537,989</u>	<u>601,514</u>	<u>1,347,970</u>	<u>101,175,596</u>	<u>113,885,959</u>
Total Liabilities	<u>122,159,309</u>	<u>144,359,518</u>	<u>1,352,709</u>	<u>2,112,914</u>	<u>123,512,018</u>	<u>146,472,432</u>
NET POSITION						
Invested in Capital Assets, net of related debt	133,707,214	129,966,153	16,733,007	16,791,147	150,440,221	146,757,300
Restricted	35,661,114	41,851,526	-	-	35,661,114	41,851,526
Unrestricted	<u>79,818,659</u>	<u>65,545,878</u>	<u>805,291</u>	<u>311,963</u>	<u>80,623,950</u>	<u>65,857,841</u>
Total Net Position	<u>249,186,987</u>	<u>237,363,557</u>	<u>17,538,298</u>	<u>17,103,110</u>	<u>266,725,285</u>	<u>254,466,667</u>
Total Liabilities and Net Position	<u>\$371,346,296</u>	<u>\$381,723,075</u>	<u>\$ 18,891,007</u>	<u>\$ 19,216,024</u>	<u>\$390,237,303</u>	<u>\$400,939,099</u>

At June 30, 2013, St. Mary's County Government 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:

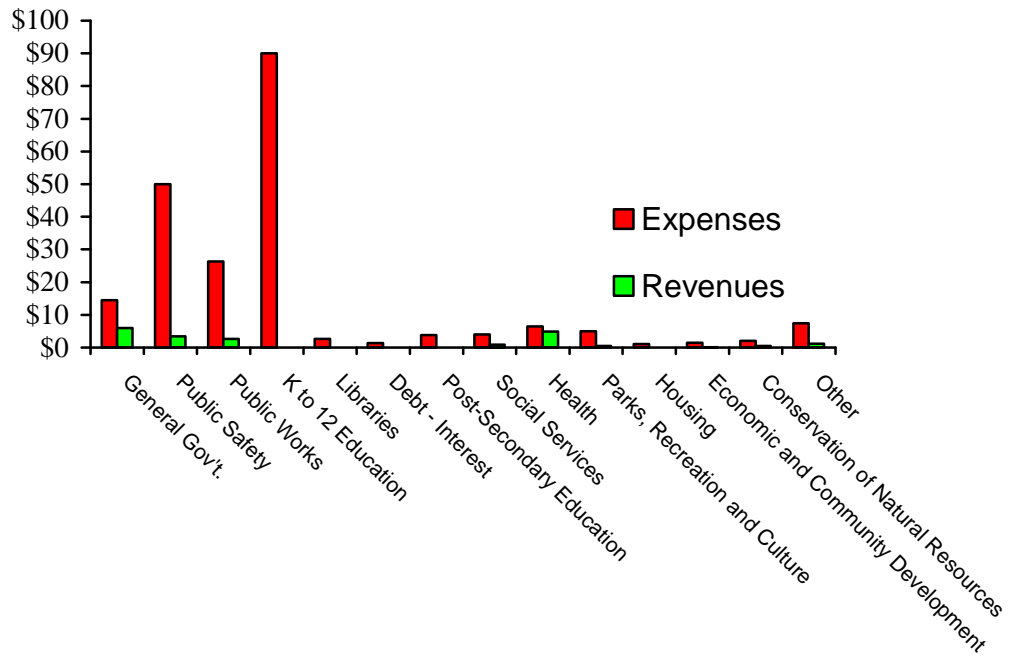
ST. MARY'S COUNTY GOVERNMENT'S CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

	<u>Governmental Activities</u>		<u>Business –Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Program Revenues:						
Charges for Services	\$ 6,783,810	\$ 9,394,212	\$ 3,460,066	\$ 3,945,221	\$ 10,243,876	\$ 13,339,433
Environment/Solid Waste Fees	-	-	2,796,387	2,334,540	2,796,387	2,334,540
Operating Grants and Contributions	11,978,899	13,880,813	29,066	33,003	12,007,965	13,913,816
Capital Grants and Dedicated Fees or Taxes	1,435,775	946,541	-	-	1,435,775	946,541
General Revenues:						
Property Taxes	100,809,676	100,051,274	-	-	100,809,676	100,051,274
Income Taxes	76,746,270	76,289,036	-	-	76,746,270	76,289,036
Other Taxes	13,877,868	12,747,631	-	-	13,877,868	12,747,631
Investment Earnings	50,530	38,019	587	682	51,117	38,701
Subsidies to Enterprise Funds	(980,065)	(1,000,000)	980,065	1,000,000	-	-
Roads Constructed by Third Parties	1,836,173	2,947,876	-	-	1,836,173	2,947,876
Capital Transfer	(94,437)	(725,676)	94,437	725,676	-	-
Miscellaneous, principally Capital Projects Funding	<u>14,402,355</u>	<u>5,012,863</u>	<u>-</u>	<u>148,536</u>	<u>14,402,355</u>	<u>5,161,399</u>
Total Revenues	<u>\$226,846,854</u>	<u>\$219,582,589</u>	<u>\$ 7,360,608</u>	<u>\$ 8,187,658</u>	<u>\$234,207,462</u>	<u>\$227,770,247</u>
Program Expenses:						
General Government	14,479,550	15,116,620	-	-	14,479,550	15,116,620
Public Safety	50,001,327	42,320,576	-	-	50,001,327	42,320,576
Public Works	24,533,468	18,895,688	3,502,487	3,451,951	28,035,955	22,347,639
Health	6,495,400	6,500,709	-	-	6,495,400	6,500,709
Social Services	4,050,664	3,973,080	-	-	4,050,664	3,973,080
Primary and Secondary Education	90,038,986	84,868,901	-	-	90,038,986	78,948,347
Post-Secondary Education	3,823,574	3,689,715	-	-	3,823,574	9,610,269
Parks, Recreation, and Culture	4,975,577	4,692,300	3,422,933	3,437,688	8,398,510	8,129,988
Housing	1,100,256	2,477,029	-	-	1,100,256	2,477,029
Libraries	2,608,194	1,752,592	-	-	2,608,194	1,752,592
Conservation of Natural Resources	2,015,042	946,677	-	-	2,015,042	946,677
Economic Development and Opportunity	1,419,104	1,823,623	-	-	1,419,104	1,823,623
Interest on Debt	2,060,108	2,720,218	-	-	2,060,108	2,720,218
Other, principally Retirees' Health	<u>7,422,174</u>	<u>6,747,331</u>	<u>-</u>	<u>-</u>	<u>7,422,174</u>	<u>6,747,331</u>
Total Expenses	<u>\$215,023,424</u>	<u>\$196,525,059</u>	<u>\$ 6,925,420</u>	<u>\$ 6,889,639</u>	<u>\$221,948,844</u>	<u>\$203,414,698</u>
Increase/(Decrease) in Net position	11,823,430	23,057,530	435,188	1,298,019	12,258,618	24,355,549
Net Position - Beginning	237,363,557	223,731,060	17,103,110	15,805,091	254,466,677	239,536,151
Prior Period Adjustment	-	(9,425,033)	-	-	-	(9,425,033)
Net Position - Ending	<u>\$249,186,987</u>	<u>\$237,363,557</u>	<u>\$ 17,538,298</u>	<u>\$17,103,110</u>	<u>\$266,725,285</u>	<u>\$254,466,667</u>

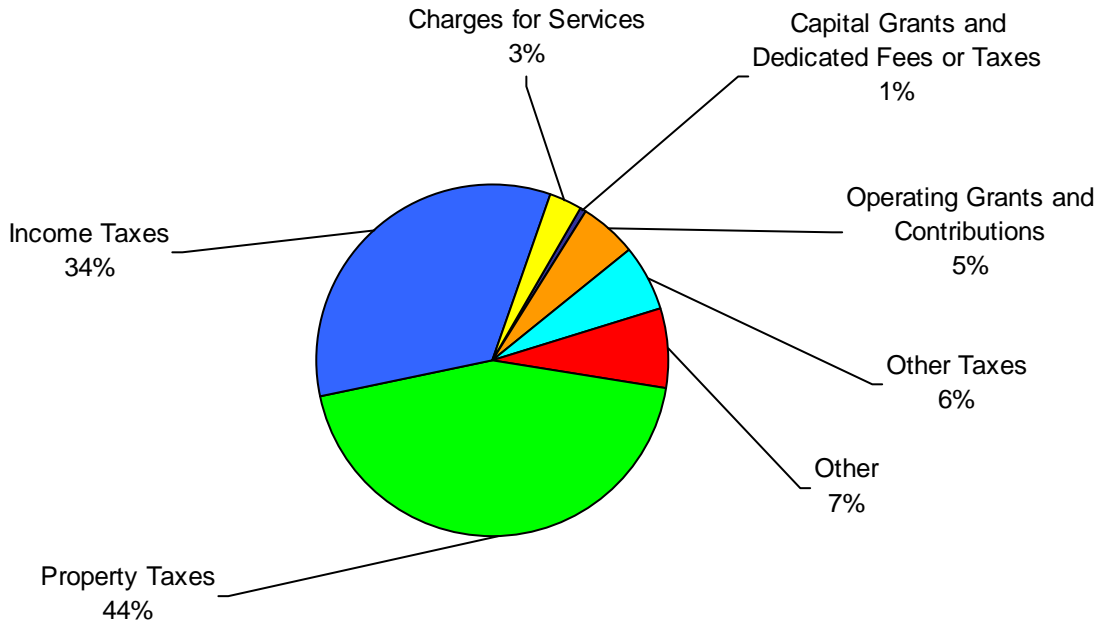
Governmental activities: Governmental activities reflected an increase in net position of \$11.8 million. The governmental funds reflected a net increase of \$1.7 million.

Business-type activities: Business-type activities reflected an increase in net position of \$435,188. Wicomico Golf Course, Recreation and Parks, and Solid Waste and Recycling fee-based activities all posted increases.

Expenses and Program Revenues – Governmental Activities (in millions)



Revenues By Source – Governmental Activities



Financial Analysis of the Government's Funds

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

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

As of June 30, 2013, St. Mary's County Government's governmental funds reported combined ending fund balances of \$95.5 million, an increase of \$1.7 million over the prior year. The Capital Projects fund accounts for \$38.4 million. Approximately \$30.1 million, or 31.4% of this total, constitutes *assigned and unassigned fund balances*, which are available for spending at the government's discretion, of which \$25.9 million is in the General Fund. Of this \$25.9 million, the Board of County Commissioners has identified \$16.9 million to be applied in the FY2014 and FY2015 budgets for pay-go funding for capital projects as well as the pay-down of OPEB-related liabilities for both the County and the Board of Education. The OPEB funding would be in addition to the scheduled full funding of the annual actuarially-determined OPEB cost for the County. There remains the designation of \$1.625 million for the Rainy Day fund. The application of fund balance to the subsequent year's budget and these designations are discussed elsewhere in this section. Restricted and committed fund balances include \$34.1 million for capital projects, \$12.2 million for the Bond Rating Reserve, and the FY2014 budgeted items of \$9.9 million for pay-go funding of the County's share of the Spring Ridge Middle School renovation as well as a supplemental funding of \$3 million to pay-down OPEB liabilities. Nonspendable fund balance includes \$921,024 committed to liquidate inventories and \$1,088,179 in interfund advances.

The general fund is the chief operating fund of St. Mary's County Government and is central to the budget process and management of current resources. At June 30, 2013, assigned and unassigned fund balances of the general fund were \$25.9 million. As a measure of the general fund's liquidity, it may be useful to compare both assigned and unassigned fund balances and total fund balance to total fund expenditures. Assigned and unassigned fund balances represent 12.9% of total general fund expenditures, excluding pass-throughs, while total fund balance represents 26.9% of that same amount.

In addressing the budget to actual variances, this section focuses generally on comparisons to the original approved budget. The "other supplementary information" on pages 111 through 117 reflects the original and revised budgets as well as the actual results in more detail. FY2013 actual results reflect actual revenues that are about \$1 million less than budgeted; however, this is largely attributable to the \$1.8 million negative variance 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. Both income and property taxes show modest positive variances from budget. The FY2013 income tax revenue is net of a \$1 million adjustment to reflect the potential refunds that may be required due to a Circuit Court decision that the resident credit for taxes paid to other states must include the local tax in addition to the state portion of the tax. The resident credit was not being applied for purposes of the local income tax. A taxpayer's ability to file may date as far back as their 2009 return. This represents the cumulative estimated refunds for the period 2009 to the present, including interest and penalties, that would likely be due upon the filing of amended tax returns, if and when authorized by the courts. The estimate is based upon information provided by the State Comptroller's Office. Like all income tax returns, the actual processing of the refunds would be handled by the State Comptroller's Office. For future years, the State estimated the annual impact to be approximately \$200,000, and therefore it is not expected to impact the annual revenue estimates materially. The FY2014 budget for income tax revenue is based upon an annual growth rate of 4.9% applied to calendar/tax year 2011 results based on returns filed. As the information on pages 111 through 117 shows, there are a variety of smaller offsetting variances; these were considered when developing the revenue budget for FY2014. 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. The FY2013 budget included \$.9 million in operating costs for the NextGen implementation, which were not spent because the contract for the implementation could only be started in FY2013. Additionally, the exempt financing generated \$5.5 million used to fund NextGen related portable equipment. There were debt service savings of \$1.7 million due to deferral of the sale of bonds, which reflect the delayed expenditures on several capital projects as well as the revision of the project scope and budget for the Detention Center. Unspent funds in the Sheriff's operating budget were \$1.2 million, with the largest variances being personal services costs, which include position costs and overtime. During the course of FY2013 there were a number of temporary vacancies within the County departments that resulted in turn-over and vacancy savings of almost \$1.5 million. The FY2014 budget is based on updated estimates for salaries and benefits. County departments also realized savings in fuel, utilities, non-public student bus contracts, and the STS transportation system of about \$1.1 million, combined, a reflection of estimated increased costs higher than actual. Estimates for subsequent budgets will be reviewed in light of these recurring positive variances. These budget savings were utilized to provide funding supplemental to that already budgeted for the County's OPEB Trust (\$750,000), the Sheriff's Retirement Trust (\$500,000), and additional pay-go funding for capital projects (\$1.6 million). Using these savings to reduce the liabilities for retiree benefits and capital projects helps to reduce future annual outlays by about \$280,000.

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 retiree benefit trusts and pay-go for capital over the next several years. It also retains a significant reserve balance not identified for such purposes. Higher reserves at this time will enable us to soften the impact of further cuts or cost shifts, allowing some additional time to implement longer term cost reduction measures, as might be appropriate. 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.

The fund balance of St. Mary's County Government's general fund increased by \$1.7 million during the fiscal year ended June 30, 2013, which is considerably less than the prior year increase. It reflects a tightening of the economy and budget estimates, as well as the planned application of fund balance to non-recurring costs. The variances are discussed previously.

The capital projects fund has a total fund balance of \$38.4 million. This balance reflects the accumulated unspent balances of impact fees, recordation taxes, transfer taxes, and pay-go, which has been appropriated for specific projects, but remains unspent as of June 30, 2013. These funds have been budgeted, and the capital projects are in progress.

Proprietary funds: St. Mary's County Government's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, the Wicomico Golf Course Fund reflected unrestricted net position of \$96,196. The Recreation Activities Fund reflected unrestricted net position of \$361,548, and the unrestricted net position of the Solid Waste and Recycling Fund amounted to \$1,435,726. On a combined basis, there was an \$855,831 increase in unrestricted net position. Factors concerning these funds' finances are addressed in the discussion of St. Mary's County Government's business-type activities.

General Fund Budgetary Highlights

The final total budget for the General fund approximated the original budget. Though the total budget remained about the same, as indicated previously, almost \$3 million in expense savings was re-aligned in the budget to pay down retiree benefit liabilities and for capital project pay-go funding, both of which help to reduce future annual costs.

Capital Asset and Debt Administration

- **Capital assets:** St. Mary's County Government's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$247 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 St. Mary's County Government's investment in capital assets for the fiscal year ended June 30, 2013 was \$5,414,656. 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.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 32,035,283	\$ 31,772,335	\$ 1,078,666	\$ 1,078,666	\$ 33,113,949	\$ 32,851,001
Building and Improvements	60,043,856	60,841,646	2,822,158	2,904,072	62,866,014	63,745,718
Facilities Under Construction	10,612,689	6,380,721	-	-	10,612,689	6,380,721
Solid Waste Facilities	-	-	12,248,547	12,248,547	12,248,547	12,248,547
Infrastructure	115,393,282	115,097,289	197,696	214,390	115,590,978	115,311,679
Vehicles	3,880,023	2,438,116	761,958	780,147	4,641,981	3,218,263
Equipment	<u>7,756,644</u>	<u>7,715,477</u>	<u>77,298</u>	<u>22,038</u>	<u>7,833,942</u>	<u>7,737,515</u>
	<u>\$229,721,777</u>	<u>\$224,245,584</u>	<u>\$17,186,323</u>	<u>\$17,247,860</u>	<u>\$246,908,100</u>	<u>\$241,493,444</u>

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

- Approximately \$5.4 million in road costs were capitalized, including \$1.8 million in roads developed/constructed by third parties.
- Approximately \$2.3 million in vehicle costs were capitalized, including \$1 million in Sheriff Department vehicles.
- New piers for Fox Landing II, Riversprings Landing and St. George Island were completed and capitalized in FY13 at approximately \$403,000.

There are numerous projects in process, as can be seen by the \$4.3 million net increase in Facilities Under Construction. Most of these are expected to be completed and placed into service in FY2014. The three most significant balances are Navy Museum, STS Bus Barn and NextGen Tower Enhancement.

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

Long-term debt: At June 30, 2013, St. Mary's County Government 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 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.

ST. MARY'S COUNTY GOVERNMENT'S GENERAL OBLIGATION DEBT

Primary Government

	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>Amounts due within one year</u>
General Obligation Bonds(GOB) – County	\$ 91,422,000	\$ 83,885,000	\$ 6,830,000
Less: Amount Deferred on Refunding	(3,032,000)	(2,829,540)	(297,083)
Water Quality Loans	3,035,094	2,480,790	563,566
State Loans	1,910,639	1,789,140	142,513
Surplus Property Transfer of Debt	47,366	1,206	628
Exempt Financing (Equipment & Vehicles)	<u>296,332</u>	<u>8,437,967</u>	<u>2,077,515</u>
	<u>\$ 93,679,431</u>	<u>\$ 93,764,563</u>	<u>\$ 9,317,139</u>
GOB sold on behalf of St. Mary's Hospital	<u>\$ 14,030,000</u>	<u>\$ 0</u>	<u>\$ 0</u>

Business-Type Activities

	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>Amounts due within one year</u>
Exempt Financing (Equipment)	<u>\$ 1,182,389</u>	<u>\$ 453,317</u>	<u>\$ 103,603</u>

St. Mary's County Government's total general obligation bonded debt decreased by a net \$85,132, reflecting new exempt financing for NextGen equipment and vehicles, offset by principal payments, State loans for capital projects, and adjustments of accruals for compensated absences. Repayments include \$14,030,000 for the Hospital loans; fully funded by the Hospital (the Hospital debt service is not funded by general funds of the County).

Business-Type Exempt financing was reduced as the County paid off the original exempt financing on behalf of Wicomico and replaced it with an interfund loan that will be paid back over 14.5 years with interest at 2.68%. Since it is an interfund loan between the County and Wicomico it can not be reflected in the debt above.

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

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

Economic Factors and Next Year's Budgets and Rates

- The FY2014 expenditure budget is \$206.6 million, with another \$16.1 million identified for non-recurring transfers and reserves. It is funded by \$209.2 million of revenues as well as the application of \$13.5 million of fund balance. The property tax income is based on information provided by the State as to estimated taxable assessed value of \$11.6 billion, a small increase over the prior year's estimate of \$11.5 billion. The impact of triennial assessments that show declines in the full value are somewhat mitigated by the County's cap of 5%,

because the drastic increase in the assessed values of the prior year weren't fully incorporated into the revenues. However, this trend is expected to have a dampening effect on the future years' estimates of property tax income, especially when combined with slower growth. Initial billings for FY2014 are comparable to the estimates. The income taxes were budgeted at \$82 million. This represents an increase of 7.9% over the FY2013 budget, and reflects both the estimated County specific tax returns as well as \$3.5 million which is estimated to be interest and penalties as well as the share of State-wide unallocated taxes that will be distributed to the County by the State. Preliminary indications, based on the first of the four large distributions made by the State, indicate that budget will be met. However, the County will continue to monitor the income tax trend, since the County-specific effect of the federal furloughs and closure that occurred in the third and fourth quarters of calendar year 2013 will not be identified until November 2014. As indicated previously, the County expects its reserves to be adequate to offset any negative revenue impact from these federal actions.

- 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. The number of jobs and related services, and the number and diversity of technology companies are relatively stable. The essential nature of the services provided at Pax River is expected to have a limiting effect on the impact of the federal budget to the facility, though it is not immune to losses or contraction. The County will monitor closely both the impact of budget cuts generally but also as they affect the local installation and related businesses. It is likely that the specific impact will not be known until sometime during 2014 or maybe even 2015. This is a significant reason for the County fund balance to be retained and cost containment efforts to continue.
- The population growth for the County continues to be one of the highest in the State.
- The County ranks near the top in the State for growth in the labor force, average weekly wages, and median household income. We consistently post unemployment rates that are well below State averages. These factors indicate a stable economy.
- Tourism continues to grow and diversify. This reflects promotion of the County's assets through the Welcome Center and media campaigns such as Maryland's 375th. The County's accommodations tax continues to reflect strong growth.
- Development is proceeding, helping to diversify the County's tax base.

Each budget cycle includes reviews of both the operating and capital spending plans for sustainability and affordability. The County's debt policy is conservative and is a significant consideration in budget deliberations. The County has used its fund balance in the previous years to pay for capital projects, rather than borrow, and also to pay down its unfunded accrued liability for retiree health obligations. The County has funded the full required actuarially determined annual contribution for OPEB annually since FY2008 out of recurring revenues. Additionally, the County has used operating budget savings to make supplemental contributions to the OPEB Trust and to increase its pay-go funding of capital projects, which reduces the debt needed. Each of these actions served to reduce future annual expenditures. As indicated in the development of the fund balance plan, it is expected that during the FY2015 and FY2016 budget cycles, as the economic picture, especially the Federal budget, becomes clearer, the County will again address the levels of fund balance and reserves, with the intent to apply fund balance to non-recurring items such as pay-go financing or supplemental contributions to OPEB, both of which reduce future annual costs.

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 FY2014 budget is at 1999 levels, achieved through use of technology as well as operational stream-lining and privatization. These reviews are not focused simply on the operating budget, but include the review of capital projects that can often have significant operational impacts beyond the debt service needed to repay any related borrowings. Given the Federal budget situation and its potential impact on Pax River and the related County economy, the Board recognizes that its plan must be scalable to accommodate the economic conditions of the near term. With conservative financial practices, continued focus on cost-saving

measures during regular financial reviews, and tight expenditure controls, the County retains the flexibility and capacity to manage through these challenging times. Tax rates for FY2014 remained unchanged, and property tax rates are among the lowest in the State. The County retains tax flexibility and capacity for the future, even given the potential declines in the full value assessments. 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, St. Mary's County Government, P.O. Box 653, Leonardtown, Maryland 20650, or via email at Finance@stmarysmd.com.

THIS PAGE INTENTIONALLY LEFT BLANK

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
ASSETS							
Cash and cash equivalents	\$ 94,724,233	\$ 184,395	\$ 94,908,628	\$ 24,475,737	\$ 771,827	\$ 11,081,716	\$ -
Internal balances	(1,006,841)	1,006,841	-	-	-	-	-
Restricted cash and investments	3,861,347	377,677	4,239,024	82,517	150,672	-	1,457,778
Taxes receivable	3,689,101	-	3,689,101	-	-	-	-
Income tax reserve, funds held by the State	3,261,805	-	3,261,805	-	-	-	-
Due from other governments	-	-	-	5,703,198	-	-	194,554
Special assessments receivable	1,943	-	1,943	-	-	-	-
Notes receivable, Fire and Rescue loans	253,061	-	253,061	-	-	-	-
Accounts receivable	13,118,213	90,303	13,208,516	401,879	92,723	4,656,241	-
Inventory	921,024	38,444	959,468	204,909	-	276,048	-
Prepaid, post-retirement benefit (OPEB)	20,658,485	-	20,658,485	-	236,159	283,984	-
Other, principally prepaid expenses	390,376	7,024	397,400	10,520	-	61,989	-
Due from fiduciary fund	51,975	-	51,975	-	-	-	-
Unamortized bond discount and issuance costs	-	-	-	-	-	630,037	54,854
Fire and Rescue loans receivable, net of short-term portion	836,651	-	836,651	-	-	-	-
Special tax assessments receivable, net of short-term portion	863,146	-	863,146	-	-	-	-
Capital assets	377,828,121	21,803,516	399,631,637	358,477,639	5,329,462	157,410,719	-
Accumulated depreciation	(148,106,344)	(4,617,193)	(152,723,537)	(122,201,541)	(3,924,004)	(49,945,067)	-
Capital assets, net of accumulated depreciation	<u>229,721,777</u>	<u>17,186,323</u>	<u>246,908,100</u>	<u>236,276,098</u>	<u>1,405,458</u>	<u>107,465,652</u>	<u>-</u>
Total Assets	<u>\$ 371,346,296</u>	<u>\$ 18,891,007</u>	<u>\$ 390,237,303</u>	<u>\$ 267,154,858</u>	<u>\$ 2,656,839</u>	<u>\$ 124,455,667</u>	<u>\$ 1,707,186</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
<u>Current liabilities</u>							
Accounts payable	\$ 4,209,088	\$ 277,211	\$ 4,486,299	\$ 3,599,924	\$ 155,530	\$ 1,953,912	\$ -
Compensation-related liabilities	6,988,442	236,804	7,225,246	15,652,659	89,533	-	-
Deferred income tax distribution	3,261,805	-	3,261,805	-	-	-	-
Unearned revenue	2,156,408	237,180	2,393,588	1,833,432	-	52,979	-
Other liabilities	4,775,030	-	4,775,030	59,737	-	1,167,536	6,154
Due to other governments	194,554	-	194,554	257,873	-	-	-
Accrued expenses including estimated health insurance claims incurred but not reported	-	-	-	1,925,000	-	-	-
<u>Non-current liabilities</u>							
Due within one year	9,317,431	103,603	9,421,034	1,459,427	-	2,224,720	1,430,000
Due in more than one year	91,256,551	497,911	91,754,462	37,241,607	112,981	28,203,429	-
Total Liabilities	122,159,309	1,352,709	123,512,018	62,029,659	358,044	33,602,576	1,436,154
NET POSITION							
Net investment in capital assets	133,707,214	16,733,007	150,440,221	232,813,967	1,405,458	77,037,503	-
Restricted	35,661,114	-	35,661,114	80,482	103,104	6,300,901	222,332
Unrestricted	79,818,659	805,291	80,623,950	(27,769,250)	790,233	7,514,687	48,700
Total Net Position	249,186,987	17,538,298	266,725,285	205,125,199	2,298,795	90,853,091	271,032
Total Liabilities and Net Position	\$ 371,346,296	\$ 18,891,007	\$ 390,237,303	\$ 267,154,858	\$ 2,656,839	\$ 124,455,667	\$ 1,707,186

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions / Programs	Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes	Total Revenues
General Government	\$ 14,479,550	\$ 3,657,391	\$ 2,002,739	\$ 322,661	\$ 5,982,791
Public Safety	50,001,327	1,351,020	2,059,919	-	3,410,939
Public Works	24,533,468	667,042	2,008,872	-	2,675,914
Health	6,495,400	-	4,917,661	-	4,917,661
Social Services	4,050,664	3,056	885,386	-	888,442
Primary and Secondary Education	90,038,986	-	-	-	-
Post -Secondary Education	3,823,574	-	-	-	-
Parks, Recreation, and Culture	4,975,577	42,985	33,756	396,352	473,093
Libraries	2,608,194	-	-	-	-
Conservation of Natural Resources	2,015,042	-	-	514,969	514,969
Housing	1,100,256	40,255	-	-	40,255
Economic Development and Opportunity	1,419,104	73,875	70,566	-	144,441
Debt Interest	2,060,108	-	-	-	-
Other, principally OPEB	7,422,174	948,186	-	201,793	1,149,979
TOTAL GOVERNMENTAL ACTIVITIES	215,023,424	6,783,810	11,978,899	1,435,775	20,198,484
Business - Type Activities					
Recreation Activity	2,058,621	2,176,943	29,066	-	2,206,009
Wicomico	1,364,312	1,283,123	-	-	1,283,123
Solid Waste/Recycling	3,502,487	2,796,387	-	-	2,796,387
TOTAL BUSINESS-TYPE ACTIVITIES	6,925,420	6,256,453	29,066	-	6,285,519
TOTAL PRIMARY GOVERNMENT	221,948,844	13,040,263	12,007,965	1,435,775	26,484,003
Component Units:					
Public Schools	234,792,856	3,601,783	38,641,341	3,919,906	46,163,030
Library	3,405,786	255,658	857,449	-	1,113,107
MetCom	16,517,873	19,292,757	-	-	19,292,757
Building Authority	347,589	683,075	-	-	683,075
	255,064,104	23,833,273	39,498,790	3,919,906	67,251,969

General Revenues:

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

Increase/(Decrease) in Net Position

Net Position - Beginning
Net Position - Ending

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Public Schools	Library	MetCom	Building Authority
\$ (8,496,759)	\$ -	\$ (8,496,759)	\$ -	\$ -	\$ -	\$ -
(46,590,388)	-	(46,590,388)	-	-	-	-
(21,857,554)	-	(21,857,554)	-	-	-	-
(1,577,739)	-	(1,577,739)	-	-	-	-
(3,162,222)	-	(3,162,222)	-	-	-	-
(90,038,986)	-	(90,038,986)	-	-	-	-
(3,823,574)	-	(3,823,574)	-	-	-	-
(4,502,484)	-	(4,502,484)	-	-	-	-
(2,608,194)	-	(2,608,194)	-	-	-	-
(1,500,073)	-	(1,500,073)	-	-	-	-
(1,060,001)	-	(1,060,001)	-	-	-	-
(1,274,663)	-	(1,274,663)	-	-	-	-
(2,060,108)	-	(2,060,108)	-	-	-	-
(6,272,195)	-	(6,272,195)	-	-	-	-
<u>(194,824,940)</u>	<u>-</u>	<u>(194,824,940)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	147,388	147,388	-	-	-	-
-	(81,189)	(81,189)	-	-	-	-
-	(706,100)	(706,100)	-	-	-	-
-	<u>(639,901)</u>	<u>(639,901)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(194,824,940)</u>	<u>(639,901)</u>	<u>(195,464,841)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	(188,629,826)	-	-	-
-	-	-	-	(2,292,679)	-	-
-	-	-	-	-	2,774,884	-
-	-	-	-	-	-	335,486
-	-	-	<u>(188,629,826)</u>	<u>(2,292,679)</u>	<u>2,774,884</u>	<u>335,486</u>
100,809,676	-	100,809,676	-	-	-	-
76,746,270	-	76,746,270	-	-	-	-
13,877,868	-	13,877,868	-	-	-	-
50,530	587	51,117	10,205	5,161	20,433	19,685
-	-	-	170,874,985	2,404,204	-	-
(980,065)	980,065	-	-	-	-	-
1,836,173	-	1,836,173	-	-	-	-
(94,437)	94,437	-	-	-	-	-
<u>14,402,355</u>	<u>-</u>	<u>14,402,355</u>	<u>4,211,330</u>	<u>10,031</u>	<u>1,376,412</u>	<u>(3,608,050)</u>
<u>206,648,370</u>	<u>1,075,089</u>	<u>207,723,459</u>	<u>175,096,520</u>	<u>2,419,396</u>	<u>1,396,845</u>	<u>(3,588,365)</u>
11,823,430	435,188	12,258,618	(13,533,306)	126,717	4,171,729	(3,252,879)
<u>237,363,557</u>	<u>17,103,110</u>	<u>254,466,667</u>	<u>218,658,505</u>	<u>2,172,078</u>	<u>86,681,362</u>	<u>3,523,911</u>
<u>\$ 249,186,987</u>	<u>\$ 17,538,298</u>	<u>\$ 266,725,285</u>	<u>\$ 205,125,199</u>	<u>\$ 2,298,795</u>	<u>\$ 90,853,091</u>	<u>\$ 271,032</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 94,724,233	\$ -	\$ -	\$ 94,724,233
Due from other funds	-	38,160,687	3,000,645	41,161,332
Taxes receivable	3,602,765	-	86,336	3,689,101
Income tax reserve, funds held by the State	3,261,805	-	-	3,261,805
Special tax assessments receivable	-	-	1,943	1,943
Notes receivable, Fire and Rescue loans	-	-	253,061	253,061
Accounts receivable	11,309,714	1,808,499	-	13,118,213
Inventory	921,024	-	-	921,024
Other	390,376	-	-	390,376
Due from fiduciary fund	51,975	-	-	51,975
Fire and Rescue loans receivable, net of short-term portion	-	-	836,651	836,651
Special tax assessments receivable, net of short-term portion	-	-	863,146	863,146
Total Assets	\$ 114,261,892	\$ 39,969,186	\$ 5,041,782	\$ 159,272,860
LIABILITIES				
Accounts payable	\$ 2,649,850	\$ 1,542,168	\$ 17,070	\$ 4,209,088
Compensation-related liabilities	6,988,442	-	7,847	6,996,289
Deferred income tax distribution	3,261,805	-	-	3,261,805
Unearned revenue	202,375	-	1,954,033	2,156,408
Other liabilities	4,767,183	-	-	4,767,183
Due to other funds	42,019,665	-	148,508	42,168,173
Due to other governments	194,554	-	-	194,554
Total Liabilities	60,083,874	1,542,168	2,127,458	63,753,500
FUND BALANCES				
Nonspendable	2,009,203	-	-	2,009,203
Restricted	108,340	31,667,608	-	31,775,948
Committed	26,148,468	2,462,656	3,062,064	31,673,188
Assigned	2,424,822	4,296,754	(147,740)	6,573,836
Unassigned	23,487,185	-	-	23,487,185
Total Fund Balances	54,178,018	38,427,018	2,914,324	95,519,360
Total Liabilities and Fund Balances	\$ 114,261,892	\$ 39,969,186	\$ 5,041,782	\$ 159,272,860

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Capital Projects	Non-Major	Total
REVENUES				
Property Taxes	\$ 100,806,373	\$ -	\$ -	\$ 100,806,373
Income Taxes	76,746,270	-	-	76,746,270
Energy Taxes	1,201,782	-	-	1,201,782
Recordation Taxes	5,194,863	-	-	5,194,863
Transfer Taxes	-	4,268,826	-	4,268,826
Agricultural/Development Taxes	-	551,992	-	551,992
Impact Fees	-	1,965,742	-	1,965,742
Other Local Taxes	1,250,662	-	-	1,250,662
Highway User Revenues	683,079	-	-	683,079
Licenses and Permits	1,497,437	-	-	1,497,437
Intergovernmental	9,581,499	2,428,226	551,972	12,561,697
Charges for Services	3,519,566	-	-	3,519,566
Fines and Forfeitures	227,571	-	-	227,571
Special Assessments	-	-	201,793	201,793
Other Revenues	273,236	1,627,024	1,982,798	3,883,058
Sub-total	<u>200,982,338</u>	<u>10,841,810</u>	<u>2,736,563</u>	<u>214,560,711</u>
Pass-Throughs	-	-	-	-
TOTAL GENERAL FUND REVENUES	<u><u>200,982,338</u></u>	<u><u>10,841,810</u></u>	<u><u>2,736,563</u></u>	<u><u>214,560,711</u></u>
EXPENDITURES				
General Government	19,559,509	2,129,757	-	21,689,266
Public Safety	44,072,846	4,301,569	1,959,849	50,334,264
Public Works	8,401,057	4,119,306	-	12,520,363
Health	6,495,400	-	-	6,495,400
Social Services	3,826,738	-	-	3,826,738
Primary and Secondary Education	87,616,703	2,200,450	-	89,817,153
Post -Secondary Education	3,781,289	-	-	3,781,289
Parks, Recreation, and Culture	3,680,293	968,765	-	4,649,058
Libraries	2,404,204	-	-	2,404,204
Conservation of Natural Resources	399,618	1,615,424	-	2,015,042
Housing, principally OPEB	1,100,256	-	-	1,100,256
Economic Development and Opportunity	1,570,887	-	-	1,570,887
Debt Service - Principal and Interest	10,884,872	4,640	142,401	11,031,913
Other, principally OPEB	7,422,174	-	-	7,422,174
Sub-total	<u>201,215,846</u>	<u>15,339,911</u>	<u>2,102,250</u>	<u>218,658,007</u>
Pass-Throughs	-	-	-	-
TOTAL GENERAL FUND EXPENDITURES	<u><u>201,215,846</u></u>	<u><u>15,339,911</u></u>	<u><u>2,102,250</u></u>	<u><u>218,658,007</u></u>
Excess of Revenues Over (Under) Expenditures	<u>(233,508)</u>	<u>(4,498,101)</u>	<u>634,313</u>	<u>(4,097,296)</u>
OTHER FINANCING SOURCES AND USES				
Exempt financing proceeds	6,711,403	-	-	6,711,403
State Loans	-	202,278	-	202,278
Subsidy to Enterprise Funds	(980,065)	-	-	(980,065)
Construction in Progress-SW/REC	-	(94,437)	-	(94,437)
Capital Projects - General Fund Pay-Go	(11,368,059)	11,368,059	-	-
Total Other Financing Sources / Uses	<u>(5,636,721)</u>	<u>11,475,900</u>	<u>-</u>	<u>5,839,179</u>
Net Increase/(Decrease) in Fund Balances	(5,870,229)	6,977,799	634,313	1,741,883
FUND BALANCE				
Beginning of the Year	60,048,247	31,449,219	2,280,011	93,777,477
End of Year	<u>\$ 54,178,018</u>	<u>\$ 38,427,018</u>	<u>\$ 2,914,324</u>	<u>\$ 95,519,360</u>

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

The County Commissioners for St. Mary's County
Reconciliations of the Governmental Funds to the Governmental Activities
For the Year Ended June 30, 2013

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

Fund Balance - Governmental Funds	\$	95,519,360
Capital assets, net of accumulated depreciation, are not reported in the Balance Sheet for Governmental Funds		229,721,777
Prepaid OPEB is not reported in the Balance Sheet for governmental funds		20,658,485
Restricted assets are not available to pay for current period expenditures and, therefore, are deferred in the funds		3,861,347
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		<u>(100,573,982)</u>

Net Position - Governmental Activities	\$	<u>249,186,987</u>
--	----	--------------------

Amounts reported for change in Fund Balances - Governmental Funds are different from change in Net Position of Governmental Activities because:

Net increase/(decrease) in fund balances - total governmental funds	\$	1,741,883
Depreciation expense which is reported in the statement of activities, but not reflected as an expenditure for governmental activities		(8,849,365)
Disposal of capital assets which is reported in the statement of activities, but not reflected as an expenditure for governmental activities		(41,226)
Issuance of long-term debt, excluding effect of refunding and balance in debt escrow		(8,894,725)
Repayment of debt		10,690,079
Increase in prepaid OPEB not reported on balance sheet for governmental funds		2,810,000
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense		<u>14,366,784</u>

Increase/(decrease) in net position of governmental activities	\$	<u>11,823,430</u>
--	----	-------------------

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
ASSETS				
<u>Current assets</u>				
Cash and cash equivalents	\$ -	\$ 184,395	\$ 377,677	\$ 562,072
Due from other funds	598,863	158,236	1,337,921	2,095,020
Accounts receivable	15,401	4,631	70,271	90,303
Inventory	-	38,444	-	38,444
Other, prepaids	-	7,024	-	7,024
Total Current Assets	<u>614,264</u>	<u>392,730</u>	<u>1,785,869</u>	<u>2,792,863</u>
<u>Non-current assets</u>				
Capital assets	149,143	6,439,014	15,215,359	21,803,516
Accumulated depreciation	(131,798)	(2,361,122)	(2,124,273)	(4,617,193)
Capital assets, net of accumulated depreciation	<u>17,345</u>	<u>4,077,892</u>	<u>13,091,086</u>	<u>17,186,323</u>
Total Assets	<u>\$ 631,609</u>	<u>\$ 4,470,622</u>	<u>\$ 14,876,955</u>	<u>\$ 19,979,186</u>
LIABILITIES				
<u>Current liabilities</u>				
Accounts payable	\$ 77,627	\$ 41,806	\$ 157,778	\$ 277,211
Compensation-related liabilities	43,029	69,602	124,173	236,804
Unearned revenue	132,060	105,120	-	237,180
<u>Noncurrent Liabilities</u>				
Due within one year				
Financing agreements	-	-	349,714	349,714
Advance from general fund	-	64,935	-	64,935
Due in more than one year				
Financing agreements	-	-	103,603	103,603
Advance from general fund	-	1,023,244	-	1,023,244
Compensated absences	-	80,005	68,192	148,197
Total Liabilities	<u>252,716</u>	<u>1,384,712</u>	<u>803,460</u>	<u>\$2,440,888</u>
NET POSITION				
Invested in capital assets, net of related debt	17,345	2,989,714	12,637,769	15,644,828
Unrestricted	<u>361,548</u>	<u>96,196</u>	<u>1,435,726</u>	<u>1,893,470</u>
Total Net Position	<u>378,893</u>	<u>3,085,910</u>	<u>14,073,495</u>	<u>17,538,298</u>
Total Liabilities and Net Position	<u>\$ 631,609</u>	<u>\$ 4,470,622</u>	<u>\$ 14,876,955</u>	<u>\$ 19,979,186</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
OPERATING REVENUES				
Charges for Services	\$ 2,176,943	\$ 1,283,123	\$ 400,047	\$ 3,860,113
Environmental/Solid Waste Fees	-	-	2,396,340	2,396,340
	<u>2,176,943</u>	<u>1,283,123</u>	<u>2,796,387</u>	<u>6,256,453</u>
OPERATING EXPENSES				
Personal Services	1,199,229	653,770	942,492	2,795,491
Operating Supplies	206,683	252,310	34,367	493,360
Professional Services	224,378	86,537	1,232,951	1,543,866
Communications	11,848	2,726	4,293	18,867
Transportation	12,495	33,416	85,049	130,960
Rentals	146,185	35,469	11,957	193,611
Public Utilities	225,291	57,343	22,602	305,236
Other Operating Costs	13,085	23,922	-	37,007
Tipping Fees	-	-	906,874	906,874
Retiree Health Benefits (OPEB)	-	64,000	65,000	129,000
Interest Expense	-	29,932	2,934	32,866
Equipment	17,445	2,370	614	20,429
Depreciation	1,982	122,517	193,354	317,853
Total operating expenses	<u>2,058,621</u>	<u>1,364,312</u>	<u>3,502,487</u>	<u>6,925,420</u>
Operating Income (Loss)	118,322	(81,189)	(706,100)	(668,967)
Non-Operating Revenue				
Other	-	587	-	587
Construction in Progress	-	-	94,437	94,437
Grants revenue	29,066	-	-	29,066
General fund subsidy	-	-	980,065	980,065
Increase/(Decrease) in net position	<u>147,388</u>	<u>(80,602)</u>	<u>368,402</u>	<u>435,188</u>
NET POSITION				
Beginning of the Year	231,505	3,166,512	13,705,093	17,103,110
End of Year	<u>\$ 378,893</u>	<u>\$ 3,085,910</u>	<u>\$ 14,073,495</u>	<u>\$ 17,538,298</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Charges for Services	\$ 2,219,759	\$ 1,436,789	\$ 2,792,174	\$ 6,448,722
Personal Services	(1,207,631)	(662,628)	(965,575)	(2,835,834)
Other Expenses	(838,314)	(587,507)	(2,400,230)	(3,826,051)
Net Cash Provided (Used) By Operating Activities	<u>173,814</u>	<u>186,654</u>	<u>(573,631)</u>	<u>(213,163)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Net change in interfund loans	(197,731)	954,061	(266,652)	489,678
Grant revenue	29,066	-	-	29,066
General Operating Subsidy	-	-	980,065	980,065
Net Cash Provided (Used) By Non-Capital and Related Financing Activities	<u>(168,665)</u>	<u>954,061</u>	<u>713,413</u>	<u>1,498,809</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction / purchase of capital assets	(5,149)	-	370,519	365,370
Principal payments on long-term debt	-	-	(113,426)	(113,426)
Other reductions in long-term debt	-	(1,141,082)	(19,198)	(1,160,280)
Net Cash Used by Capital and Related Financing Activities	<u>(5,149)</u>	<u>(1,141,082)</u>	<u>237,895</u>	<u>(908,336)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	-	587	-	587
Net Increase/(Decrease) in Cash	-	220	377,677	377,897
CASH				
Beginning of Year	-	184,175	-	184,175
End of Year	<u>\$ -</u>	<u>\$ 184,395</u>	<u>\$ 377,677</u>	<u>\$ 562,072</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 118,322	\$ (81,189)	\$ (706,100)	\$ (668,967)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Depreciation	1,982	122,517	193,354	317,853
(Increase) decrease in accounts receivable	(1,317)	158,043	(4,213)	152,513
(Increase) decrease in inventory	-	(811)	-	(811)
Increase (decrease) in accounts payable	19,096	1,330	(33,588)	(13,162)
Increase (decrease) in compensation-related liabilities	(8,402)	(8,858)	(23,084)	(40,344)
Increase (decrease) in unearned revenue	44,133	(4,378)	-	39,755
Net Cash Provided (Used) By Operating Activities	<u>\$ 173,814</u>	<u>\$ 186,654</u>	<u>\$ (573,631)</u>	<u>\$ (213,163)</u>
SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES				
Total capital asset additions	\$ (5,149)	\$ -	\$ (251,168)	\$ (256,317)
Less transfer of assets from other funds	-	-	94,437	94,437
Less amount financed	-	-	527,250	527,250
Net cash used for purchase of capital assets	<u>\$ (5,149)</u>	<u>\$ -</u>	<u>\$ 370,519</u>	<u>\$ 365,370</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET POSITION - SHERIFF'S OFFICE RETIREMENT PLAN
JUNE 30, 2013

	<u>Sheriff's Office Retirement Plan</u>
ASSETS	
Cash and cash equivalents	\$ 3,950,398
Restricted cash and investments	<u>49,634,756</u>
Total Assets	<u>\$ 53,585,154</u>
NET POSITION	
Net position held in trust for pension benefits	<u>\$ 53,585,154</u>
Total Net Position	<u>\$ 53,585,154</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - SHERIFF'S OFFICE RETIREMENT PLAN
FOR THE YEAR ENDED JUNE 30, 2013

	Sheriff's Office Retirement Plan
ADDITIONS	
Contributions - Employer	\$ 4,403,976
Voluntary Supplemental Contribution - Employer	500,000
Contributions - Employee	<u>1,006,213</u>
	<u>5,910,189</u>
Interest and Dividends	1,251,397
Realized Gain	1,822,319
Net Unrealized Gain on Investments	<u>789,344</u>
	<u>3,863,060</u>
Total Additions	<u>9,773,249</u>
DEDUCTIONS	
Benefits	(2,624,258)
Administrative Costs	<u>(437,091)</u>
Total Deductions	<u>(3,061,349)</u>
Change in Net Position	6,711,900
NET POSITION	
Beginning of Year	<u>46,873,254</u>
End of Year	<u>\$ 53,585,154</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 STATEMENT OF FIDUCIARY NET POSITION - RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY, MARYLAND
 JUNE 30, 2013

	Retiree Benefit Trust of St. Mary's County, Maryland
ASSETS	
Restricted cash and investments	\$ <u>44,830,871</u>
Total Assets	\$ <u><u>44,830,871</u></u>
LIABILITIES	
Accounts payable	\$ <u>66,313</u>
Total Liabilities	<u>66,313</u>
NET POSITION	
Net Position restricted for other post-employment benefits	<u>44,764,558</u>
Total Liabilities and Net Position	\$ <u><u>44,830,871</u></u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - RETIREE BENEFIT TRUST OF
ST. MARY'S COUNTY, MARYLAND
YEAR ENDED JUNE 30, 2013

		Retiree Benefit Trust of St. Mary's County, Maryland
ADDITIONS		
Contributions to the Trust - Employer	\$	3,623,864
Voluntary Supplemental Contribution - Employer		2,810,000
Payments to Retirees - Employer		<u>2,045,136</u>
		<u>8,479,000</u>
Interest and Dividends		1,231,072
Realized Gain		40,913
Net Unrealized Gain on Investments		<u>2,247,678</u>
		<u>3,519,663</u>
Total Additions		<u>11,998,663</u>
DEDUCTIONS		
Benefits Paid Directly to Retirees		(2,045,136)
Administrative Costs		<u>(109,288)</u>
Total Deductions		<u>(2,154,424)</u>
Change in Net Position		9,844,239
NET POSITION		
Beginning of Year		<u>34,920,319</u>
End of Year	\$	<u><u>44,764,558</u></u>

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

The County Commissioners for St. Mary's County

Index - Notes to Financial Statements

June 30, 2013

	<u>Page</u>
1. Reporting entity and summary of significant accounting policies	29-39
2. Deficit Fund Equity	39
3. Cash, cash equivalents and investments	40-43
4. Changes in capital assets	44-50
5. Property tax	51
6. Special tax assessment receivable and deferred revenue	51-52
7. Long-term obligations	53-72
8. Fund balances	73-75
9. Retirement plans	76-93
10. Segment information for enterprise funds	94
11. Interfund balances	94-95
12. Commitments and contingencies	95-96
13. Other post-employment benefits	97-104
14. Landfill closure and postclosure cost	105
15. Risk management	105
16. Self-insurance (Worker's Compensation)	105
17. Subsequent event	105

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

1. Reporting entity and summary of significant accounting policies

Reporting entity

St. Mary's 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 the accounting 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.

The financial statements of the reporting entity include those of St. Mary's County Government (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 St. Mary's County Government. 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.

Discretely presented component units

For financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement Numbers 14, 39 and 61. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

Discretely presented component units (continued)

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

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

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

St. Mary's County Building Authority Commission was created by the Maryland General Assembly as an instrumentality of the County to acquire title to property within St. Mary's County for construction, renovation, or rehabilitation. The Building Authority Commission currently owns and leases property to the State of Maryland. Until June 2010, they also owned and leased property to the St. Mary's Nursing Center, Inc.

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

Financial Statements

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

The County's basic financial statements include government-wide financial statements (reporting on the County as a whole), fund financial statements (reporting the County's most significant funds), and fiduciary financial statements (reporting on the County's pension funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities are normally supported by taxes and intergovernmental revenues. The County's public safety, public transportation, health and social services, some parks and recreation activities, public works and general administrative services are classified as governmental activities. Business-type activities rely significantly on fees and charges for support. The County's Recreation and Parks, 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) invested in capital assets, net of related debt; (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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

Fund Financial Statements

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

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, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. No major funds by category are summarized into a single column.

Governmental Funds

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

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

Proprietary Funds

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

Fiduciary Funds

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

Basis of Accounting and Measurement Focus

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

Basis of Accounting

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

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 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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

Accounting policies

The financial statements of The County Commissioners for St. Mary's County have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in the GAAP and used by the County are discussed below.

Fund accounting

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

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

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 County Commissioners for 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 County Commissioners for St. Mary's County or the Chief Financial Officer.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund, special assessment fund and enterprise funds.
- f. The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted (GAAP) 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 County Commissioners for 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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

Cash, cash equivalents and investments (continued)

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

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 fund balance reservation, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

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

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

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

Full-time employees are entitled to compensatory time off for work performed in excess of the normal work period. The maximum permissible accumulation to be carried into the new calendar year is 240 hours for non-law enforcement employees and 480 hours for law enforcement employees and correctional officers. At termination, employees are paid for any accumulated compensatory leave at the higher rate of the average regular rate received by the employee during the last three years or the final regular rate received by such employee.

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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

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.

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

	Net Change in Fund Balance	End of Year Fund Balance
Budgetary Basis – General Fund	\$ 5,861,239	\$ 54,346,516
Minor revolving funds and general financing that relate to activities resulting from fees, fines, and other revenue sources that are not an element of the budget basis reporting	(1,750,326)	(967,030)
Beginning of year encumbrances, rolled into FY2013	(521,416)	-
Appropriation from prior year rolled to FY2013 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2013	521,416	521,416
Budgeted use of fund balance	(10,560,000)	-
Increase in bond rating reserve	301,742	
End of year encumbrances included in budget basis expenditures, not included for GAAP	<u>277,116</u>	<u>277,116</u>
GAAP Basis	<u>\$ (5,870,229)</u>	<u>\$ 54,178,018</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

Basis of presentation

The statement of net position and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements distinguish between those activities of the County that are governmental and those that are considered business-type activities.

Capital assets

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

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

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

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

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

Primary Government

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

Component Units

St. Mary's County Public Schools

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

St. Mary's County Library

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

Capital assets (continued)

Component Units (continued)

St. Mary's County Metropolitan Commission

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

St. Mary's County Building Authority Commission

Buildings	40 years
Furniture and equipment	10 years

Inventory and prepaid expenditures

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

Long-term obligations

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

2. Deficit fund equity

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

3. Cash, cash equivalents and investments

Primary Government

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

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

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

Cash Deposits

At year end, the carrying amount of the County's deposits was \$93,917,440 and the collected bank balance was \$97,654,944. Of the collected bank balance, \$750,000 was covered by Federal Deposit Insurance Corporation (FDIC), and \$96,773,146 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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

3. Cash, cash equivalents and investments (continued)

Primary Government (continued)

Investments (continued)

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

<u>Investment Type</u>	<u>Fair Value</u>
U.S. government securities – Cash Deposits and Treasuries	\$ 89,678,416
Money Market - Exempt Financing	4,239,024
Maryland Local Government Investment Pool (MLGIP)	5,230,212
Retiree Benefit Trust (OPEB):	
Cash	\$ 2,629,080
Common Stock/Equity Funds	26,353,690
Fixed Income:	
Bond Funds	14,861,138
Venture/Limited Partnership/Closely Held	<u>986,963</u>
Subtotal – Retiree Benefit Trust (OPEB)	44,830,871
Pension investments – Sheriff's Office Retirement Plan:	
Cash	\$ 3,950,397
Fixed income:	
Government and agencies	
Bond Funds	15,809,951
Common stock	9,052,127
Venture/Limited Partnership/Closely Held	5,456,297
Equity Funds	19,209,771
Other – Miscellaneous	<u>106,611</u>
Subtotal – Sheriff's Office Retirement Plan	<u>53,585,154</u>
Total investments	<u>\$ 197,563,677</u>

Money Market account is not evidenced by securities.

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

3. Cash, cash equivalents and investments (continued)

Component Units

St. Mary's County Public Schools

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of bank failure, the School System's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the School System must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2013, all of the School System's deposits were either covered by federal depository insurance or were covered by collateral held by the School System's agent in the School System's name.

Short-term investments

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

At June 30, 2013, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value were \$14,846,398, \$405,896, and \$783,930 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

St. Mary's County Library

Cash deposits and investments

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

At June 30, 2013, the carrying amount of the Library's deposits was \$463,620, and the bank balances totaled \$472,202. All of the bank balances in financial institutions were covered by federal depository insurance at June 30, 2013.

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

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government		
Investment Pool	<u>\$ 308,705</u>	<u>\$ 308,705</u>
Restricted:		
The Vanguard Group	<u>\$ 150,672</u>	<u>\$ 150,672</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

St. Mary's County Library (continued)

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

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

St. Mary's County Metropolitan Commission

Deposits and investments

Deposits

The carrying amount of MetCom's deposits was \$7,925,001 at June 30, 2013, and the bank balance was \$8,423,339. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2013, with the remaining \$8,173,339 adequately covered by collateral. State statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Cash and cash equivalents consisted of the following:

Investments	\$ 3,155,815
Cash	7,925,001
Petty cash	<u>900</u>
	<u>\$ 11,081,716</u>

Investments

State statutes authorize MetCom to invest in obligations of the United States government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligations. All of the funds were invested in the Maryland Local Government Investment Pool (MLGIP) which qualifies under the statutes. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating).

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

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

	<u>Carrying Amount</u>	<u>Market Value</u>
MLGIP	<u>\$ 3,155,815</u>	<u>\$ 3,155,815</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

4. Changes in capital assets

Primary Government

A summary of changes in capital assets is as follows:

	Balance June 30, 2012	Additions	Transfers/ Disposals	Balance June 30, 2013
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 31,772,335	\$ 262,948	\$ -	\$ 32,035,283
Construction In Progress	6,380,721	9,675,808	(5,443,840)	10,612,689
911 system & equipment	1,423,733	-	-	1,423,733
Total capital assets not being depreciated	39,576,789	9,938,756	(5,443,840)	44,071,705
Capital assets being depreciated:				
Buildings & improvements	98,330,792	956,759	-	99,287,551
Computer equipment	2,110,953	70,159	-	2,181,112
Other equipment	251,481	6,300	-	257,781
Vehicles - licensed	10,690,384	2,133,198	(458,351)	12,365,231
Off-road vehicles	1,845,237	236,122	(63,905)	2,017,454
Miscellaneous equipment	4,691,875	715,404	-	5,407,279
Roads	160,565,266	5,354,794	-	165,920,060
Curbing	946,791	-	-	946,791
Sidewalks	982,973	-	-	982,973
Guardrails	1,222,652	62,863	-	1,285,515
Airport infrastructure	4,595,335	-	-	4,595,335
Airport equipment	579,104	-	-	579,104
Baseball fields	802,670	-	-	802,670
Bridges	6,476,889	30,000	-	6,506,889
Parks & recreation	12,953,732	214,345	-	13,168,077
Marinas & docks	7,956,153	91,924	-	8,048,077
Irrigation systems	241,853	-	-	241,853
Signage	475,433	-	-	475,433
Parking lots	838,283	-	-	838,283
911 system & equipment	7,848,948	-	-	7,848,948
Total capital assets being depreciated	324,406,804	9,871,868	(522,256)	333,756,416
Accumulated depreciation for:				
Buildings & improvements	(37,489,146)	(1,754,549)	-	(39,243,695)
Computer equipment	(1,984,860)	(41,510)	-	(2,026,370)
Other equipment	(136,487)	(14,488)	-	(150,975)
Vehicles - licensed	(8,623,424)	(835,769)	417,125	(9,042,068)
Off-road vehicles	(1,474,081)	(50,418)	63,905	(1,460,594)
Miscellaneous equipment	(2,635,695)	(314,851)	-	(2,950,546)
Roads	(65,609,775)	(4,489,982)	-	(70,099,757)

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

4. Changes in capital assets (continued)

Primary Government (continued)

A summary of changes in capital assets is as follows:

	Balance June 30, 2012	Additions	Transfers/ Disposals	Balance June 30, 2013
Accumulated depreciation for: (continued)				
Curbing	\$ (669,750)	\$ (19,524)	\$ -	\$ (689,274)
Sidewalks	(449,180)	(21,412)	-	(470,592)
Guardrails	(440,891)	(27,884)	-	(468,775)
Airport infrastructure	(4,482,578)	(22,952)	-	(4,505,530)
Airport equipment	(504,860)	(8,734)	-	(513,594)
Baseball fields	(403,745)	(15,926)	-	(419,671)
Bridges	(2,392,492)	(130,327)	-	(2,522,819)
Parks & recreation	(3,525,377)	(410,502)	-	(3,935,879)
Marinas & docks	(4,265,227)	(256,780)	-	(4,522,007)
Irrigation systems	(113,501)	(5,787)	-	(119,288)
Signage	(396,241)	(7,975)	-	(404,216)
Parking lots	(211,984)	(48,882)	-	(260,866)
911 equipment	(3,928,715)	(371,113)	-	(4,299,828)
Total accumulated depreciation	(139,738,009)	(8,849,365)	481,030	(148,106,344)
Total capital assets being depreciated, net	184,668,795	1,022,503	(41,226)	185,650,072
Governmental activities capital assets, net	\$ 224,245,584	\$ 10,961,259	\$ (5,485,066)	\$ 229,721,777
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 1,078,666	\$ -	\$ -	\$ 1,078,666
Construction in progress	-	94,437	(94,437)	-
Solid waste facilities	12,248,547	-	-	12,248,547
Total capital assets not being depreciated	13,327,213	94,437	(94,437)	13,327,213
Capital assets being depreciated:				
Buildings & improvements	4,324,284	-	-	4,324,284
Computer equipment	57,188	-	-	57,188
Other equipment	39,359	-	-	39,359
Vehicles - Licensed	1,950,623	147,690	(105,574)	1,992,739
Off-road vehicles	1,093,742	-	-	1,093,742
Miscellaneous equipment	350,378	108,627	-	459,005
Irrigation systems	509,986	-	-	509,986
Total capital assets being depreciated	8,325,560	256,317	(105,574)	8,476,303
Accumulated depreciation for:				
Buildings & improvements	(1,420,212)	(81,914)	-	(1,502,126)
Computer equipment	(53,442)	(2,497)	-	(55,939)
Other equipment	(38,245)	(130)	-	(38,375)
Vehicles - Licensed	(1,562,882)	(109,423)	105,574	(1,566,731)
Off-road vehicles	(701,336)	(56,456)	-	(757,792)
Miscellaneous equipment	(333,200)	(50,740)	-	(383,940)
Irrigation systems	(295,596)	(16,694)	-	(312,290)
Total accumulated depreciation	(4,404,913)	(317,854)	105,574	(4,617,193)
Total capital assets being depreciated, net	3,920,647	(61,537)	-	3,859,110
Business-type activities capital assets, net	\$ 17,247,860	\$ 32,900	\$ (94,437)	\$ 17,186,323

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

4. Changes in capital assets (continued)

Primary Government (continued)

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

Governmental Activities

General Government	\$ 1,055,518
Public Safety	1,341,249
Public Works	5,388,213
Social Services	97,633
Post -Secondary Education	42,285
Parks, Recreation, and Culture	718,971
Libraries	203,990
Economic Development and Opportunity	<u>1,506</u>
Total Depreciation - Governmental Activities	<u>\$ 8,849,365</u>

Business-Type Activities

Recreation Activity Fund	\$ 1,982
Solid Waste/Recycling	193,356
Wicomico	<u>122,516</u>
Total Depreciation - Business-Type Activities	<u>\$ 317,854</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

4. Changes in capital assets (continued)

Component Units

St. Mary's County Public Schools

Capital Assets

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

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions/Transfers</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 2,545,293	\$ -	\$ -	\$ 2,545,293
Construction in process	<u>4,633,825</u>	<u>2,466,828</u>	<u>(3,461,377)</u>	<u>3,639,276</u>
	<u>7,179,118</u>	<u>2,466,828</u>	<u>(3,461,377)</u>	<u>6,184,569</u>
Capital assets being depreciated:				
Buildings and improvements	334,040,066	503,543	3,461,377	338,004,986
Furniture and equipment	7,822,138	480,731	(151,482)	8,151,387
Equipment leased under financing agreements	<u>-</u>	<u>4,472,501</u>	<u>-</u>	<u>4,472,501</u>
	<u>341,862,204</u>	<u>5,456,775</u>	<u>3,309,895</u>	<u>350,628,874</u>
Accumulated depreciation for:				
Buildings and improvements	(107,307,623)	(7,456,955)	-	(114,764,578)
Furniture and equipment	<u>(5,036,876)</u>	<u>(1,424,675)</u>	<u>150,471</u>	<u>(6,311,080)</u>
	<u>(112,344,499)</u>	<u>(8,881,630)</u>	<u>150,471</u>	<u>(121,075,658)</u>
Governmental activities capital assets, net	<u>\$ 236,696,823</u>	<u>\$ (958,027)</u>	<u>\$ (1,011)</u>	<u>\$ 235,737,785</u>
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,617,164	\$ 52,132	\$ (5,100)	\$ 1,664,196
Accumulated depreciation for:				
Furniture and equipment	<u>(1,028,955)</u>	<u>(100,782)</u>	<u>3,854</u>	<u>(1,125,883)</u>
Business-type activities capital Assets, net	<u>\$ 588,209</u>	<u>\$ (48,650)</u>	<u>\$ (1,246)</u>	<u>\$ 538,313</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Assets (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2013, as follows:

Governmental activities:		
Administration	\$	447,105
Mid-Level administration		149,546
Other instructional costs		473,390
Special education		13,915
Student personnel services		682
Student transportation services		138,635
Operation of plant		7,652,712
Maintenance of plant		<u>5,645</u>
Total governmental activities depreciation expense	\$	<u>8,881,630</u>
Business-type activities:		
Food services	\$	<u>100,782</u>

St. Mary's County Library

Capital assets and depreciation

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets:				
Furnishings and Equipment	\$ 940,210	\$ 36,208	\$ 2,260	\$ 974,158
Leasehold Improvements	87,735	-	-	87,735
Vehicles	33,102	19,041	17,199	34,944
Books	<u>3,909,390</u>	<u>408,264</u>	<u>85,029</u>	<u>4,232,625</u>
	<u>4,970,437</u>	<u>463,513</u>	<u>104,488</u>	<u>5,329,462</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Library (continued)

Capital assets and depreciation (continued)

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Accumulated depreciation:				
Furnishings and equipment	\$ 870,272	\$ 44,501	\$ 2,260	\$ 912,513
Leasehold improvements	3,510	1,755	-	5,265
Vehicles	33,102	3,808	17,199	19,711
Books	<u>2,685,102</u>	<u>386,442</u>	<u>85,029</u>	<u>2,986,515</u>
	<u>3,591,986</u>	<u>436,506</u>	<u>104,488</u>	<u>3,924,004</u>
Net capital assets	<u>\$ 1,378,451</u>	<u>\$ (27,007)</u>	<u>\$ -</u>	<u>\$1,405,458</u>

Governmental activities depreciation expense of \$436,506 was charged to Library services.

St. Mary's County Building Authority Commission

Capital assets

Capital assets at June 30, 2013 consisted of the following:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets:				
State Office building	\$ 8,673,157	\$ -	\$ 8,673,157	\$ 0
Furniture and equipment	<u>13,387</u>	<u>-</u>	<u>13,387</u>	<u>0</u>
	<u>8,686,544</u>	<u>-</u>	<u>8,686,544</u>	<u>0</u>
Accumulated depreciation:				
State Office building	4,848,278	216,829	5,065,107	0
Furniture and equipment	<u>13,387</u>	<u>-</u>	<u>13,387</u>	<u>0</u>
	<u>4,861,665</u>	<u>216,829</u>	<u>5,078,494</u>	<u>0</u>
Net capital assets	<u>\$ 3,824,879</u>	<u>\$ 216,829</u>	<u>\$ 3,608,050</u>	<u>\$ 0</u>

Depreciation expense of \$216,829 was charged to activities for the fiscal year ended June 30, 2013. There were no additions of capital assets during the fiscal year ended June 30, 2013. The State Office Building assets were transferred to the State on June 1, 2013.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

4. Changes in capital assets (continued)

St. Mary's County Metropolitan Commission

Capital assets and depreciation

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

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

5. Property tax

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied each July 1, and the taxpayer has the option to pay in full without interest by September 30 or elect a semiannual payment option. If a semiannual payment option is elected, the first payment is payable without interest by September 30 and the second payment, including a service charge, is payable without interest by December 31. Interest is charged for each month or fraction thereof that taxes remain unpaid beginning October 1 on accounts under the annual payment option or January 1 for accounts under the semiannual payment option. Maryland law grants the Treasurer of St. Mary's County the power to immediately advertise and sell any real property after the taxes are delinquent for a period of one year. Property taxes are levied at rates enacted by the Commissioners in the annual budget applied to the assessed value of the property as determined by the Maryland State Department of Assessments and Taxation, an agency of the government of the State of Maryland. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice, and then only after public hearings. The real property tax rate during the year ended June 30, 2013, was \$.857 per \$100 of assessed value based on the full valuation method. The Constant Yield tax rate for FY2013 was \$.8608. The personal property tax rate during the year ended June 30, 2013 was \$2.1425 per \$100 of assessed value. The County Treasurer bills and collects all property taxes.

A 100% allowance for uncollectibles is established for prior year taxes receivable. County property tax receivable as of June 30, 2013, net of the allowance for uncollectibles of \$743,844, is \$2,993,436 (this amount does not include state and emergency services taxes receivable). On October 1, a 3% penalty is assessed, and interest begins accruing at a rate of 1% for each month that real and personal property taxes are delinquent (unless taxpayer has elected semiannual payment option as described above).

6. Special tax assessment receivable and unearned revenue

Primary Government

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

As of June 30, 2013, the amount of delinquent special assessment receivables due from taxpayers was \$605.

Component Units

St. Mary's County Public Schools

General Fund

Unearned revenue primarily consists of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2013 of \$1,611,943, and summer school tuition of \$10,750, which is collected in advance of the corresponding expenditures which do not occur until the following fiscal year.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

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

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Projects Fund

Unearned revenue consists primarily of funds received for a removal security 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 \$128,902 represents student lunch ticket sales collected in advance for lunches which will be consumed by students in fiscal year 2014.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations

Primary Government

Governmental Activities

	June 30, 2012	Additions	Deductions	Principal Repayment	June 30, 2013	Amounts due within one year
General Obligation Bonds - County	\$ 91,422,000	\$ -	\$ -	\$ (7,537,000)	\$ 83,885,000	\$ 6,830,000
Water Quality Loans	3,035,094	-	-	(554,304)	2,480,790	563,566
State Loans	1,910,639	-	-	(121,501)	1,789,140	142,513
Surplus Property Transfer of Debt	47,366	-	-	(46,159)	1,206	628
Exempt Financing	<u>296,332</u>	<u>10,572,750</u>	<u>-</u>	<u>(2,431,115)</u>	<u>8,437,967</u>	<u>2,077,515</u>
	<u>96,711,431</u>	<u>10,572,750</u>	<u>-</u>	<u>(10,690,079)</u>	<u>96,594,103</u>	<u>9,614,222</u>
 General Obligation Bonds, sold on behalf of St. Mary's Hospital	 <u>14,030,000</u>	 <u>-</u>	 <u>14,030,000</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
Landfill Post-Closure Costs	600,000	1,650,000	-	-	2,250,000	-
Compensated Absences (Long-Term)	<u>4,228,558</u>	<u>330,861</u>	<u>-</u>	<u>-</u>	<u>4,559,419</u>	<u>292</u>
	<u>4,828,558</u>	<u>1,980,861</u>	<u>-</u>	<u>-</u>	<u>6,809,419</u>	<u>292</u>
 Total	 <u>115,569,989</u>	 <u>12,553,611</u>	 <u>14,030,000</u>	 <u>(10,690,079)</u>	 <u>103,403,522</u>	 <u>9,614,514</u>
Less: Amount Deferred on Refunding 2009	(560,000)	44,385	-	-	(515,615)	(49,575)
Less: Amount Deferred on Refunding 2011	<u>(2,472,000)</u>	<u>158,075</u>	<u>-</u>	<u>-</u>	<u>(2,313,925)</u>	<u>(247,508)</u>
Amount Reported in Statement of Net Position	<u>\$ 112,537,989</u>	<u>\$ 12,756,071</u>	<u>\$ 14,030,000</u>	<u>\$ (10,690,079)</u>	<u>\$ 100,573,982</u>	<u>\$ 9,317,431</u>
 <u>Business-Type Activities</u>						
Exempt Financing	\$ 1,182,389	\$ 527,250	\$ (217)	\$ (1,256,105)	453,317	\$ 103,603
Compensated Absences (Long-Term)	<u>165,581</u>	<u>-</u>	<u>17,384</u>	<u>-</u>	<u>148,197</u>	<u>-</u>
Amount Reported in Statement of Net Position	<u>\$ 1,347,970</u>	<u>\$ 527,250</u>	<u>\$ 17,167</u>	<u>\$ (1,256,105)</u>	<u>\$ 601,514</u>	<u>\$ 103,603</u>

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

General obligation bonds

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

On January 15, 2002, the County issued General Obligation Bonds (\$20,755,000 Consolidated Public Improvement Refunding Bonds and \$20,000,000 General Obligation Hospital Bonds). The Hospital Bonds were issued to fund a loan by the County to St. Mary's Hospital of St. Mary's County (the "Hospital"). The Hospital will apply the proceeds of such loan to fund capital improvements to its facility in Leonardtown, MD, including the construction of approximately 67,000 square feet of new space, the renovation of approximately 40,000 square feet of existing space, and site and infrastructure improvements. The Refunding Bonds will mature on October 1, in 17 annual serial installments, beginning in the year 2003 and ending with the year 2019. Interest on the Bonds is payable semiannually on each April 1 and October 1 to maturity with an average interest rate of 4.17% (Hospital Bonds of 2003) and 3.86% (Refunding Bonds of 2003).

In October 2009, the Hospital merged into the MedStar Health System. The 2002 Hospital Bonds were defeased as of November 17, 2011 and fully redeemed on October 1, 2012.

The Refunding Bonds were issued to currently refund all outstanding maturities of the County's Public Facilities Bonds of 1988, and to advance refund the callable maturities of the County's Consolidated Public Improvement Bonds of 1999 (collectively, the "Refunded Bonds"), provided however, that the County reserves the right not to refund some or all of the maturities of the Refunded Bonds if appropriate levels of savings cannot be achieved.

The proceeds of the Refunding Bonds will be applied to the purchase of non-callable direct obligations of the United States of America ("Government Obligations") and used to pay certain expenses of the County related to the issuance and disposition of the proceeds of the Refunding Bonds.

On August 15, 2003, the County issued Public Facilities and Refunding Bonds of 2003 in the principal amount of \$33,985,000. The bonds mature on November 1, in twenty annual installments, beginning in 2004 and ending in 2023. Interest rates on the bonds range from 2.75% to 4.75%, with a true interest cost of approximately 3.99%. Interest is payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1 to maturity.

The bonds may be prepaid at the following premiums:

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

General obligation bonds (continued)

The County Bonds were issued to (1) pay a portion of the costs of financing certain capital projects of the County, (2) currently refund all outstanding maturities of the County's Public Facilities Bonds of 1991 and Public Facilities Bonds of 1993 (collectively, the "Currently Refunded County Bonds"), (3) advance refund the callable maturities only of the County's Public Facilities Bonds of 1995 (the "Advance Refunded County Bonds" and, together with the Currently Refunded County Bonds, the "Refunded County Bonds"), and (4) pay costs of issuance.

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

On February 28, 2008, the County did a current refunding of part of the 1997 General Obligation Consolidated Public Improvement and Refunding Bonds with the same maturity date ending in fiscal year 2012 with an annual interest rate of 2.4%. The estimated savings of principal and interest are \$399,579. The final payment was paid in 2010 on the 1997 General Obligation Consolidated Public Improvement and Refunding Bonds.

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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

2001 Maryland Water Quality Loan

On September 29, 2000, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$3,338,383 for landfill post-closure costs, St. Andrews Landfill area B, cells 1, 2 and 4. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears interest at a rate of 2.4% per annum payable semiannually. Principal payments are due annually through 2016 starting February 1, 2002. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2013, based on the final loan amount of \$3,225,318, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2014	\$ 249,268	\$ 15,668	\$ 12,753	\$ 277,689
2015	255,251	9,686	12,753	277,690
2016	<u>148,312</u>	<u>3,559</u>	<u>12,753</u>	<u>164,624</u>
	<u>\$ 652,831</u>	<u>\$ 28,913</u>	<u>\$ 38,259</u>	<u>\$ 720,003</u>

2004 Maryland Water Quality Loan

On May 26, 2004, The County Commissioners for 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, 2013, based on the final loan amount of \$4,222,304, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2014	\$ 314,298	\$ 20,107	\$ 11,448	\$ 345,853
2015	317,755	16,650	11,448	345,853
2016	321,250	13,155	11,448	345,853
2017	324,784	9,621	11,448	345,853
2018	328,356	6,049	11,448	345,853
2019	<u>221,516</u>	<u>2,437</u>	<u>11,448</u>	<u>235,401</u>
	<u>\$1,827,959</u>	<u>\$ 68,019</u>	<u>\$ 68,688</u>	<u>\$1,964,666</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

2006 Surplus Property, Transfer of Net Debt

On June 6, 2006, The County Commissioners for 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, 2013, the principal and interest payments through 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 628	\$ 49	\$ 677
2015	137	21	158
2016	142	16	158
2017	147	11	158
2018	<u>152</u>	<u>6</u>	<u>158</u>
	<u>\$ 1,206</u>	<u>\$ 103</u>	<u>\$ 1,309</u>

2012 Exempt Financing Equipment Lease

On September 20, 2012, The County Commissioners for 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, 2013, \$6,711,403 has been drawn to pay for eligible purchases. The balance will be used to reimburse eligible purchases upon delivery and approval of the invoice. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the primary government portion of the 2012 Equipment Lease as of June 30, 2013, based on the final lease amount of \$11,100,000 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,077,515	\$ 100,185	\$ 2,177,700
2015	2,103,775	73,926	2,177,701
2016	2,130,366	47,335	2,177,701
2017	<u>2,126,311</u>	<u>19,320</u>	<u>2,145,631</u>
	<u>\$ 8,437,967</u>	<u>\$ 240,766</u>	<u>\$ 8,678,733</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

Long-term obligations at June 30, 2013 consist of the following:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Amount</u>
<u>MD Water Quality Loans and Other State Loans:</u>			
Maryland Department of Natural Resources:			
Point Breeze	1993-2017	None	\$ 40,710
Sandgates Road	1994-2015	None	12,464
Tall Timbers #3 Erosion Project	1991-2016	None	19,748
Jefferson Island Club, Inc.	1991-2016	None	27,109
Holly Point Shores	2008-2032	None	190,541
Maryland Water Quality Loan	2003-2016	2.4%	652,831
Murray Road Revetment	2004-2028	None	54,480
Maryland Water Quality Loan	2005-2019	None	1,827,959
Piney Point Lighthouse	2009-2024	None	437,281
Villas on Water Edge	2009-2029	None	414,124
Kingston Creek II	2010-2037	None	253,047
North Patuxent Beach	2009-2024	None	339,636
Total state loans			<u>4,269,930</u>
<u>General obligation bonds</u>			
Consolidated Public Improvement Bonds of 2005	2006-2025	3.75-4.25%	11,020,000
2009 Refunding Bonds, Series A	2010-2019	2.5-4.0%	9,355,000
2009 Bonds, BAB, Series B	2020-2029	4.519%-5.7%*	16,945,000
*Rate shown does not reflect 35% rebate			
2009 Refunding Bonds, Series C	2010-2021	2-5%	14,405,000
2011 Refunding Bonds	2012-2023	2.25-2.41%	32,160,000
Total general obligation bonds			<u>83,885,000</u>
Total state loans and bonds			88,154,930
Surplus property transfer of debt			1,206
Accrued landfill closure and postclosure costs			2,250,000
Exempt Financing			8,437,967
Accumulated unpaid annual leave			4,559,419
Sub-total			<u>103,403,522</u>
Less: Amount deferred on refunding			(2,829,540)
Net			<u>\$ 100,573,982</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Primary Government (continued)

Business-Type Activities

2012 Exempt Financing Equipment Lease

On September 20, 2012, The County Commissioners for 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, 2013, \$149,573 has been drawn to pay for eligible purchases. The balance will be used to reimburse eligible purchases upon delivery and approval of the invoice. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the business-type activities portion of the 2012 Equipment Lease as of June 30, 2013, based on the final lease amount of \$11,100,000 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 103,603	\$ 4,996	\$ 108,599
2015	104,913	3,687	108,600
2016	106,239	2,360	108,599
2017	138,562	2,106	140,668
	<u>\$ 453,317</u>	<u>\$ 13,149</u>	<u>\$ 466,466</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Primary Government (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2013 is composed of the following loans payable to the Maryland Department of Natural Resources:

Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$6,582, without interest, guaranteed by the full faith and credit of the County.	\$ 19,748
Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of \$11,040, without interest, modified during fiscal year 1993 to twenty-two varying annual payments without interest, guaranteed by the full faith and credit of the County.	27,109
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.	190,541
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.	414,124
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>253,047</u>
	<u>\$ 904,569</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Primary Government (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2013, including interest of \$17,719,838, except for the accrued landfill closure and postclosure costs, accumulated unpaid leave benefits, exempt financing, surplus property debt and Maryland Water Quality Loans, are as follows:

<u>Years Ending June 30,</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 6,972,513	\$ 2,529,221	\$ 9,501,734
2015	7,138,390	2,342,499	9,480,889
2016	7,293,665	2,152,399	9,446,064
2017	7,460,083	1,956,020	9,416,103
2018	7,675,083	1,728,451	9,403,534
2019-2023	32,254,705	5,212,911	37,467,616
2024-2028	12,807,522	1,655,016	14,462,538
2029-2033	4,030,020	143,321	4,173,341
2034-2037	42,159	-	42,159
Total	\$ 85,674,140	\$ 17,719,838	\$ 103,393,978

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

	General Obligation		Special	Total
	Bonds	State Loans	Assessment Fund	
Principal	\$ 83,885,000	\$ 884,571	\$ 904,569	\$ 85,674,140
Interest	17,719,838	-	-	17,719,838
	\$ 101,604,838	\$ 884,571	\$ 904,569	\$ 103,393,978

During FY 2013, the Hospital Bonds, which at June 30, 2012, reflected principal of \$14,030,000 and interest of \$4,465,595, were fully redeemed.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units

St. Mary's County Public Schools

Long-term Liabilities

General long-term debt at June 30, 2013, consists of accumulated compensated absences payable and net OPEB obligation. The following is a summary of changes in the School System's general long-term liabilities for the year ended June 30, 2013.

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>	<u>Amounts due Within one year</u>
Governmental activities:					
Equipment financing agreement	\$ -	\$ 4,472,501	\$ (1,010,370)	\$ 3,462,131	\$ 965,649
Compensated absences	4,003,071	688,345	(559,706)	4,131,710	481,438
Net OPEB obligation	<u>25,033,380</u>	<u>11,911,000</u>	<u>(5,998,452)</u>	<u>30,945,928</u>	<u>-</u>
	<u>\$29,036,451</u>	<u>\$17,071,846</u>	<u>\$ (7,568,528)</u>	<u>\$38,539,769</u>	<u>\$ 1,447,087</u>
Business-type activities:					
Compensated absences	<u>\$ 133,551</u>	<u>\$ 33,200</u>	<u>\$ (5,486)</u>	<u>\$ 161,265</u>	<u>\$ 12,340</u>

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

During the year ended June 30, 2013, the School System entered into various lease-purchase agreements to acquire certain office equipment and various student, teacher and administrative computers. These agreements have varying terms consisting of combined monthly payments of \$38,818, quarterly payments of \$1,824, and annual payments of \$623,929 at interest rates ranging from 3.74% to 7.69% expiring through April 2018. All items purchased under the lease-purchase agreements are pledged as collateral under the agreements. Principal and interest payments for lease-purchase agreements are recorded as expenditures of the General Fund. Principal payments are reported as reductions of long-term obligations in the government-wide financial statements. Total lease payments, including interest, under these agreements for the year ended June 30, 2013 was \$1,081,817.

On August 21, 2013, the School System entered into another lease-purchase agreement to acquire additional computer equipment in the amount of \$1,715,090. The terms of the agreement provide for four annual payments of \$445,646, including interest at 3.59% and one final payment of \$26,464 due August 2017.

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, 2013:

	<u>Balance July 1, 2012</u>	<u>Increase</u>	<u>Balance June 30, 2013</u>	<u>Amounts due within one year</u>
	\$ 107,472	\$ 5,509	\$ 112,981	\$ -

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission

Long-term debt

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

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Fourteenth Issue

On May 18, 1999, the Commission issued \$1,830,900 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA).

This bond was refinanced with SunTrust Bank effective March 15, 2012 as the Thirtieth Issue.

Seventeenth Issue

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

The bonds may be prepaid at the following premiums:

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

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

These bonds have been restated to the amount of the bond. The deferred loss on the advance refunding has been reclassified to deferred bond issue costs.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Twenty-first Issue

On April 15, 2006, the Commission issued Refunding Bonds on April 5, 2006 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 is payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

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

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

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

Twenty-third Issue

On November 14, 2007, the Commission issued \$10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2013, MetCom had drawn only \$9,739,936 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 is payable on May 1, 2008 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2017. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Twenty-seventh Issue

On August 25, 2010, the Commission issued \$12,613,963 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2013, MetCom had drawn only \$8,096,339 of the proceeds.

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

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, 2012 through April 30, 2022	101%
On or after May 1, 2022	100%

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

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

Thirty-First Issue

On December 29, 2012, the Commission issued \$8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2013 MetCom had drawn only \$1,178,913 of the proceeds.

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable

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

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

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	897,456	143,520
2015	919,540	159,472
2016	1,041,914	159,973
2017	1,032,346	132,268
2018	701,348	108,603
2019-2023	3,207,885	399,413
2024-2028	1,718,602	212,156
2029-2033	829,269	109,495
2034	<u>281,682</u>	<u>22,033</u>
	<u>\$10,630,132</u>	<u>\$ 1,446,933</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

As of June 30, 2013, MetCom has fourteen loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purpose of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for \$976,700 was used to replace the Lexington Park Wastewater Pumping Station. Loan number twenty for \$1,466,576 was for water meter installations. Loan number twenty-two for \$1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 was used for Patuxent Park Sewer Line Repair and the Marlay-Taylor Methane Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was used for the St. Clements Shore Well. Loan number twenty-nine is with SunTrust Bank in the amount of \$270,682 at an interest rate of 2.03%. Payments are made monthly on this loan from December 2011 through November 2016. The proceeds of this loan were used to purchase a Vactor truck. Loan number thirty-two in the amount of \$4,874,202 is for the Radio Read Meter Project. As of June 30, 2013 MetCom had drawn \$227,326 of the proceeds. Loan number thirty-three in the amount of \$394,000 is for the Shangri La Drive/South Essex Drive Sewer Rehabilitation. As of June 30, 2013 MetCom had drawn \$35,044 of the proceeds. Loan number thirty-four in the amount of \$21,082,400 is for the Marlay-Taylor Wastewater Reclamation Facility Enhanced Nutrient Removal, ENR, project. Loan number thirty-five in the amount of \$5,270,600 is also used for Marlay-Taylor Water Reclamation Facility ENR project. This loan that will be paid for by Navy charges and is therefore taxable. As of June 30, 2013, MetCom has drawn \$2,236,208 on loans thirty-four and thirty-five.

Changes in long-term debt

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission

Long-term Debt

Changes in Long-term Debt

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Amounts due</u> <u>within one year</u>
Bonds payable	<u>\$ 2,725,000</u>	<u>\$ -</u>	<u>\$1,295,000</u>	<u>\$ 1,430,000</u>	<u>\$ 1,430,000</u>

Nursing Home Refunding Bonds

General

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

As part of the transfer of the Nursing Center building to the Nursing Home, an escrow account was established in order to implement the optional redemption on July 15, 2013. The proceeds of the property transfer were determined to be the amount needed to defease the bonds as of that date. The optional redemption was effective on July 15, 2013.

State Office Building Refunding Bonds

The certificates were dated June 1, 1994, in the amount of \$8,760,000.

The certificates were executed and delivered in fully registered form, without coupons, in denominations of \$5,000 each or any integral multiple thereof. Interest is payable on the certificates on each June 1 and December 1.

Redemption provisions

The certificates are subject to mandatory redemption in whole at any time or in part on any interest payment date at par plus accrued interest (i) if the project is damaged, destroyed or condemned, from insurance or condemnation proceeds not required to rebuild or modify the project after such damage, destruction or condemnation or (ii) if the project is damaged, destroyed or condemned, and the insurance or condemnation proceeds are insufficient to repair, rebuild or modify the project and the State elects not to use its own funds for such purpose, from insurance and condemnation proceeds and amounts then payable by the State as prepayment of the entire project purchase price.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Optional redemption

Bonds that mature on or before July 15, 2013, are not subject to redemption prior to their maturities. Bonds that mature on or after July 15, 2014, are subject to redemption beginning July 15, 2013, as a whole at any time or in part on any interest payment date, in any order of maturities, at the option of the Commission, at the following redemption prices expressed as a percentage of the principal amount of bonds to be redeemed plus accrued interest thereon to the date fixed for redemption:

<u>Period During Which Redeemable (both dates inclusive)</u>	<u>Redemption Price</u>
July 15, 2013 to July 14, 2014	101%
July 15, 2014 to July 14, 2015	100.5%
July 15, 2015 and thereafter	100%

Mandatory extraordinary redemption

The certificates maturing on June 1, 2013 are subject to mandatory sinking fund redemption on the following dates in the following amounts, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption:

\$1,055,000 term certificates due June 2013:

<u>Date</u>	<u>Sinking Fund Installment</u>
June 1, 2012	\$ 340,000
December 1, 2012	\$ 355,000
June 1, 2013	\$ 360,000

The principal amount of certificates redeemed from sinking fund installments due on any date will be reduced by an amount equal to the aggregate principal amount of certificates purchased by the Trustee in the open market or redeemed prior to such date and not theretofore credited against a sinking fund installment.

Selection of certificate to be redeemed

If fewer than all of the certificates are called for redemption, the Trustee will redeem the certificates in any order of maturity selected by the State and by lot in such manner as the Trustee will determine within any maturity; provided, however, that the portion of any certificate to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof and, in selecting certificates for redemption, the Trustee will redeem each certificate as representing that number of certificates that is obtained by dividing the principal amount of such certificate by \$5,000.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Notice of redemption

The Trustee will mail notice of redemption, by first class mail, not fewer than 30 days before the date of redemption to the registered Holders of the certificates of the maturity or maturities to be redeemed at their addresses shown on the registration books maintained by the Trustee. Notice having been given and sufficient monies having been delivered to the Trustee, interest will cease to accrue on the certificates to be redeemed on and after the date fixed for redemption. Any notice of redemption may indicate that such redemption is conditioned upon the deposit of sufficient monies to effect such redemption on the redemption date. The failure by the Trustee to mail a notice of redemption with respect to any particular certificate will not affect the validity of the redemption of any other certificate for which proper notice will have been given.

Security and sources of payment for the certificates

The certificates are payable as to principal, redemption price and interest solely from base rentals to be paid by the State pursuant to the lease agreement, monies attributable to the sale, leasing or other disposition of the project by the Trustee upon the occurrence of certain defaults by the State pursuant to the lease agreement and amounts from time to time on deposit in certain funds and accounts established by the Trust Agreement. Pursuant to the Trust Agreement, the Commission has executed and delivered the mortgage to the Trustee and has assigned to the Trustee all of its rights under the lease agreement and the ground lease (except for its rights under certain provisions in respect of indemnification and an option to purchase the project site), and all amounts on deposit from time to time in such funds and accounts for the benefit of the Holders of the certificates.

All amounts payable by the State under the lease agreement, including the base rentals, are subject in each year to appropriation by the Maryland General Assembly. The Maryland General Assembly is under no obligation to make any appropriation with respect to the lease agreement. The lease agreement is not a general obligation of the State, the County, or the Commission and will never constitute an indebtedness of the State, the County or the Commission within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing power of the State, the County or the Commission.

It is expected that each department and agency utilizing the project will pay its portion of the base rentals to the Department of General Services, which will pay to the Trustee the total amount of base rentals due under the lease agreement. Although the sources of funds appropriated to pay the base rentals are not limited to any particular source of State revenue, the State expects that the base rentals will be paid and appropriated from the State's General Fund, and, to the extent available to particular departments and agencies, from certain of the State's other budgetary funds.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

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

<u>Years</u>	<u>State Office Building</u>	<u>Nursing Home</u>	<u>Total</u>
2014 (July 15, 2013)	\$ <u> -</u>	\$ <u>1,430,000</u>	\$ <u>1,430,000</u>

The annual requirements to amortize the interest, net of interest earned on escrow, of all bonds outstanding as of June 30, 2013 are as follows:

<u>Years</u>	<u>State Office Building</u>	<u>Nursing Home</u>	<u>Total</u>
2014 (July 15, 2013)	\$ <u> -</u>	\$ <u> 16,878</u>	\$ <u> 16,878</u>

As part of the transfer of the asset to the St. Mary's County Nursing Center, Inc., the Nursing Center deposited funds into restricted investment accounts in an amount adequate to defease the bonds on July 15, 2013.

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

The optional redemption was completed on July 15, 2013.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

8. Fund balances

A summary of the nonspendable, restricted, committed, assigned and unassigned fund balances as of June 30, 2013 is as follows:

	Special Revenue Funds		Debt Service Fund		
	General Fund	Fire & Rescue Revolving	Emergency Support	Special Assessments	Capital Projects Fund
Nonspendable					
Inventory	\$ 921,024	\$ -	\$ -	\$ -	\$ -
Interfund Advance	1,088,179	-	-	-	-
Total Nonspendable	<u>2,009,203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted					
Domestic Violence Programs	1,260	-	-	-	-
County Matching Funds for Approved Grants	107,080	-	-	-	-
Funding Sources Specified for Capital Projects					
Land Preservation	-	-	-	-	809,596
Various Capital Projects - Transfer Tax	-	-	-	-	5,641,900
County Pay-Go	-	-	-	-	13,971,830
Roads- Impact Fees	-	-	-	-	1,474,490
Roads- Mitigation	-	-	-	-	455,446
Parks- Impact fees	-	-	-	-	963,720
Parks- Mitigation	-	-	-	-	46,753
Schools- Impact Fees	-	-	-	-	8,269,748
Schools-Mitigation	-	-	-	-	34,125
Total Restricted	<u>108,340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,667,608</u>
Committed					
NextGen Contract	501,486	-	-	-	2,462,656
Bond Rating Reserve	12,193,982	-	-	-	-
CIP Pay-Go	9,930,000	-	-	-	-
County OPEB	1,000,000	-	-	-	-
BOE OPEB	2,000,000	-	-	-	-
Operating Budget, non-recurring items	523,000	-	-	-	-
Other, Net, Including grants	-	1,527,901	1,534,163	-	-
Total Committed	<u>26,148,468</u>	<u>1,527,901</u>	<u>1,534,163</u>	<u>-</u>	<u>2,462,656</u>
Assigned	<u>2,424,822</u>	<u>-</u>	<u>-</u>	<u>(147,740)</u>	<u>4,296,754</u>
Unassigned	<u>23,487,185</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances (deficit)	<u>\$ 54,178,018</u>	<u>\$ 1,527,901</u>	<u>\$ 1,534,163</u>	<u>\$ (147,740)</u>	<u>\$ 38,427,018</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

8. Fund balances (continued)

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

The Board of County Commissioners (BOCC) 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 BOCC action.

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

The nonspendable fund balance includes:

Inventory - The amount of inventory at June 30, 2013, 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 FY2013, but for which the period extends beyond June 30, 2013. 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:

Contractual Commitment for the NextGen system and related equipment

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

Fund balance appropriated as a part of the FY2014 budget for supplemental payments for OPEB (County, Board of Education, and Housing) as well as the transfer of pay-go funding to the FY2014 capital budget, identified for the Springridge Middle School renovation.

The debt service fund assigned fund balance includes:

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

The general fund assigned fund balance is composed of:

Rainy Day Fund	\$1,625,000
Encumbrances (excluding NextGen contract & exempt financing draw subsequent to year end)	390,606
Miscellaneous revolving fund	<u>409,216</u>
	<u>\$2,424,822</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

8. Fund balances (continued)

The unassigned fund balance includes \$19 million of prior year funds intentionally not appropriated in the FY2013 budget. The fund balance was accumulated as a result of actions and events that occurred beginning in FY2007 and FY2008, when due to the economy, the County experienced significant positive variances in several revenue accounts, attributable to the robust activity in the real estate market and double digit increases in assessed values. Not all of the revenue variances were committed to fund recurring operating costs, because they were at levels well above what could be expected on a recurring basis. For example, in FY2008, recordation tax reached \$13,000,000; in FY2013 that revenue is \$4,500,000. These revenues were saved to help address the economic downturn that was taking shape, including severe cuts in funding and costs shifted from the State. The Board also took a variety of actions to cut expenses, as well. And savings were not re-aligned to fund other costs, but accrued to the fund balance. Given the volatility of the economy, including the State and Federal budget situations, the Board determined that a multi-year plan to use unassigned fund balance was warranted.

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

In May 2013, as a part of the approval of the FY2014 budget, the Board approved a multi-year plan to use fund balance, as follows:

FY2014

\$1,000,000 for supplemental funding of the County retiree health (OPEB) trust
\$2,000,000 for supplemental funding of the Board of Education retiree health (OPEB) trust
\$9,930,000 to fund Spring Ridge Middle School Renovation
\$523,000 one-time costs in operating budget

FY2015

\$1,000,000 for supplemental funding of the County retiree health (OPEB) trust
\$2,000,000 for supplemental funding of the Board of Education retiree health (OPEB) trust
\$800,000 to fund the acquisition of furniture and equipment associated with the renovation and expansion of the Adult Detention Center

FY2016

\$10 million to fund planned capital projects with pay-go instead of bonds

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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans

Primary Government

Plan description

Eligible employees of the County participate in retirement plans of the State Retirement and Pension System of Maryland (the System). The System is a cost sharing multiple-employer defined benefit pension plan administered in accordance with Article 73B of the annotated Code of Maryland by the State Retirement Agency of Maryland (SRA) to provide survivor, disability, and retirement benefits to State and local government employees, teachers, police, correctional and law enforcement officers, judges, and legislators. The SRA operates under the direction of a 14-member Board of Trustees, which establishes policy, oversees investments, and represents various employee interests. The State of Maryland is obligated for the payment of all pension annuities, retirement allowances, refunds, reserves and other benefits of the System. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. The System is a component unit of the State of Maryland's financial reporting entity and is included in the State's financial statements as a pension trust fund. The County's total payroll for the year ended June 30, 2013 was \$38,889,458, of which \$21,693,128 was covered under the System.

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

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

Plan benefits

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Primary Government (continued)

Plan benefits (continued)

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

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

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

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

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

Funding status and progress

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

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 2012. The significant actuarial assumptions used in the actuarial valuations include (a) rate of return on the investment of 7.75% compounded annually (adopted June 30, 2012), (b) projected salary increases of 3.5% to 12.0% per year compounded annually, attributable to inflation (adopted June 30, 2012), (c) post-retirement benefit increases ranging from 2.75% to 3.5% for service prior to July 1, 2011 and 1.7% to 3.5% for service after June 30, 2011 per year based on the system and provisions (adopted June 30, 2012), (d) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 2006 through 2010 (adopted June 30, 2012).

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Primary Government (continued)

Funding status and progress (continued)

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

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 34,208,190,190
Current employees	<u>23,660,955,282</u>
Total pension benefit obligation	57,869,145,472
Net actuarial assets available for benefits	<u>37,248,400,780</u>
Unfunded actuarial pension benefit obligation	<u>\$ 20,620,744,692</u>

The schedule below (expressed in thousands) presents the actuarial value of the System's assets and the actuarial accrued liability as of June 30, 2012 and the preceding two years. The schedule is intended to help the users assess the funding status of the State System.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarial value of assets	\$37,248,401	\$36,177,656	\$ 34,688,346
Actuarial accrued liability (AAL)	<u>57,869,145</u>	<u>55,917,543</u>	<u>54,085,081</u>
Unfunded AAL	<u>\$20,620,744</u>	<u>\$19,739,887</u>	<u>\$ 19,396,735</u>
Funded ratio	64.37%	64.70%	64.14%
Covered payroll	\$10,336,537	\$10,478,800	\$ 10,657,944
Unfunded AAL as a % of payroll	199%	188%	182%
Annual required contributions	\$2,146,624	\$2,035,401	\$ 1,519,980
Percentage contributed	77%	74%	86%
Net pension obligation	\$ -	\$ -	\$ -

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Primary Government (continued)

Contributions required and made

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

Employer contributions totaling \$697,547,000 for fiscal year 2012 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2012. Employer contributions consisted of normal cost and amortization of the unfunded actuarial accrued liability in distinct layers. The UAAL which existed as of the June 30, 2000, actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. Employee contributions, which are applied to normal cost, for fiscal year 2012 totaled approximately \$703,256,000. The County's contributions to the System for the year ended June 30, 2013 were \$1,917,141.

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

Historical trend information

Historical trend information which provides data about the Systems' progress made in accumulating sufficient assets to pay pension benefits when due is presented immediately following the notes to the financial statements in the System's comprehensive annual financial report for the fiscal year ended June 30, 2012.

Sheriff's Department plan

Effective date

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

Participation

All Sheriff's Department employees who were hired after June 30, 1986 participate in the plan. Also, each Sheriff's Department 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.

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 Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Sheriff's Department 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.
- 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.

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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

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.

Pre-retirement death benefit

Lump sum benefit

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

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

Survivor's pension

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Survivor's pension (continued)

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.

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 County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Post-retirement pension increases

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

Actuarial methods and assumptions

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

Employee data - The employee data used in the determination of cost estimates consists of pertinent information with respect to participants as of July 1, 2012.

Valuation Date - July 1, 2012. The Board of Trustees elected to have the actuarial valuation period as of July 1, as opposed to the January 1 date formerly used. This is more timely for contribution budget considerations.

Actuarial Funding Method - The actuarial valuation has been completed using the projected unit credit method.

Rate of Investment Return - An average net rate of 7.5% per annum (after investment expenses are deducted) is assumed as the annual rate of investment return (including appreciation and depreciation, realized and unrealized).

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

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

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

Development of plan costs

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Development of plan costs (continued)

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

Recommended contribution level

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

Key results:	<u>July 1, 2012</u>
Number of Participants:	
Active	199
Retired	42
Terminated vested	4
Refunds due	23
Disabled	<u>30</u>
Total	<u>298</u>
Total annual compensation of active participants	<u>\$ 12,064,780</u>
Actuarial accrued liability:	
Actives	\$ 42,986,054
Nonactives	<u>38,604,822</u>
Total	<u>\$ 81,590,876</u>
Assets	<u>\$ 49,435,239</u>
Unfunded actuarial liability	\$ 32,155,637
Normal cost with adjustments:	
Dollar amount	\$ 2,469,502
Percent of payroll	20.50%

The amount of the Sheriff's Department's current year covered payroll is \$13,527,994, and the Sheriff's Department's total payroll for all employees is \$14,643,995. The following employer contributions were made during the fiscal year ended June 30, 2013:

	<u>Contributions</u>	<u>% of Covered Payroll</u>
Actuarially determined	\$ 4,403,976	38%
Voluntary supplemental contribution	500,000	N/A

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit

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

Eligibility and benefits

a. Any person who has served as a member of any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit is eligible to receive benefits provided that:

1) The person is certified in accordance with the point system to have served as an active volunteer subsequent to December 31, 1979.

2) Any person who discontinued active volunteer service prior to July 1, 1980, may receive credit for the service after being certified in accordance with the point system.

b. Beginning July 1, 1994, active volunteer fire and rescue squads and advanced life support unit personnel may select from two Length of Service program benefit options. Selection of a benefit option by the individual is irrevocable. The options, with rates reflected effective July 1, 2006, are:

1) Any person who has reached the age of sixty (60) and who has completed a minimum of twenty (20) years of certified active volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit, or combination thereof, shall receive two hundred dollars (\$200) per month, for life. Payments will begin in the month following eligibility.

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

2) Any person who has reached the age of fifty-five (55) and who has completed a minimum of twenty (20) years of certified volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit or combination thereof, shall receive one hundred fifty dollars (\$150) per month for life.

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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

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

Eligibility and benefits (continued)

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

Point system

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

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

Point system (continued)

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, 2013 was \$759,299.

Component Units

St. Mary's County Public Schools

Pension Plans

Plan description

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Plan description (continued)

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

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension system. Benefits generally vest after 5 years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555, or online at <http://www.sra.state.md.us/>.

Funding policy

Both the "Retirement System" and the "Pension System" for teachers and non-certificated employees are jointly contributory. Under the "Retirement System" employees contribute 5 percent or 7 percent of their earnable compensation and under the "Pension System" employees contribute 2 percent of their earnable compensation. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the 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 County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Annual pension cost

St. Mary's County School System contributions totaling \$1,140,494 or 0.98% of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$14,300,829 or 12.31% of covered payroll for fiscal year 2013, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2012. Significant actuarial assumptions used, include (a) a rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases of 3.5% to 12.00% compounded annually, attributable to inflation, (c) post-retirement benefit increases ranging from 2.75% to 3.5% for service prior to July 2011 and 1.70% to 3.5% for service after June 30, 2011 per year based on the system and provisions, and (d) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from June 30, 2006 through June 30, 2010.

The actuarial value of assets is measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method explicitly recognizes each year's investment gain or loss over a 5-year period with the final actuarial value not less than 80% or more than 120% of the market value of assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 7-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate layers over a 25-year period. A three-year trend of the School System's annual pension cost is as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Total Annual Pension Cost (APC)</u>	<u>APC Contributed By School System</u>	<u>APC Contributed By State</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 16,070,915	\$ 1,386,017	\$ 14,684,898	100%	-
2012	16,334,577	1,428,621	14,905,956	100%	-
2013	15,441,323	1,140,494	14,300,829	100%	-

The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by GASB Statement No. 24.

The FY2013 State contribution reflected above actually includes the \$2,485,697, which was required to be funded by the County as part of the phased in shift of a portion of the normal cost for teacher's pension to each jurisdiction.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Library

Retirement and pension plan

Description

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

Maryland State Pension Systems

Participants in the Pension Plans contribute a percentage of their earnings. For members in the plan prior to June 30, 2011, pensions normally start at age 62 or after 30 years' service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three consecutive years' pay. Cost of living increases are limited to 3% per annum. For new members enrolled on and after July 1, 2011, the employee contribution will be 7%; vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; average final compensation will be a five year average; the benefit multiplier per year will be 1.5%; and, cost of living adjustments on all benefit will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not.

Maryland State Retirement Systems

Participants in the Retirement Systems contribute a fixed percentage of salary. Persons leaving the Library after 5 years of service may withdraw their contributions, or the contributions may be left in the retirement fund until age 60. An employee may retire at age 60 or after 30 years of service and be eligible for full benefits. Reduced benefits are paid to employees retiring before age 60 after 25 years' service. Benefits are based upon the average of the employees' highest three years' pay.

Funding Policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute from 5% to 7% of earnable compensation. Members of the pension systems are required to contribute 5% of compensation for the year ended June 30, 2012.

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 County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Library (continued)

Retirement and pension plan (continued)

Funding Policy (continued)

The unfunded actuarial liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct layers. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also, as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. Each separate amortized layer has a closed amortization period.

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

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2013, the Library's total payroll and payroll for covered employees were \$1,930,467 and \$1,861,366, respectively. No contributions were made by the Library for the year ended June 30, 2013.

For fiscal year 2013, the State contributed \$250,009 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement Number 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 12.95% of covered payroll.

Actuarial Assumptions

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

Trend information

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission

Retirement and pension plan

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

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

Description

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

Maryland State Pension Systems

For members in the plan prior to July 1, 2011, pensions normally start at age 62 or after 30 years' service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three years' pay; the benefit multiplier will be 1.2% for years of credit earned up to June 30, 1998 and 1.8% for years of earned credit after June 30, 1998. Cost of living increases are limited to 3% per annum. For members enrolled on and after July 1, 2011, vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; average final compensation will be a five year average; the benefit multiplier per year will be 1.5%; and, cost of living adjustments on all benefit will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission (continued)

Funding policy

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

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

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in distinct layers. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 40-year period (as provided by law) from July 1, 1980. Also as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. Each separate amortized layer has a closed amortization period.

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

MetCom provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2013, MetCom's total payroll and payroll for covered employees was \$5,406,058 and \$4,479,722, respectively. MetCom's contribution to the System for the year ended June 30, 2013, was \$383,616.

Actuarial assumptions

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

Trend information

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

10. Segment information for enterprise funds

The County maintains three enterprise funds. Recreation services are accounted for in the recreation revolving fund. The Wicomico Municipal Golf Course operates a golf course, restaurant, and retail shop. The Solid Waste and Recycling Divisions are responsible for solid waste management, convenience center/landfill operations and recycling. Selected segment information for the year ended June 30, 2013 is as follows:

	<u>Recreation Activity Fund</u>	<u>Wicomico Municipal Golf Course</u>	<u>Solid Waste/ Recycling Fund</u>	<u>Total Enterprise Funds</u>
Operating revenue	\$ 2,176,943	\$ 1,283,123	\$ 2,796,387	\$ 6,256,453
Depreciation	\$ 1,982	\$ 122,517	\$ 193,354	\$ 317,853
Operating income (loss)	\$ 118,322	\$ (81,189)	\$ (706,100)	\$ (668,967)
General fund operating subsidy	\$ -	\$ -	\$ 980,065	\$ 980,065
Change in net position	\$ 147,388	\$ (80,602)	\$ 368,402	\$ 435,188
Plant, property and equipment additions	\$ 5,149	\$ -	\$ 251,168	\$ 256,317
Net working capital	\$ 361,548	\$ 111,266	\$ 1,503,918	\$ 1,976,732
Total assets	\$ 631,609	\$ 4,470,622	\$14,876,955	\$19,979,186
Total net position	\$ 378,893	\$ 3,085,910	\$14,073,495	\$17,538,298

11. Interfund balances

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2013:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Primary Government</u>		
<u>General Fund</u>		
Special Revenue Fund	\$ -	\$ 3,000,645
Debt Service Fund	148,508	-
Capital Projects Fund	-	38,160,687
Enterprise Fund	-	1,006,841
<u>Special Revenue Funds</u>		
General Fund	3,000,645	-
<u>Debt Service Fund</u>		
General Fund	-	148,508

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

11. Interfund balances (continued)

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Capital Projects Fund</u>		
General Fund	\$ 38,160,687	\$ -
<u>Enterprise Funds</u>		
General Fund	<u>1,006,841</u>	<u>-</u>
Total due from/to other funds	<u>\$ 43,671,042</u>	<u>\$ 43,671,042</u>
<u>Component Units</u>		
Component Unit-St. Mary's County Building Authority Commission	\$ 194,554	\$ -
Primary Government-General Fund	<u>-</u>	<u>194,554</u>
Total due to/from Primary Government to Component Unit	<u>\$ 194,554</u>	<u>\$ 194,554</u>

12. Commitments and contingencies

Primary Government

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

The County participates in a number of federally assisted grant programs, principal of which are the Departments of Education, Health and Human Services and Health and Mental Hygiene grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for the year ended June 30, 2013 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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

12. Commitments and contingencies (continued)

Component Units

St. Mary's County Public Schools

Legal Proceedings

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

School Construction

As of June 30, 2013, 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 \$4,100,877.

Grant Program

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

Health Insurance

The School System has a claims made policy with CareFirst BlueCross BlueShield of Maryland for health insurance coverage. The School System underwrites between 80% - 90% of the cost of health insurance based on an estimate and the employees contribute between 10% - 20%, depending upon which of the 3 different type plans employees participate. The actual contribution by the School System may vary based on actual claims experience. The policy includes a stop-loss provision for claims in excess of \$200,000. The School System has accrued a liability in the General Fund in the amount of \$1,925,000 for estimated claims incurred but not reported as of June 30, 2013.

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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

13. Other post-employment benefits

Primary Government

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

Plan description

The County provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of five years of eligible County service entering an immediate retirement, family members of retirees and family members of deceased employees. The County 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, the percentage ranges from 26.6% with ten 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 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 the Board of County Commissioners.

Membership

At June 30, membership consisted of:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Retirees and Their Beneficiaries Currently Receiving Benefits	384	366	359
Active Employees	<u>658</u>	<u>639</u>	<u>667</u>
Total	<u>1,042</u>	<u>1,005</u>	<u>1,026</u>

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>2013</u>	<u>2012</u>	<u>2011</u>
Annual Required Contribution	\$ 5,740,000	\$ 5,496,000	\$ 5,264,000
Interest on Net OPEB	(970,000)	(970,000)	(970,000)
Adjustment to ARC	<u>899,000</u>	<u>874,000</u>	<u>851,000</u>
Annual OPEB Cost	5,669,000	5,400,000	5,145,000
Contributions Made to the Trust	6,433,864	5,046,386	3,107,632
Payments to Retirees	2,045,136	2,030,476	2,037,368
Net OPEB Obligation (Prepaid), Beginning of Year	<u>(17,848,485)</u>	<u>(16,171,623)</u>	<u>(16,171,623)</u>
Net OPEB Obligation (Prepaid), End of Year	<u>\$(20,658,485)</u>	<u>\$(17,848,485)</u>	<u>\$(16,171,623)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 84,788,000	\$ 79,275,000	\$ 78,251,000
Actuarial Value of Plan Assets	<u>36,614,000</u>	<u>31,418,000</u>	<u>28,799,000</u>
Unfunded Actuarial Accrued Liability	\$ 48,174,000	\$ 47,857,000	\$ 49,452,000
Funded Ratio (Value of Plan Assets/AAL)	43.2%	39.6%	36.8%
Covered Payroll (Active Plan Members)	\$ 35,221,122	\$ 35,208,044	\$ 35,556,564
UAAL as a percentage of covered payroll	136.78%	135.93%	139.08%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

13. Other post-employment benefits (continued)

Primary Government (continued)

Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation (report issued March 25, 2011), the liabilities were computed using the project unit credit method, with proration to benefit eligibility method. The actuarial assumptions included a 6.0% annual rate of return and an initial annual healthcare cost trend rate of 8.0%, decreasing 1% per year to an ultimate rate of 5.2%. The UAAL is being amortized as a level percentage of projected payroll over 30 years.

Component Units

St. Mary's County Library

The Library adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB Statement No. 45, the Library recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the Library's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability. The Library paid for these benefits on a pay-as-you-go basis prior to the adoption of GASB Statement No. 45 on July 1, 2007. For the year ended June 30, 2013, the cost of these post-employment benefits was \$52,167.

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>2013</u>	<u>2012</u>	<u>2011</u>
Retirees and Beneficiaries Currently Receiving Benefits	8	9	8
Active Employees	<u>17</u>	<u>17</u>	<u>17</u>
Total	<u>25</u>	<u>26</u>	<u>25</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Library (continued)

Funding Policy

During FY08, the Library established a trust fund, the Retiree Health Benefit Trust of St. Mary's County Library, to fund certain retiree health benefits. The Library's funding policy is to contribute at least the funded expenses. The Net OPEB Obligation is overpaid by \$236,159 as of June 30, 2013.

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>2013</u>	<u>2012</u>	<u>2011</u>
Annual Required Contribution	\$ 121,000	\$ 115,000	\$ 95,000
Interest on Net OPEB	(3,000)	(16,000)	(10,000)
Adjustment to ARC	<u>3,000</u>	<u>15,000</u>	<u>9,000</u>
Annual OPEB Cost	121,000	114,000	94,000
Contributions Made	(219,717)	(195,950)	(71,548)
Net OPEB Obligation, Beginning of Year	<u>(137,442)</u>	<u>(55,492)</u>	<u>(77,944)</u>
Net OPEB Obligation, End of Year	<u>\$ (236,159)</u>	<u>\$ (137,442)</u>	<u>\$ (55,492)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,710,000	\$ 1,632,000	\$ 1,415,000
Actuarial Value of Plan Assets	<u>404,744</u>	<u>360,000</u>	<u>228,498</u>
Unfunded Actuarial Accrued Liability	<u>\$ 1,305,256</u>	<u>\$ 1,272,000</u>	<u>\$ 1,186,502</u>
Funded Ratio (Value of Plan Assets/AAL)	23.67%	22.10%	16.10%
Covered Payroll (Active Plan Members)	\$ 1,861,366	\$ 1,784,560	\$ 1,832,710
UAAL as a percentage of covered payroll	70.12%	71.28%	64.74%

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, 2011 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 6% annual rate of return and an initial annual healthcare cost trend rate of 8%, decreasing gradually each year to an ultimate rate of 5.9% in 2050 and a 3.5% payroll increase. The UAAL is being amortized as a level percentage of projected payroll over 30 years, closed basis, with 25 years remaining.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Library (continued)

Actuarial Methods and Assumptions (continued)

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

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial value of assets was based on the estimated July 1, 2012 asset figure of \$404,744.

Metropolitan Commission

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

During FY08, MetCom established a trust fund, the Retiree Benefit Trust of St. Mary's County Metropolitan Commission, to fund certain retiree health benefits.

Plan description

MetCom provides health, prescription, dental and vision care insurance benefits to eligible retirees, 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 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>2013</u>	<u>2013</u>	<u>2012</u>
Retirees and Beneficiaries Currently Receiving Benefits	10	9	9
Active Employees	<u>65</u>	<u>62</u>	<u>60</u>
Total	<u>75</u>	<u>71</u>	<u>69</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

13. Other post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission (continued)

Funding Policy

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY14 operating budget includes fully funding the OPEB cost. MetCom contributed \$596,404 to the trust in FY13. The Net OPEB Obligation is overpaid by \$300,388 as of June 30, 2013.

Annual OPEB Costs and Net OPEB Obligation

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

	<u>2013</u>	<u>2012</u>	<u>2012</u>
Annual Required Contribution	\$ 582,000	\$ 541,000	\$ 434,000
Interest on Net OPEB	(20,000)	(20,000)	(20,000)
Adjustment to ARC	<u>18,000</u>	<u>17,000</u>	<u>17,000</u>
Annual OPEB Cost	580,000	538,000	431,000
Contributions Made	596,404	538,000	431,000
Net OPEB Obligation (Prepaid), Beginning of Year	<u>(283,984)</u>	<u>283,984</u>	<u>(283,984)</u>
Net OPEB Obligation (Prepaid), End of Year	<u>\$ (300,388)</u>	<u>\$ (283,984)</u>	<u>\$ (283,984)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 6,518,000	\$ 5,920,000	\$ 4,476,000
Actuarial Value of Plan Assets	<u>2,344,144</u>	<u>2,054,000</u>	<u>1,563,818</u>
Unfunded Actuarial Accrued Liability	<u>\$ 4,173,856</u>	<u>\$ 3,866,000</u>	<u>\$ 2,912,182</u>
Funded Ratio (Value of Plan Assets/AAL)	35.96%	34.70%	34.94%
Covered Payroll (Active Plan Members)	\$ 4,319,527	\$ 4,162,094	\$ 3,851,158
UAAL as a percentage of covered payroll	96.63%	92.89%	75.62%

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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

13. Other post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission (continued)

Actuarial Methods and Assumptions (continued)

In the July 1, 2012 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 8 and 5.2% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 3.2% rate of inflation assumption. The UAAL is being amortized as a 30-year level percentage of projected payroll, closed basis, with 24 years remaining.

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

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 accrued liabilities for benefits. The actuarial value of assets was based on the estimated July 1, 2012 asset figure of \$2,344,114.

Summary of significant accounting policies

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

St. Mary's County Public Schools

Plan description

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Plan Description (continued)

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

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

Funding policy

The School System is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 4.75% of annual covered payroll. The ARC consisted of the normal cost of \$5,433,000 and the amortization of unfunded accrued liability of \$6,336,000. The School System contributed \$5,998,452 for the year ended June 30, 2012 including \$1,478,202 towards current healthcare and life insurance premiums and an additional \$4,520,250 to prefund future benefits.

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed as of July 1, 2012 to determine the funded status of the plan as of that date as well as the School System's ARC for the fiscal year ended June 30, 2013. The annual OPEB cost (expense) for the year ended June 30, 2013 was \$11,911,000 which was comprised of the ARC of \$11,769,000 discussed above plus net interest on the net OPEB obligation. A historical trend of the School System's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation is as follows:

<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>
2011	\$ 14,054,000	36.43%	\$ 18,928,217
2012	12,481,000	51.08%	25,033,380
2013	11,911,000	50.36%	30,945,928

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

13. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Funded Status and Funding Progress

The funded status of the plan was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial Accrued Liability (AAL)	\$136,749,000	\$145,876,000	\$ 168,590,000
Actuarial Value of Plan Assets	<u>19,591,619</u>	<u>17,077,262</u>	<u>13,330,545</u>
Unfunded Actuarial Accrued Liability	<u>\$117,157,381</u>	<u>\$128,798,738</u>	<u>\$ 155,259,455</u>
Funded Ratio (Value of Plan Assets/AAL)	14.33%	11.71%	7.91%
Covered Payroll (Active Plan Members)	\$116,191,213	\$114,323,669	\$ 118,024,654
UAAL as a percentage of covered payroll	100.83%	112.66%	131.55%

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

Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used include (a) a rate of return on the investment of 6.00% per year compounded annually, (b) projected salary increases of 3.5% compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 4.31% to 10.76% per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 8.00% initially, reduced annually to arrive at an ultimate healthcare cost trend of 3.4%, (e) rates of mortality based upon RP-2000 Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.0 to 15.0%, (g) disablement rates based on age, ranging from 0.03% to 0.54%, (h) retirement rates based on age and length of service, ranging from 2.0% to 24.0%, and (i) medical claims including prescription drugs are based on actual experience during the period from July 1, 2010 through June 30, 2013, and were projected with annual increases of 9% for medical claims and 9% for prescription drug claims. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 26 years for year ended June 30, 2013.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2013

14. Landfill closure and postclosure cost

State and federal laws and regulations require The County Commissioners for St. Mary's County to place a final cover on landfill sites when the site stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Commissioners for St. Mary's County report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,250,000 reported as landfill closure and postclosure care liability at June 30, 2013, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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

15. 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 2013, the County paid premiums of \$564,760 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.

16. Self-insurance (Worker's Compensation)

The County self-insures its worker's compensation costs and liabilities. The County establishes its funding of claims liabilities as they occur. This funding level includes provisions for legal, medical and lost wages expenses which are all classified as incremental claim adjustment expenses. Unpaid claims in the self-insurance funds include liabilities for unpaid claims based upon individual case estimates for claims reported at June 30, 2013. The unpaid claims also include liabilities for incurred but not reported (IBNR) claims as of June 30, 2013.

17. Subsequent Events

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through December 31, 2013, the date the financial statements were to be available to be issued. No events occurred during the subsequent period requiring recognition or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS FOR 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, 2013

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
REVENUES				
Property Taxes	\$ 100,459,241	\$ 100,459,241	\$ 100,806,373	\$ 347,132
Income Taxes	76,000,000	76,000,000	76,746,270	746,270
Energy Taxes	1,400,000	1,400,000	1,201,782	(198,218)
Recordation Taxes	4,500,000	4,500,000	5,194,863	694,863
Other Local Taxes	1,205,000	1,205,000	1,250,662	45,662
Highway User Revenues	689,200	689,200	683,079	(6,121)
Licenses and Permits	1,492,393	1,492,393	1,497,437	5,044
State/Federal Grants	10,420,830	10,258,592	9,581,499	(677,093)
Charges for Services	3,672,414	3,620,861	3,488,902	(131,959)
Fines and Forfeitures	108,500	108,500	55,173	(53,327)
Investment and Other Revenues	171,200	181,749	153,631	(28,118)
TOTAL GENERAL FUND REVENUES	<u>200,118,778</u>	<u>199,915,536</u>	<u>200,659,671</u>	<u>744,135</u>
EXPENDITURES				
General Government	21,781,159	21,365,352	19,682,658	1,682,694
Public Safety	38,626,333	38,122,186	36,401,240	1,720,946
Public Works	8,561,688	8,655,355	7,813,149	842,206
Health	6,285,108	6,596,056	6,497,535	98,521
Social Services	3,791,530	3,835,954	3,652,744	183,210
Primary and Secondary Education	87,895,298	87,895,298	87,616,703	278,595
Post-Secondary Education	3,781,289	3,781,289	3,781,289	-
Parks, Recreation, and Culture	3,649,694	3,543,367	3,492,289	51,078
Libraries	2,404,204	2,404,204	2,404,204	-
Conservation of Natural Resources	411,763	404,184	399,417	4,767
Housing	1,100,679	1,100,679	1,100,256	423
Economic Development and Opportunity	1,583,097	1,718,267	1,584,442	133,825
Debt Service	12,519,113	10,914,262	10,860,449	53,813
Inter-governmental	49,615	49,615	49,615	-
Other	6,775,000	7,525,000	7,372,576	152,424
TOTAL GENERAL FUND EXPENDITURES	<u>199,215,570</u>	<u>197,911,068</u>	<u>192,708,566</u>	<u>5,202,502</u>
OTHER FINANCING SOURCES AND USES				
Fund Balance	10,560,000	10,839,381	10,560,000	(279,381)
Reserves - Grants (expenditures)	(1,000,000)	(1,164,641)	-	1,164,641
Reserves - Grants (revenues)	1,000,000	1,164,641	-	(1,164,641)
Reserves - Emergency Appropriations	(500,000)	(295,725)	-	295,725
Reserves - Bond Rating	(200,000)	(200,000)	(301,742)	(101,742)
General Fund Transfer/Pay-Go - Capital Projects	(9,763,208)	(11,368,059)	(11,368,059)	-
Solid Waste/Recycling - General Fund Transfer	(1,000,000)	(980,065)	(980,065)	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>(903,208)</u>	<u>(2,004,468)</u>	<u>(2,089,866)</u>	<u>(85,398)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,861,239</u>	<u>\$ 5,861,239</u>

See Independent Auditor's Report.

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SHERIFF'S OFFICE RETIREMENT PLAN
 FOR THE YEAR ENDED JUNE 30, 2013

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

Schedule of Employer Contributions

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

*Including \$805,000 voluntary supplemental contribution

**Including \$500,000 voluntary supplemental contribution

Schedule of Funding Progress

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

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

See Independent Auditor's Report

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 RETIREE BENEFIT TRUST
 FOR THE YEAR ENDED JUNE 30, 2013

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

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Annual OPEB Costs	Percentage Contributed
06/30/08	\$14,788,623	\$4,617,000	320%
06/30/09	10,762,000	4,762,000	226%
06/30/10	4,888,000	4,888,000	100%
06/30/11	5,145,000	5,145,000	100%
06/30/12	7,076,862	5,400,000	131%
06/30/13	8,479,000	5,669,000	150%

Schedule of Funding Progress

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

See Independent Auditor's Report

OTHER SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
ASSETS				
Due from other funds	\$ -	\$ 1,527,901	\$ 1,472,744	\$ 3,000,645
Special tax assessments receivable, current portion	1,943	-	-	1,943
Notes receivable, Fire and Rescue loans, current portion	-	253,061	-	253,061
Emergency Support Services taxes receivable	-	-	86,336	86,336
Notes receivable, Fire and Rescue loans (net of current portion)	-	836,651	-	836,651
Special tax assessments receivable (net of current portion)	863,146	-	-	863,146
Total Assets	\$ 865,089	\$ 2,617,613	\$ 1,559,080	\$ 5,041,782
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 17,070	\$ 17,070
Unearned revenue	864,321	1,089,712	-	1,954,033
Compensation - related liabilities	-	-	7,847	7,847
Due to other funds	148,508	-	-	148,508
Total Liabilities	1,012,829	1,089,712	24,917	2,127,458
FUND BALANCES				
Nonspendable	-	-	-	-
Committed	-	1,527,901	1,534,163	3,062,064
Assigned	(147,740)	-	-	(147,740)
Total Fund Balances	(147,740)	1,527,901	1,534,163	2,914,324
Total Liabilities and Fund Balances	\$ 865,089	\$ 2,617,613	\$ 1,559,080	\$ 5,041,782

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
REVENUES				
Fire and Rescue Loan Repayments	\$ -	\$ 559,006	\$ -	\$ 559,006
Special Assessments	201,793	-	-	201,793
Emergency Services Support Tax	-	-	1,903,877	1,903,877
Other	-	-	71,887	71,887
	<u>201,793</u>	<u>559,006</u>	<u>1,975,764</u>	<u>2,736,563</u>
EXPENDITURES				
Loans to Fire and Rescue	-	142,401	-	142,401
Debt Service	62,567	-	152,748	215,315
LOSAP	-	-	755,938	755,938
Operating Allocations	-	-	340,000	340,000
Advanced Life Support	-	-	425,247	425,247
Emergency Services Committee	-	-	151,462	151,462
Grants	-	-	71,887	71,887
	<u>62,567</u>	<u>142,401</u>	<u>1,897,282</u>	<u>2,102,250</u>
Non-Operating Revenue				
General fund subsidy	-	-	-	-
Net Increase/(Decrease) in Fund Balances	<u>139,226</u>	<u>416,605</u>	<u>78,482</u>	<u>634,313</u>
FUND BALANCES				
Beginning of Year	(286,966)	1,111,296	1,455,681	2,280,011
End of Year	<u>\$ (147,740)</u>	<u>\$ 1,527,901</u>	<u>\$ 1,534,163</u>	<u>\$ 2,914,324</u>

THE COUNTY COMMISSIONERS FOR 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, 2013

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		Variance
PROPERTY TAXES				
Real and personal property				
Real Property Taxes	\$ 96,243,967	\$ 96,243,967	\$ 96,044,684	\$ (199,283)
Payments in Lieu of Taxes	382,887	382,887	358,051	(24,836)
Personal Property	164,077	164,077	144,434	(19,643)
Public Utilities	2,232,093	2,232,093	2,319,060	86,967
Ordinary Business Corporations	3,117,467	3,117,467	2,937,068	(180,399)
Additions and Abatements	(1,000,000)	(1,000,000)	(140,010)	859,990
Penalties and Interest	900,000	900,000	781,176	(118,824)
State Homeowners Credit (Circuit Breaker)	800,000	800,000	850,081	50,081
Homeowners Tax Credit (County)	(800,000)	(800,000)	(850,081)	(50,081)
Other Tax Credits	(1,581,250)	(1,581,250)	(1,638,090)	(56,840)
Total Property Taxes	100,459,241	100,459,241	100,806,373	347,132
Income Tax				
Local Income Tax	76,000,000	76,000,000	76,746,270	746,270
Other Local Taxes				
Recordation Taxes	4,500,000	4,500,000	5,194,863	694,863
Energy Taxes	1,400,000	1,400,000	1,201,782	(198,218)
Public Accommodations Tax	850,000	850,000	872,533	22,533
Trailer Park Tax	275,000	275,000	293,860	18,860
Admissions and Amusement	80,000	80,000	84,269	4,269
Total Other Local Taxes	7,105,000	7,105,000	7,647,307	542,307
State-Shared Taxes - Highway Users	689,200	689,200	683,079	(6,121)
TOTAL TAXES	184,253,441	184,253,441	185,883,029	1,629,588
LICENSES AND PERMITS				
Business	255,370	255,370	266,959	11,589
Marriage/Animal Licenses	12,000	12,000	11,132	(868)
Other	345,023	345,023	271,160	(73,863)
CATV Franchise Fees	880,000	880,000	948,186	68,186
TOTAL LICENSES AND PERMITS	1,492,393	1,492,393	1,497,437	5,044
INTER-GOVERNMENTAL				
General Government	1,221,113	837,084	840,492	3,408
Public Safety	2,127,277	2,103,256	1,806,683	(296,573)
Public Works	1,387,560	1,397,020	1,154,367	(242,653)
Social Services	832,144	914,317	767,419	(146,898)
Health	4,658,736	5,008,417	4,911,261	(97,156)
Parks, Recreation and Culture	134,000	(69,022)	33,756	102,778
Economic Development & Opportunity	60,000	67,520	67,521	1
TOTAL INTER-GOVERNMENTAL	10,420,830	10,258,592	9,581,499	(677,093)

THE COUNTY COMMISSIONERS FOR 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, 2013
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
CHARGES FOR SERVICES				
General Government	\$ 1,420,972	\$ 1,420,972	\$ 1,483,480	\$ 62,508
Public Safety	1,430,543	1,459,343	1,349,664	(109,679)
Public Works	456,250	459,500	436,002	(23,498)
Social Services	188,187	104,584	71,906	(32,678)
Parks, Recreation and Culture	58,899	58,899	33,720	(25,179)
Reimbursement - Housing Authority	117,563	117,563	114,130	(3,433)
TOTAL CHARGES FOR SERVICES	<u>3,672,414</u>	<u>3,620,861</u>	<u>3,488,902</u>	<u>(131,959)</u>
FINES AND FORFEITURES				
General Government	104,500	104,500	51,228	(53,272)
Public Safety	4,000	4,000	3,945	(55)
TOTAL FINES AND FORFEITURES	<u>108,500</u>	<u>108,500</u>	<u>55,173</u>	<u>(53,327)</u>
OTHER REVENUES				
General Government				
Interest	100,000	100,000	44,166	(55,834)
Grant Reserve	1,000,000	1,164,641	-	(1,164,641)
Contributions and Donations	71,200	81,749	109,465	27,716
TOTAL OTHER REVENUES	<u>1,171,200</u>	<u>1,346,390</u>	<u>153,631</u>	<u>(1,192,759)</u>
TOTAL	<u>201,118,778</u>	<u>201,080,177</u>	<u>200,659,671</u>	<u>(420,506)</u>
OTHER FINANCING SOURCES				
Appropriation of Fund Balance	10,560,000	10,839,381	10,560,000	(279,381)
TOTAL REVENUES AND FUND BALANCES	<u>\$ 211,678,778</u>	<u>\$ 211,919,558</u>	<u>\$ 211,219,671</u>	<u>\$ (699,887)</u>

THE COUNTY COMMISSIONERS FOR 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, 2013

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
GENERAL GOVERNMENT				
Legislative/County Commissioners				
Legislative/County Commissioners	\$ 453,465	\$ 454,975	\$ 430,348	\$ 24,627
County Administrator	329,546	330,015	283,550	46,465
Public Information	211,510	213,584	193,942	19,642
County Attorney	504,754	530,257	542,151	(11,894)
Legislative/County Commissioners	<u>1,499,275</u>	<u>1,528,831</u>	<u>1,449,991</u>	<u>78,840</u>
Department of Finance				
Administration/Budget	668,507	670,747	643,605	27,142
Accounting	522,194	522,975	472,064	50,911
Auditing	47,500	47,500	47,155	345
Procurement	258,960	259,112	231,833	27,279
Department of Finance	<u>1,497,161</u>	<u>1,500,334</u>	<u>1,394,657</u>	<u>105,677</u>
Department of Emergency Services & Technology				
Technology	<u>2,643,449</u>	<u>2,650,370</u>	<u>2,471,215</u>	<u>179,155</u>
Department of Human Resources				
Human Resources	572,294	575,860	559,189	16,671
Risk Management	723,000	720,000	557,219	162,781
Grants	-	-	563	(563)
Department of Human Resources	<u>1,295,294</u>	<u>1,295,860</u>	<u>1,116,971</u>	<u>178,889</u>
Department of Public Works & Transportation				
Building Services	3,649,724	3,656,424	3,157,357	499,067
Carter State Office Building	599,133	599,133	485,481	113,652
Development Review	207,904	193,072	184,035	9,037
Mailroom/Messenger Services	162,883	164,308	168,920	(4,612)
Vehicle Maintenance Shop	1,341,600	1,346,113	1,227,306	118,807
Department of Public Works & Transportation	<u>5,961,244</u>	<u>5,959,050</u>	<u>5,223,099</u>	<u>735,951</u>
Department of Land Use & Growth Management				
Administration	646,347	646,347	539,649	106,698
Board of Electrical Examiners	9,850	9,850	7,185	2,665
Comprehensive Planning	763,534	683,352	603,496	79,856
Development Services	385,289	385,289	367,787	17,502
Inspections & Compliance	557,093	557,093	509,579	47,514
Permit Services	311,448	308,224	290,037	18,187
Zoning Administration	271,725	271,725	245,636	26,089
Building Code Appeals Board	1,000	1,000	-	1,000
Commission on the Environment	2,825	2,825	409	2,416
Plumbing & Gas Board	2,175	2,175	-	2,175
Planning Commission	26,224	26,224	21,771	4,453
Boards and Commissions	17,537	20,761	16,461	4,300
Historical Preservation	3,215	3,215	1,418	1,797
Grants	1,500	1,500	1,200	300
Department of Land Use & Growth Management	<u>2,999,762</u>	<u>2,919,580</u>	<u>2,604,628</u>	<u>314,952</u>
Circuit Court				
Administration	857,695	857,882	830,538	27,344
Law Library	60,666	60,666	59,639	1,027
Grants	919,025	526,999	657,357	(130,358)
Orphan's Court	33,958	35,705	34,482	1,223
Circuit Court	<u>1,871,344</u>	<u>1,481,252</u>	<u>1,582,016</u>	<u>(100,764)</u>
Office of the State's Attorney				
Judicial	2,214,986	2,214,986	2,146,178	68,808
Grants	510,113	526,558	476,210	50,348
Office of the State's Attorney	<u>2,725,099</u>	<u>2,741,544</u>	<u>2,622,388</u>	<u>119,156</u>
County Treasurer				
	<u>396,645</u>	<u>396,645</u>	<u>386,286</u>	<u>10,359</u>

THE COUNTY COMMISSIONERS FOR 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, 2013
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
Alcohol Beverage Board	\$ 212,338	\$ 212,338	\$ 202,077	\$ 10,261
Supervisors of Elections	678,715	678,715	629,330	49,385
Ethics Commission	833	833	-	833
Total General Government	\$ 21,781,159	\$ 21,365,352	\$ 19,682,658	\$ 1,682,694
PUBLIC SAFETY				
Department of Emergency Services & Technology				
Emergency Management	320,861	344,639	312,698	31,941
Animal Control	668,318	692,007	640,581	51,426
Emergency Activation	-	25,800	50,171	(24,371)
Emergency Communications Center	2,447,200	2,465,219	2,303,409	161,810
Emergency Radio Communications	3,067,300	2,265,272	2,118,439	146,833
Grants	193,735	180,642	397,630	(216,988)
Department of Emergency Services & Technology	6,697,414	5,973,579	5,822,928	150,651
Office of the Sheriff				
Law Enforcement	19,445,401	19,586,279	19,324,301	261,978
Corrections	10,063,020	10,097,384	9,657,026	440,358
Training	250,185	265,185	251,701	13,484
Canine	16,400	33,400	24,035	9,365
Court Security	592,363	614,516	623,353	(8,837)
Grants	1,361,550	1,351,843	497,896	853,947
Office of the Sheriff	31,728,919	31,948,607	30,378,312	1,570,295
Volunteer Fire Depts. & Rescue Squads	200,000	200,000	200,000	-
Total Public Safety	\$ 38,626,333	\$ 38,122,186	\$ 36,401,240	\$ 1,720,946
PUBLIC WORKS				
Department of PW and Transportation				
Administration	392,460	387,132	364,810	22,322
Engineering Services	681,689	691,184	671,661	19,523
Construction & Inspections	505,439	528,846	507,937	20,909
County Highways	3,805,995	3,852,711	3,568,812	283,899
Solid Waste/Recycling Subsidy	1,000,000	980,065	980,065	-
St Mary's County Airport	41,350	36,350	24,516	11,834
St. Mary's Transit System	3,117,855	3,142,232	2,659,547	482,685
Department of PW and Transportation	9,544,788	9,618,520	8,777,348	841,172
Maryland Dept. of Agriculture Weed Control	16,900	16,900	15,866	1,034
Total Public Works	\$ 9,561,688	\$ 9,635,420	\$ 8,793,214	\$ 842,206
HEALTH				
Operating Allocation				
Health Department	1,646,851	1,646,851	1,646,827	24
Mosquito Control	54,000	54,000	54,000	-
Operating Allocation	1,700,851	1,700,851	1,700,827	24
Human Services				
Human Services	356,875	356,875	350,043	6,832
Marcey Halfway House	-	7,254	6,400	854
Grants	4,227,382	4,531,076	4,440,265	90,811
Human Services	4,584,257	4,895,205	4,796,708	98,497
Total Health	\$ 6,285,108	\$ 6,596,056	\$ 6,497,535	\$ 98,521

THE COUNTY COMMISSIONERS FOR 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, 2013
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
SOCIAL SERVICES				
Department on Aging				
Department on Aging	\$ 1,368,508	\$ 1,411,962	\$ 1,409,752	\$ 2,210
Grants	987,019	987,589	806,782	180,807
Department on Aging	<u>2,355,527</u>	<u>2,399,551</u>	<u>2,216,534</u>	<u>183,017</u>
Department of Social Services	<u>411,648</u>	<u>412,048</u>	<u>411,855</u>	<u>193</u>
Operating Allocation				
Hospice of St. Mary's	15,000	15,000	15,000	-
The ARC of Southern Maryland, Inc.	130,000	130,000	130,000	-
The Center for Family Advocacy	100,000	100,000	100,000	-
The Center for Life Enrichment	150,908	150,908	150,908	-
Greenwell Foundation	30,000	30,000	30,000	-
St. Mary's Caring, Inc.	3,000	3,000	3,000	-
Three Oaks Center	125,000	125,000	125,000	-
Tri-County Community Action (SMTCCAC, Inc.)	16,000	16,000	16,000	-
Tri-County Youth Services Bureau	110,000	110,000	110,000	-
Unified Commission for Afro-Americans	4,000	4,000	4,000	-
Walden/Sierra	<u>340,447</u>	<u>340,447</u>	<u>340,447</u>	<u>-</u>
Operating Allocation	<u>1,024,355</u>	<u>1,024,355</u>	<u>1,024,355</u>	<u>-</u>
Total Social Services	<u>\$ 3,791,530</u>	<u>\$ 3,835,954</u>	<u>\$ 3,652,744</u>	<u>\$ 183,210</u>
PRIMARY AND SECONDARY EDUCATION				
Board of Education	<u>85,697,709</u>	<u>85,697,709</u>	<u>85,697,709</u>	<u>-</u>
Non-Public School Bus Transportation	<u>2,187,589</u>	<u>2,187,589</u>	<u>1,908,994</u>	<u>278,595</u>
Operating Allocation				
Literacy Council of St. Mary's County	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total Primary and Secondary Education	<u>\$ 87,895,298</u>	<u>\$ 87,895,298</u>	<u>\$ 87,616,703</u>	<u>\$ 278,595</u>
POST-SECONDARY EDUCATION				
College of Southern Maryland - general operations	<u>3,741,289</u>	<u>3,741,289</u>	<u>3,741,289</u>	<u>-</u>
Operating Allocation				
Southern Md. Higher Education Center	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total Post-Secondary Education	<u>\$ 3,781,289</u>	<u>\$ 3,781,289</u>	<u>\$ 3,781,289</u>	<u>\$ -</u>
PARKS, RECREATION AND CULTURE				
Department of Recreation and Parks				
Administration	1,100,333	1,100,599	1,069,015	31,584
Parks Maintenance	1,830,337	1,926,380	1,817,746	108,634
Museum Division	483,024	483,410	469,771	13,639
Grants	<u>134,000</u>	<u>(69,022)</u>	<u>33,757</u>	<u>(102,779)</u>
Department of Recreation and Parks	<u>3,547,694</u>	<u>3,441,367</u>	<u>3,390,289</u>	<u>51,078</u>
Operating Allocation				
St. Mary's County Historical Society	10,000	10,000	10,000	-
Patuxent River Naval Air Museum	15,000	15,000	15,000	-
Lexington Park Rotary-Oyster Festival	3,000	3,000	3,000	-
Historic Sotterley, Inc.	60,000	60,000	60,000	-
St. Mary's College River Concert Series	5,000	5,000	5,000	-
Seventh District Optimist	<u>9,000</u>	<u>9,000</u>	<u>9,000</u>	<u>-</u>
Operating Allocation	<u>102,000</u>	<u>102,000</u>	<u>102,000</u>	<u>-</u>
Total Parks, Recreation and Culture	<u>\$ 3,649,694</u>	<u>\$ 3,543,367</u>	<u>\$ 3,492,289</u>	<u>\$ 51,078</u>

THE COUNTY COMMISSIONERS FOR 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, 2013
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
LIBRARIES				
County Funding - general operations	\$ 2,404,204	\$ 2,404,204	\$ 2,404,204	\$ -
CONSERVATION OF NATURAL RESOURCES				
Cooperative Extension Service	194,096	186,517	183,553	2,964
Soil Conservation District	67,703	67,703	67,824	(121)
Conservation of Natural Resources	261,799	254,220	251,377	2,843
Allocation of Agriculture and Seafood (Division of DECD)	131,464	131,464	129,540	1,924
Operating Allocation				
SMC Forest Conservation District Board	500	500	500	-
Southern Md. Resource Conservation/Dev.	5,000	5,000	5,000	-
Watermen's Association	13,000	13,000	13,000	-
Operating Allocation	18,500	18,500	18,500	-
Total Conservation of Natural Resources	\$ 411,763	\$ 404,184	\$ 399,417	\$ 4,767
HOUSING				
Housing, principally OPEB Trust Contribution	\$ 1,100,679	\$ 1,100,679	\$ 1,100,256	\$ 423
ECONOMIC DEVELOPMENT AND OPPORTUNITY				
Department of Economic & Community Development				
Administration/Office of the Director	178,035	178,035	145,001	33,034
Tourism Development	416,328	416,328	414,546	1,782
Agriculture & Seafood Development	175,285	175,285	172,720	2,565
Less Allocation (see above)	(131,464)	(131,464)	(129,540)	(1,924)
Business Development/Lexington Park Revitalization	369,070	370,924	283,162	87,762
Grants	60,000	63,935	67,508	(3,573)
Department of Economic & Community Development	1,067,254	1,073,043	953,397	119,646
Office of Community Services				
Office of Community Services	247,457	239,097	228,737	10,360
Grants	128,636	174,623	171,989	2,634
Human Relations Commission	1,850	1,850	1,000	850
Commission for the Disabled	2,300	2,300	2,256	44
Commission for Women	4,000	5,045	4,754	291
	384,243	422,915	408,736	14,179
Operating Allocation				
Navy Alliance	25,000	100,000	100,000	-
The Promise	12,400	12,400	12,400	-
Tri-County Council	94,200	109,909	109,909	-
Operating Allocation	131,600	222,309	222,309	-
Total Economic Development and Opportunity	\$ 1,583,097	\$ 1,718,267	\$ 1,584,442	\$ 133,825

THE COUNTY COMMISSIONERS FOR 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, 2013
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
DEBT SERVICE				
Debt Service	\$ 12,519,113	\$ 10,914,262	\$ 10,860,449	\$ 53,813
INTER-GOVERNMENTAL				
Leonardtown Tax Rebate	49,615	49,615	49,615	-
Total Inter-Governmental	\$ 49,615	\$ 49,615	\$ 49,615	\$ -
OTHER				
Employer Contributions-Retiree Health Benefits	6,540,000	7,290,000	7,290,000	-
Unemployment Compensation	200,000	200,000	74,871	125,129
Bank Service Fees	35,000	35,000	7,705	27,295
Total Other	\$ 6,775,000	\$ 7,525,000	\$ 7,372,576	\$ 152,424
Total Expenditures	<u>200,215,570</u>	<u>198,891,133</u>	<u>193,688,631</u>	<u>5,202,502</u>
RESERVES				
Reserve - Grants	1,000,000	1,164,641	-	1,164,641
Reserve - Bond Rating	200,000	200,000	301,742	(101,742)
Reserve - Emergency Appropriations	500,000	295,725	-	295,725
Total Reserves	\$ 1,700,000	\$ 1,660,366	\$ 301,742	\$ 1,358,624
Total Expenditures, Including Reserves	\$ 201,915,570	\$ 200,551,499	\$ 193,990,373	\$ 6,561,126
Transfer				
Capital Projects - General Fund Transfer/Pay-Go	9,763,208	11,368,059	11,368,059	-
Total Expenditures and Other Financing Uses	<u>\$ 211,678,778</u>	<u>\$ 211,919,558</u>	<u>\$ 205,358,432</u>	<u>\$ 6,561,126</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2013

LAND PRESERVATION

Agriculture Preservation	\$ 1,393,622	
Critical Area Planting	<u>167,309</u>	\$ 1,560,931

HIGHWAYS

FDR Blvd. Extended	\$ 6,233,393	
Patuxent Park Neighborhood Preservation	2,455,774	
Buck Hewitt Road	982,817	
Dr. Johnson Rd. Bridge Structure	706,772	
State Aid Projects	223,331	
Traffic Control Signals	143,300	
Regional Water Quality & Nutrient Removal	130,865	
Regional Stormwater Management	113,020	
Roadside Obstacles	39,584	
Asphalt Overlay	35,468	
Bridge/Culvert Replacement	32,587	
Streetscape Improvement	<u>10,852</u>	11,107,763

MARINE

St. Jerome's Creek Jetties	\$ 64,750	
Thomas Road Revetment	64,236	
St. Jerome's Creek Jetty Study	40,582	
Gibson Road	<u>7,751</u>	177,319

PUBLIC WORKS

Base Realignment & Closure	\$ 7,500,000	
Patuxent River Naval Museum-New	5,449,382	
800 MHz Radio Enhancement	2,540,356	
Leonardtown Library Renovation	2,496,500	
Carter State Building Maintenance/Repair	635,914	
Airport Master Plan	604,000	
Building Maintenance & Repairs	536,701	
Emergency Communications Center Hardening	461,805	
Airport Wetlands Mitigation	413,915	
Mattapany Farmers Market	150,000	
Energy Efficiency & Conservation	149,500	
Tri-County Animal Shelter	143,588	
STS Bus Barn	85,797	
CSM Wellness & Pool	59,088	
Parking/Site Improvements	14,329	
ADC Minimum Security Addition	<u>10,537</u>	21,251,412

PIERS AND BOAT RAMPS

Piney Point Landing Peir	\$ 150,000	
Wicomico Public Landing Restroom Replacement	99,000	
Derelict Boat Removal	<u>30,000</u>	279,000

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2013
 (CONTINUED)

PUBLIC SCHOOLS

Site Acquisition Various	\$ 3,143,367	
Greenview Knolls HVAC	1,686,278	
Mechanicsville ES Bus/Parking Lot	1,077,430	
Leonardtown HS Tennis/Track Resurfacing	339,287	
Spring Ridge Middle School Renovation	250,000	
ADA Transition Plan	211,923	
Playground Equipment	188,128	
Second New Elementary School	164,219	
Leonardtown MS Renovation	163,730	
State Relocatable-site to be determined	143,527	
Esperanza Middle School Soil Erosion	118,483	
Margaret Brent MS Wastewater	74,901	
Oakville ES HVAC	45,687	
Oakville ES Parking Modifications	<u>11,660</u>	\$ 7,618,620

RECREATION & PARKS

Three Notch Trail	\$ 2,034,971	
Parks Land Acquisition	1,046,552	
Lancaster Park Improvements	655,518	
Charlotte Hall Athletic Fields	548,812	
Piney Point Lighthouse Museum	190,000	
Civil War Memorial & Interpretive Center	150,000	
Leonardtown Park	130,000	
Recreation Facility Improvements	<u>87,297</u>	4,843,150

SOLID WASTE

Landfill Mitigation	\$ 471,069	
Convenience Center Expansion	<u>54,293</u>	<u>525,362</u>

Total		<u>\$ 47,363,557</u>
-------	--	----------------------

Included in the above total is \$11,554,906 in unexpended State and Federal projects appropriations.



Murphy & Murphy, CPA, LLC
Certified Public Accountants

**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 County Commissioners
for St. Mary's County, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County Commissioners for St. Mary's County, Maryland's basic financial statements, and have issued our report thereon dated December 31, 2013. 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 County Commissioners for St. Mary's County, Maryland's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County Commissioners for 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
December 31, 2013