

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

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**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
WITH  
INDEPENDENT AUDITOR'S REPORT  
  
YEAR ENDED JUNE 30, 2018**

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**Murphy & Murphy, CPA, LLC**



# Commissioners of St. Mary's County

June 30, 2018

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# Commissioners of St. Mary's County

June 30, 2018

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## INDEPENDENT AUDITOR'S REPORT

To the Commissioners of St. Mary's County

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commissioners of St. Mary's County, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commissioners of St. Mary's County's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the St. Mary's County Public Schools, which represent 57.65 percent, (193.74) percent and 88.55 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the St. Mary's County Public Schools, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## *Opinions*

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners of St. Mary's County, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Emphasis of Matters*

As discussed in Note 15 to the financial statements, during the year ended June 30, 2018, the County Commissioners of St. Mary's County adopted new accounting guidance from Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension and OPEB information on pages 4 - 15 and 109 - 118 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The combining and individual 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, 2018, on our consideration of the Commissioners of St. Mary's County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commissioners of St. Mary's County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commissioners of St. Mary's County's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
December 31, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Financial Report of St. Mary's County, Maryland presents a narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2018. We encourage readers to use the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

### Financial Highlights

- The assets and deferred outflows of the County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$202.5 million (*net position*). Approximately \$17.6 million, or 8.6%, 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. With the change in GASB reporting for FY2018 Unrestricted Net position is changed from \$16.3 million in FY2017 to a negative \$61.1 million to reflect the reporting of the Unfunded Pension and OPEB Liability as part of net position. Other components of the net position are \$22.4 million of restricted net position and approximately \$241.3 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 a decrease of \$56.9 million compared to the prior year.
- Governmental activities' total indebtedness decreased by \$7,698,767 during the fiscal year ended June 30, 2018. The 2009 B Series for \$15,475,000 was refunded, and there was new exempt financing for equipment replacement of \$5,000,000. Payments on the debt totaled \$10,811,880. The estimated post-closure costs of the landfill decreased by \$193,000 and there was a net increase in the accrual for compensated absences of \$18,170.
- As of June 30, 2018, the County's governmental funds reported combined fund balances of \$78.6 million, a decrease of \$180,648 compared to the prior year. The general fund reflected an increase of \$10,345,596. The capital projects fund reflected a decrease of \$10.6 million. The fund balance for the non-major funds increased \$146,786. The County's governmental fund balances at June 30, 2018 include \$16.5 million for capital projects, \$60.1 million in general funds, and \$1.9 million for the other non-major funds. The general fund balance of \$60.1 million includes: \$2.2 million that is nonspendable, as well as \$17.3 million which is committed to the following: \$13.6 million for the Bond Rating Reserve, \$1.625 million for County's Rainy Day Fund and \$2,085,000 for use of non-recurring expenses in the FY2019 Budget. In addition, the general fund reflects assigned designations of approximately \$3.8 million which includes encumbrances.
- With the FY2018 budget, the State's allocations/funding to the County continue to be level funded or close to the same as in past years. Cost shifts continue and this budget continues to focus on funding recurring expenses with recurring revenues. The County deems it prudent to stay the course with respect to basic government services, while maintaining reserves adequate to cushion against changes over which it has little influence. The County approved the budget without the use of unassigned fund balance. Maintaining a healthy fund balance can help the County to weather negative revenue results and avoid sudden disruption or elimination of services, by allowing time for a plan to be developed to address negative trends.
- The non-major funds are special purpose funds that correspond to special assessments, the emergency services support fund, and a revolving loan fund set up to assist volunteer fire and rescue squads in financing their acquisition of capital assets.
- The business-type operating activities reflect a total decrease in net position of \$442,165. Fee-based recreation activities posted a decrease of \$48,480. 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 a decrease of \$373,742, with Environmental

Service fee set at \$72. The Wicomico Golf Course reflects a decrease of \$19,943 in net position, reflects the continuation of reduced expenses compared to past years. The enterprise funds are reviewed for sustainability, as a part of the annual budget process. At the same time, increased costs for personal, utilities and general operating costs has been realized. During FY2019, consideration will continue to be given to the fee schedules as well as cost control, to restore this activity to a balanced budget.

- At June 30, 2018, the unassigned fund balance for the general fund (primary operating fund) was \$36.5 million, or 16.87% of general fund expenditures. Assigned fund balance of the general fund was \$3.8 million, or 6.4% of the general fund total fund balance.

## Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, public works, health, social services, economic development, agricultural land preservation and recreation and parks, community services, planning and zoning, and permits and inspections. The business-type activities of the County in FY2018 include Wicomico Golf Course, Solid Waste and Recycling Activities and the Recreation Activities.

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

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

**Governmental funds:** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*,

as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Commissioners of St. Mary's County maintains five individual governmental funds: general, capital projects, special assessments, fire and rescue revolving funds, and emergency support. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general, capital projects and non-major funds (special assessments, fire and rescue revolving, and emergency support funds). The detail for the non-major funds is presented as part of supplementary information following the notes to the financial statements. The basic governmental fund financial statements can be found on pages 20 to 21 of this report.

The Commissioners of St. Mary's County adopts an annual appropriated budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, the County's primary fund. The budget to actual statement can be found on page 109 of this report.

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

***Fiduciary funds:*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Commissioners of St. Mary's County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary funds are established for retiree benefit trusts, specifically the Sheriff's Office Retirement plan, the Retiree Benefit Trust of St. Mary's County, Maryland, which addresses the County's retiree health benefits and the Length of Service Awards for Fire & Rescue. The basic fiduciary fund financial statements can be found on pages 26 to 31 of this report.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 32 to 108 of this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Commissioners of St. Mary's County's progress in funding its obligations to retiree benefits. Required supplementary information can be found on pages 109 to 118 of this report. Other supplementary information can be found on pages 119 to 129.

## 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 \$202.5 million at the close of the current fiscal year. The County's net position is divided into three categories: net investment in capital assets, restricted net position; and unrestricted net position. \$241.3 million of the County's net position reflects its net investment in capital assets (e.g., land and easements, buildings, machinery, equipment, infrastructure and improvements), less any outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net position represents 11.1% 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 negative \$61.1 million.

NET POSITION						
June 30, 2018 and 2017						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>ASSETS</b>						
Current Assets	\$ 117,610,004	\$ 128,166,385	\$ 1,583,980	\$ 1,452,139	\$ 119,193,984	\$ 129,618,524
Other Non-Current Assets	2,629,853	2,715,801	-	-	2,629,853	2,715,801
Capital Assets, Net of Accumulated Depreciation	302,032,158	291,231,490	17,680,276	17,921,670	319,712,434	309,153,160
<b>DEFERRED OUTFLOW OF RESOURCES</b>						
Pension	7,307,943	13,604,540	-	-	7,307,943	13,604,540
OPEB	156,626	-	-	-	156,626	-
Bond Refunding	1,356,254	1,685,498	-	-	1,356,254	1,685,498
Total Assets & Deferred Outflow of Resources	<u>\$ 431,092,838</u>	<u>\$ 437,403,714</u>	<u>\$ 19,264,256</u>	<u>\$ 19,373,809</u>	<u>\$ 450,357,094</u>	<u>\$ 456,777,523</u>
<b>LIABILITIES</b>						
Current Liabilities	\$ 27,164,508	\$ 25,247,754	\$ 1,134,678	\$ 875,578	\$ 28,299,186	\$ 26,123,332
Non-Current Liabilities	198,505,612	160,945,635	508,787	435,275	199,014,399	161,380,910
<b>DEFERRED INFLOW OF RESOURCES</b>						
Pension	2,070,354	940,006	-	-	2,070,354	940,006
OPEB	3,988,864	-	-	-	3,988,864	-
Unavailable Income Tax Distribution	14,401,043	8,768,718	-	-	14,401,043	8,768,718
Total Liabilities & Deferred Inflow of Resources	<u>246,130,381</u>	<u>195,902,113</u>	<u>1,643,465</u>	<u>1,310,853</u>	<u>247,773,846</u>	<u>197,212,966</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	223,996,528	205,671,921	17,303,526	17,616,804	241,300,054	223,288,725
Restricted	22,409,857	19,949,494	-	-	22,409,857	19,949,494
Unrestricted	(61,443,928)	15,880,186	317,265	446,152	(61,126,663)	16,326,338
Total Net Position	<u>184,962,457</u>	<u>241,501,601</u>	<u>17,620,791</u>	<u>18,062,956</u>	<u>202,583,248</u>	<u>259,564,557</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$ 431,092,838</u>	<u>\$ 437,403,714</u>	<u>\$ 19,264,256</u>	<u>\$ 19,373,809</u>	<u>\$ 450,357,094</u>	<u>\$ 456,777,523</u>

At June 30, 2018, the Commissioners of St. Mary's County reports positive balances in two categories of net position as a whole. Unrestricted is negative due to GASB reporting changes.

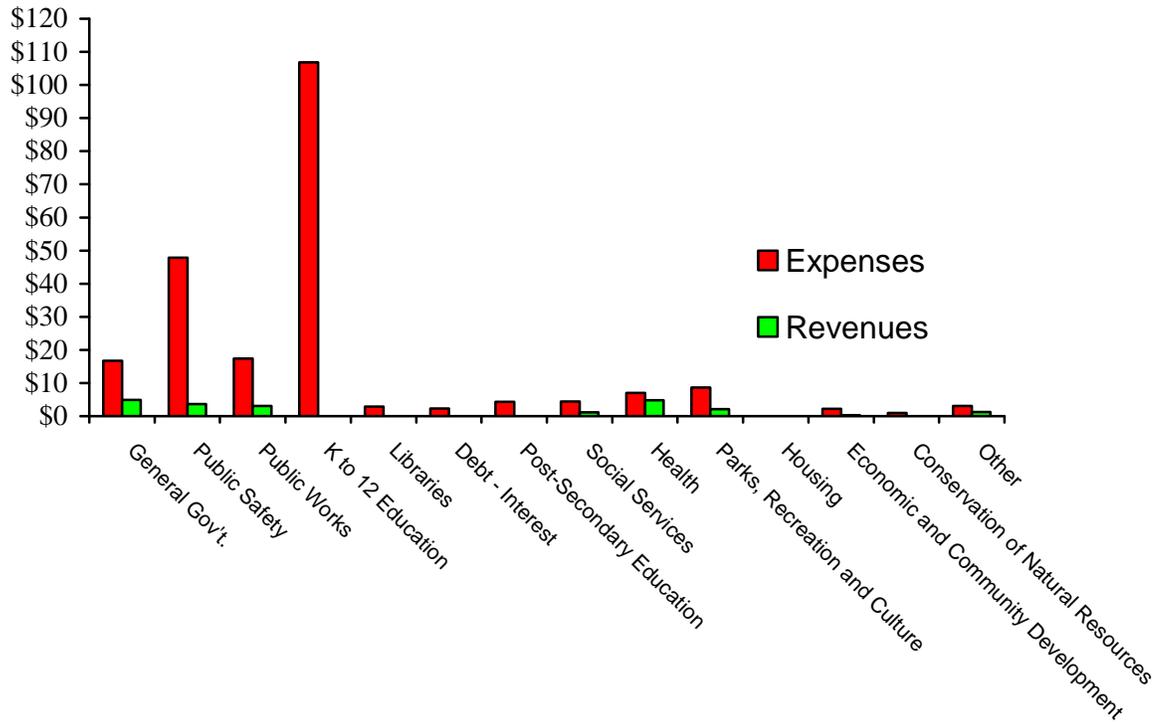
The following table indicates the changes in net position for governmental and business-type activities:

	CHANGES IN NET POSITION					
	Years ended June 30, 2018 and 2017					
	Governmental Activities		Business –Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program Revenues:						
Charges for Services	\$ 5,909,182	\$ 7,094,639	\$ 4,196,442	\$ 4,288,090	\$ 10,105,624	\$ 11,382,729
Environment/Solid Waste Fees	-	-	3,172,692	3,132,609	3,172,692	3,132,609
Operating Grants and Contributions	9,551,033	11,713,502	29,781	41,781	9,580,814	11,755,283
Capital Grants and Dedicated Fees or Taxes	3,199,535	2,544,576	-	-	3,199,535	2,544,576
General Revenues:						
Property Taxes	109,091,603	107,137,471	-	-	109,091,603	107,137,471
Income Taxes	90,410,603	88,167,869	-	-	90,410,603	88,167,869
Other Taxes	18,029,283	17,509,063	-	-	18,029,283	17,509,063
Investment Earnings	825,414	355,911	-	7,984	825,414	363,895
Roads Constructed by Third Parties	1,951,488	9,595,703	-	-	1,951,488	9,595,703
Capital Transfer	(49,050)	156,275	49,050	(156,275)	-	-
Miscellaneous, principally Capital Projects Funding	<u>5,869,375</u>	<u>1,649,889</u>	<u>39,935</u>	<u>-</u>	<u>5,909,310</u>	<u>1,649,889</u>
Total Revenues	<u>244,788,466</u>	<u>245,924,899</u>	<u>7,487,900</u>	<u>7,314,189</u>	<u>252,276,366</u>	<u>253,239,088</u>
Program Expenses:						
General Government	15,742,890	24,424,948	-	-	15,742,890	24,424,948
Public Safety	52,680,506	47,849,899	-	-	52,680,506	47,849,899
Public Works	29,218,750	13,376,221	4,089,503	4,036,077	33,308,253	17,412,298
Health	3,024,679	7,048,797	-	-	3,024,679	7,048,797
Social Services	4,474,563	4,377,000	-	-	4,474,563	4,377,000
Primary and Secondary Education	106,189,852	106,864,228	-	-	106,189,852	106,864,228
Post-Secondary Education	4,321,693	4,321,929	-	-	4,321,693	4,321,929
Parks, Recreation, and Culture	5,512,346	4,958,135	3,840,562	3,680,716	9,352,908	8,638,851
Libraries	2,986,923	2,868,840	-	-	2,986,923	2,868,840
Conservation of Natural Resources	1,968,147	997,820	-	-	1,968,147	997,820
Economic Development and Opportunity	2,844,937	2,180,192	-	-	2,844,937	2,180,192
Interest on Debt	609,438	2,265,408	-	-	609,438	2,265,408
Intergovernmental	44,916	4,090,196	-	-	44,916	4,090,196
Other, principally Retirees' Health	<u>3,314,877</u>	<u>3,075,214</u>	<u>-</u>	<u>-</u>	<u>3,314,877</u>	<u>3,075,214</u>
Total Expenses	<u>232,934,517</u>	<u>228,698,827</u>	<u>7,930,065</u>	<u>7,716,793</u>	<u>240,864,582</u>	<u>236,415,620</u>
Increase/(Decrease) in Net position	<u>11,853,949</u>	<u>17,226,072</u>	<u>(442,165)</u>	<u>(402,604)</u>	<u>11,411,784</u>	<u>16,823,468</u>
Net Position – Beginning, as Previously Stated	241,501,601	224,275,529	18,062,956	18,465,560	259,564,557	242,741,089
Prior Period Adjustment	<u>(68,393,093)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(68,393,093)</u>	<u>-</u>
Net Position – Beginning, as Restated	<u>173,108,508</u>	<u>224,275,529</u>	<u>18,062,956</u>	<u>18,465,560</u>	<u>191,171,464</u>	<u>242,741,089</u>
Net Position - Ending	<u>\$ 184,962,457</u>	<u>\$ 241,501,601</u>	<u>\$ 17,620,791</u>	<u>\$ 18,062,956</u>	<u>\$ 202,583,248</u>	<u>\$ 259,564,557</u>

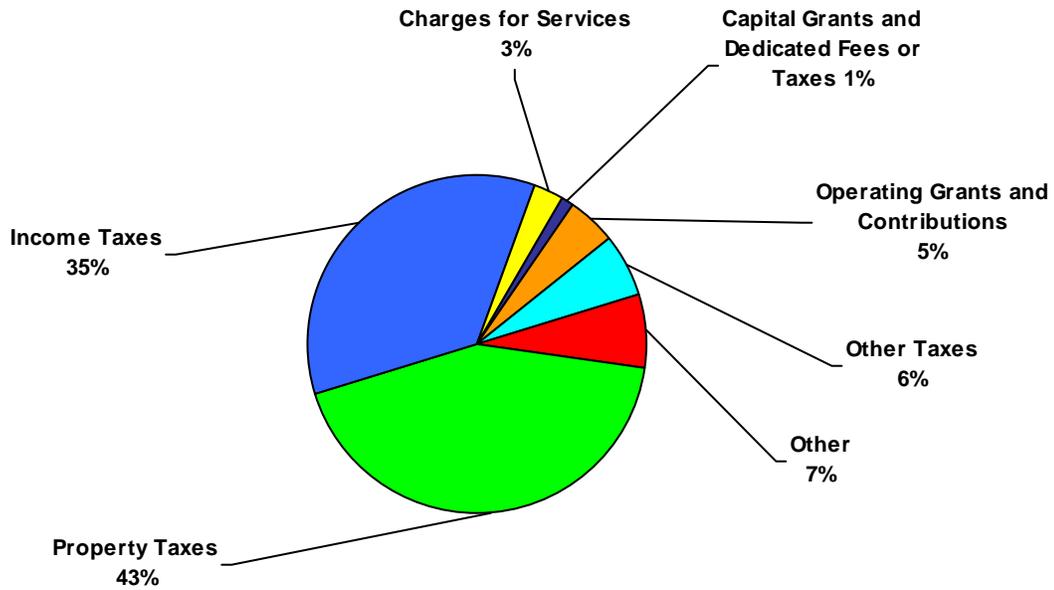
**Governmental activities:** Governmental activities reflected a decrease in net position of \$56.5 million.

**Business-type activities:** Business-type activities reflected a decrease in net position of \$442,165.

Expenses and Program Revenues – Governmental Activities  
(in millions)



Revenues By Source – Governmental Activities



## Financial Analysis of the Government's Funds

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

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

As of June 30, 2018, the Commissioners of St. Mary's County governmental funds reported combined ending fund balances of \$78.6 million, a decrease of \$180,648 compared to the prior year. The Capital Projects fund accounts for \$16.5 million. Approximately \$36.5 million, or 46% of this total, constitutes *unassigned fund balance*, which is available for spending at the government's discretion in the general fund. Assigned fund balance represents encumbrances and miscellaneous revolving fund reserved for specific uses. Restricted and committed fund balances include \$16.5 million for capital projects, \$13.6 million for the Bond Rating Reserve, \$1.625 million for Rainy Day Fund, and \$2,085,000 for non-recurring capital improvement pay-go in the FY2019 budget. Non-spendable fund balance includes \$1,331,602 committed to liquidate inventories, prepaid expenses of \$155,096 and \$745,402 in interfund advances. Unassigned fund balance represents almost 16.87% of general fund expenditures.

The fund balance of the Commissioners of St. Mary's County general fund has increased \$10,345,596 in FY2018, when compared to the prior year increase of \$8.2 million. Unassigned fund balance was not used in the FY2017 or FY2018 approved budget. The County prefers to use unassigned fund balance for non-recurring expenses.

The capital projects fund has a total fund balance of \$16.5 million. This balance reflects the accumulated unspent balance of impact fees, transfer taxes, and pay-go, which has been appropriated for specific projects, but remains unspent as of June 30, 2018. These funds have been budgeted, and the capital projects are in progress. A listing of the unexpended balances appears on pages 128 and 129.

**Proprietary funds:** The Commissioners of St. Mary's County's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At the end of year, the Wicomico Golf Course Fund reflected unrestricted net position of (\$791,650). The Recreation Activities Fund reflected unrestricted net position of \$664,173, and the unrestricted net position of the Solid Waste and Recycling Fund amounted to \$444,742. On a combined basis, there was a \$128,887 decrease in unrestricted net position over the prior year. Factors concerning these funds' finances are addressed in the discussion of the County's business-type activities.

## General Fund Budgetary Highlights

In addressing the budget to actual variances, this section focuses generally on comparisons to the original approved budget. The "other supplementary information" on pages 121 through 127 reflects the original and revised budgets as well as the actual results in more detail. FY2018 actual results reflect actual revenues that are about \$442,000 more than the original budget; this is largely attributable to the \$761,786 increase in other local taxes. Property Taxes had a negative variance of \$177,527 and income taxes had a negative variance of \$718,696. The FY2018 budget for income tax revenue is based upon an annual growth rate of 4% applied to tax year 2015 results based on returns filed. As the information on pages 121 and 122 shows, there are a variety of smaller offsetting variances; these were considered when developing the revenue budget for FY2019. 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 steady at the slower rate of almost 2% annually. As for income taxes, the County will continue to budget based on its specific taxable income statistics, as provided by the State, rather than the State's distributions, which are based on State-wide cash flow.

Expense variances fall into several categories. During the course of FY2018 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 FY2019 budget is based on updated estimates for salaries and benefits. County departments also realized savings in fuel, utilities, non-public student bus contracts, STS transportation system, other contract services, and grants of about \$600,000, combined. Unspent funds in the Sheriff's operating budget were \$3.3 million, of which almost \$2.2 million is from personal services costs. Estimates for subsequent budgets will be reviewed in light of these recurring positive variances.

While the County's financial situation is strong and sustainable, the County continues to take a very conservative approach to revenue estimates, given the continued concern of the federal and state budgets, and the general economy – continuing to focus on efficiency measures, both as a part of budget adoption, and also throughout the operational year. The county continues to monitor expenditures and realign savings to reserves to use on non-recurring costs – such as severe weather. Savings are not re-aligned to spend on recurring costs that carry future funding commitments. Instead, the savings are allowed to accrue to fund balance to fund future non-recurring costs, if needed. 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 review the prior year unassigned fund balance and decides if its needs should be used for non-recurring expenditures. 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 Commissioners Fund Balance policy, it reinforces using fund balance for non-recurring expenses and it also stipulates that County Reserves, which includes the 6% Bond Rating Reserve, Rainy Day Fund and Unassigned Fund balance, should be at or above 15% of general fund revenue. FY2018 ratio is 23%. With the low property tax rate and an income tax rate that is less than the maximum allowed by the State, the County also has maintained ample capacity for revenue enhancement should future needs arise, and the circumstances warrant it.

## Capital Asset and Debt Administration

- Capital assets:** The Commissioners of St. Mary's County's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$319 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure and land development rights. The net increase in the County's investment in capital assets for the fiscal year ended June 30, 2018 was \$10,559,274. It should be noted that the capital asset balances include the County's infrastructure (i.e., roads), as the County has fully implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

### CAPITAL ASSETS

(At Cost, Net of Accumulated Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 38,579,550	\$ 38,557,336	\$ 1,078,666	\$ 1,078,666	\$ 39,658,216	\$ 39,636,002
Building and Improvements	68,930,200	69,551,804	2,467,313	2,504,099	71,397,513	72,055,903
Facilities Under Construction	15,604,411	16,900,654	-	-	15,604,411	16,900,654
Solid Waste Facilities	-	-	13,220,472	13,220,472	13,220,472	13,220,472
Infrastructure	156,724,952	143,700,305	114,227	130,921	156,839,179	143,831,226
Vehicles	6,651,261	6,068,966	714,264	886,136	7,365,525	6,955,102
Equipment	<u>15,541,784</u>	<u>16,452,425</u>	<u>85,334</u>	<u>101,376</u>	<u>15,627,118</u>	<u>16,553,801</u>
	<u>\$ 302,032,158</u>	<u>\$ 291,231,490</u>	<u>\$ 17,680,276</u>	<u>\$ 17,921,670</u>	<u>\$ 319,712,434</u>	<u>\$ 309,153,160</u>

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

- Approximately \$18.7 million in road costs were capitalized, including \$1.9 million in roads developed /constructed by third parties.
- Licensed vehicles increased by \$702,996 – net of disposals.
- Construction in progress totals \$15.6 million – Capital Improvements project capitalized in subsequent years.

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

**Long-term debt:** At June 30, 2018, the Commissioners of St. Mary's County had the following debt, and other similar obligations outstanding, as set forth in the table below. The full faith and credit and unlimited taxing power of the Commissioners of St. Mary's County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the General Obligation Bonds.

#### GENERAL OBLIGATION DEBT

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Amounts due within one year</u>
<u>Primary Government</u>			
General Obligation Bonds (GOB) – County	\$ 71,172,000	\$ 81,158,000	\$ 8,748,000
Water Quality Loans	221,516	549,872	221,516
State Loans	1,350,894	1,482,475	123,439
Surplus Property Transfer of Debt	-	153	-
Exempt Financing (Equipment & Vehicles)	<u>5,291,220</u>	<u>2,369,069</u>	<u>1,818,119</u>
	<u>\$ 78,035,630</u>	<u>\$ 85,559,569</u>	<u>\$ 10,911,074</u>
<u>Business-Type Activities</u>			
Exempt Financing (Equipment)	<u>\$ 376,750</u>	<u>\$ 304,866</u>	<u>\$ 170,684</u>

The Commissioners of St. Mary's County's additions to debt included \$5 million in Exempt Financing for new and replacement vehicles and equipment. The County also refunded the 2009, series B Bonds.

As of June 30, 2018 the County had an AA+ rating from Fitch Ratings, an "AA+" from S & P Global Ratings and an "Aa1" rating from Moody's Investors Service, Inc. which were confirmed by rating agencies in August 2018 prior to \$30 million sale in September 2018. 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 2.15%, to include the debt of St. Mary's Metropolitan Commission, and debt service expense as a percent of current general fund revenue not exceed 10%. The County is well within these parameters, and monitors capital budgets and 5-year plans to ensure it remains within the limitations.

Additional information on the Commissioners of St. Mary's County's long-term debt can be found in Note 6 of this report.

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

- The total general fund FY2019 expenditure budget is \$230.1 million; unassigned fund balance was used for non-recurring capital improvement expenditures, committed in fund balance. The property tax income is based on information provided by the State as to estimated taxable assessed value of \$12.6 billion, a small increase over the prior year's estimate of \$12.4 billion. The impact of triennial assessments shows a minimal increase in the full value and are somewhat mitigated by the County's cap of 5%. Assessments continue to reflect slow growth, but steady; this resulted in revenue estimate at 2% over the prior year. Initial billings for FY2019 are comparable to the estimates. The real property tax rate remains at .8478 per \$100 of assessed value, which is higher than constant yield tax rate by .0035. The personal property tax rate, which is 2.5 times the real property tax rate, is \$2.1195. The income taxes were budgeted at \$93.9 million, based on a 3.5% growth in local tax returns. This represents an increase of 2% over the FY2018 budget, and reflects both the estimated County specific tax returns as well as \$5.3 million estimated for 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 the

budget may be on target. We will continue to monitor and adjust the budget if necessary after the second payment which will be received in February 2019. Information has recently been received from the State showing TY2017 is 4.8% higher than TY2016, which is below the State average of 6%. Continual monitoring of the property tax and income tax revenue, which represents approximately 90% of the total revenues, will be a major part of the FY2020 budget development, any indications of reduction will be offset by reduced expenditures.

- Though the County may be impacted by the general and State economic situation, the activities and operations of the Patuxent Naval Air Base thus far have had a stabilizing effect. Operations at the base continue to grow – which is the busiest flight center in the world. Approximately 25,000 workers support the base.
- Tech Port @ The Airport Technology Incubator has evolved with the \$2 million grant received in 2016. The facility is 6,000 square feet and is adjacent to the UMD UAS Test Site at the County's regional airport – completed in 2017.
- The population growth continues and was estimated at 112,587, and is estimated to grow to 125,150 by 2020.
- The County ranks near the top in the State for growth in the labor force, average weekly wages, and median household income. We consistently post unemployment rates that are well below State averages. These factors indicate a stable economy.
- Tourism and Hospitality Industry continues to be an important component of the local economy. The County's accommodations tax continues to reflect strong growth. Visit St. Mary's MD started in FY2019 for outsourcing the County's Tourism – funding will be tied to the growth of the accommodations tax.

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. Each of these actions served to reduce future annual expenditures. The County's fiduciary net position as a percent of total OPEB liability is 87.74%.

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. The FY2019 Budget included an approved Multi-Year Operating Budget to FY2023. It is expected that cost-saving measures will continue, and that savings will be used to reduce future costs. 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.

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 FY2019 remain low compared to other Counties, and the County's property tax rate continues to be among the lowest in the State, thus retaining tax flexibility and capacity for the future. However, it is the goal to manage our way through these volatile times through a variety of measures, a balanced approach that considers the needs and priorities of our citizens. The continued focus will be to assure that adequate and sustainable resources are identified to address prioritized needs – both capital and operating – now and for the future.

## Requests for Information

This financial report is designed to provide a general overview of St. Mary's County Government's finances for all those with an interest in the Government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Finance, Commissioners of St. Mary's County, 41770 Baldrige Street, P.O. Box 653, Leonardtown, Maryland 20650, or via email at [Finance@stmarysmd.com](mailto:Finance@stmarysmd.com).

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COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF NET POSITION  
JUNE 30, 2018

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
<b>ASSETS</b>							
Cash and cash equivalents	\$ 81,705,984	\$ 10,000	\$ 81,715,984	\$ 34,732,102	\$ 642,401	\$ 27,231,776	\$ -
Internal balances	(1,182,434)	1,182,434	-	-	-	-	-
Restricted cash and investments	3,570,730	211,677	3,782,407	87,366	95,829	-	-
Taxes receivable	2,288,287	-	2,288,287	-	-	-	-
Income tax reserve, funds held by the state	14,401,043	-	14,401,043	-	-	-	-
Due from other governments	-	-	-	7,891,266	93,919	-	189,454
Special assessments receivable	162,528	-	162,528	-	-	-	-
Notes receivable, Fire and Rescue loans	578,029	-	578,029	-	-	-	-
Accounts receivable	14,291,786	138,946	14,430,732	51,047	182,227	29,138,882	-
Inventory	1,331,602	29,576	1,361,178	162,772	-	256,997	-
Other, principally prepaid expenses	462,449	11,347	473,796	8,551	-	50,929	-
Unamortized bond discount	-	-	-	-	-	25,050	-
Fire and Rescue loans receivable, net of short-term portion	2,629,853	-	2,629,853	-	-	-	-
Capital assets	500,759,095	23,243,160	524,002,255	421,641,487	5,437,386	227,799,451	-
Accumulated depreciation	(198,726,937)	(5,562,884)	(204,289,821)	(169,412,036)	(4,075,819)	(69,634,617)	-
Capital assets, net of accumulated depreciation	<u>302,032,158</u>	<u>17,680,276</u>	<u>319,712,434</u>	<u>252,229,451</u>	<u>1,361,567</u>	<u>158,164,834</u>	<u>-</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>							
Pension	7,307,943	-	7,307,943	2,501,211	-	1,005,949	-
OPEB	156,626	-	156,626	275,586	-	77,994	-
Bond refunding	<u>1,356,254</u>	<u>-</u>	<u>1,356,254</u>	<u>-</u>	<u>-</u>	<u>326,796</u>	<u>-</u>
<b>Total Assets and Deferred Outflow of Resources</b>	<u>\$ 431,092,838</u>	<u>\$ 19,264,256</u>	<u>\$ 450,357,094</u>	<u>\$ 297,939,352</u>	<u>\$ 2,375,943</u>	<u>\$ 216,279,207</u>	<u>\$ 189,454</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF NET POSITION  
JUNE 30, 2018

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
<b>LIABILITIES</b>							
<u>Current liabilities:</u>							
Accounts payable	\$ 6,833,389	\$ 363,838	\$ 7,197,227	\$ 7,100,057	\$ 126,633	\$ 853,601	\$ -
Compensation-related liabilities	10,645,813	403,606	11,049,419	16,549,296	48,038	-	-
Unearned revenue	3,616,522	367,234	3,983,756	4,725,370	-	22,213	-
Other liabilities	5,879,330	-	5,879,330	-	-	2,208,034	-
Due to other governments	189,454	-	189,454	6,026	73,343	-	-
<u>Non-current liabilities:</u>							
Due within one year	10,935,093	170,684	11,105,777	943,342	-	6,263,537	-
Due in more than one year	76,220,161	338,103	76,558,264	5,688,332	108,901	85,757,923	-
Net pension liability	86,397,880	-	86,397,880	11,668,499	-	4,558,356	-
Net OPEB liability	24,952,478	-	24,952,478	323,008,897	1,115,827	3,526,638	-
<b>DEFERRED INFLOW OF RESOURCES</b>							
Pension	2,070,354	-	2,070,354	832,370	-	472,787	-
OPEB	3,988,864	-	3,988,864	2,399,666	-	23,797	-
Unavailable income tax distribution	14,401,043	-	14,401,043	-	-	-	-
<b>Total Liabilities and Deferred Inflow of Resources</b>	<b>246,130,381</b>	<b>1,643,465</b>	<b>247,773,846</b>	<b>372,921,855</b>	<b>1,472,742</b>	<b>103,686,886</b>	<b>-</b>
<b>NET POSITION</b>							
Net investment in capital assets	223,996,528	17,303,526	241,300,054	250,685,397	1,361,567	90,450,140	-
Restricted for:							
Capital assets purchases	-	-	-	-	-	-	-
Capital projects	22,180,370	-	22,180,370	86,586	-	-	-
Other purposes	229,487	-	229,487	-	213,628	13,059,219	-
Unrestricted	(61,443,928)	317,265	(61,126,663)	(325,754,486)	(671,994)	9,082,962	189,454
<b>Total Net Position</b>	<b>184,962,457</b>	<b>17,620,791</b>	<b>202,583,248</b>	<b>(74,982,503)</b>	<b>903,201</b>	<b>112,592,321</b>	<b>189,454</b>
<b>Total Liabilities, Deferred Inflow of Resources and Net Position</b>	<b>\$ 431,092,838</b>	<b>\$ 19,264,256</b>	<b>\$ 450,357,094</b>	<b>\$ 297,939,352</b>	<b>\$ 2,375,943</b>	<b>\$ 216,279,207</b>	<b>\$ 189,454</b>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

Program Revenues

Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes	Total Revenues
General government	\$ 15,742,890	\$ 2,839,093	\$ 1,130,717	\$ 1,906,171	\$ 5,875,981
Public safety	52,680,506	1,323,797	2,381,174	-	3,704,971
Public works	29,218,750	551,945	3,393,158	-	3,945,103
Health	3,024,679	-	773,845	-	773,845
Social services	4,474,563	1,950	1,017,123	-	1,019,073
Primary and secondary education	106,189,852	-	-	-	-
Post-secondary education	4,321,693	-	-	-	-
Parks, recreation, and culture	5,512,346	174,527	27,738	64,978	267,243
Libraries	2,986,923	-	-	-	-
Conservation of natural resources	1,968,147	-	-	1,153,393	1,153,393
Economic development and opportunity	2,844,937	-	827,278	-	827,278
Debt interest	609,438	-	-	-	-
Intergovernmental	44,916	-	-	-	-
Other, including OPEB	3,314,877	1,017,870	-	74,993	1,092,863
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>232,934,517</b>	<b>5,909,182</b>	<b>9,551,033</b>	<b>3,199,535</b>	<b>18,659,750</b>
Business-type activities:					
Recreation activity	2,497,421	2,419,160	29,781	-	2,448,941
Wicomico	1,343,141	1,232,703	-	-	1,232,703
Solid waste/recycling	4,089,503	544,579	-	-	544,579
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>7,930,065</b>	<b>4,196,442</b>	<b>29,781</b>	<b>-</b>	<b>4,226,223</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>240,864,582</b>	<b>10,105,624</b>	<b>9,580,814</b>	<b>3,199,535</b>	<b>22,885,973</b>
COMPONENT UNITS:					
Public schools	267,412,939	3,163,733	43,562,892	3,050,150	49,776,775
Library	5,124,861	146,649	1,317,472	-	1,464,121
MetCom	22,109,160	24,217,916	-	-	24,217,916
Building authority	600	-	-	-	-
	<b>\$ 294,647,560</b>	<b>\$ 27,528,298</b>	<b>\$ 44,880,364</b>	<b>\$ 3,050,150</b>	<b>\$ 75,458,812</b>

General revenues:
Property taxes
Income taxes
Other - including energy, recordation and transfer taxes
Investment earnings
Grants and contributions not restricted to specific purposes
Environmental/solid waste fees
Roads constructed by third parties
Capital transfer
Miscellaneous
Total general revenues
Increase/(decrease) in net position
Net position - beginning
Prior period adjustment
Net position - beginning, as restated
Net position - ending

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Public Schools	Library	MetCom	Building Authority
\$ (9,866,909)	\$ -	\$ (9,866,909)	\$ -	\$ -	\$ -	\$ -
(48,975,535)	-	(48,975,535)	-	-	-	-
(25,273,647)	-	(25,273,647)	-	-	-	-
(2,250,834)	-	(2,250,834)	-	-	-	-
(3,455,490)	-	(3,455,490)	-	-	-	-
(106,189,852)	-	(106,189,852)	-	-	-	-
(4,321,693)	-	(4,321,693)	-	-	-	-
(5,245,103)	-	(5,245,103)	-	-	-	-
(2,986,923)	-	(2,986,923)	-	-	-	-
(814,754)	-	(814,754)	-	-	-	-
(2,017,659)	-	(2,017,659)	-	-	-	-
(609,438)	-	(609,438)	-	-	-	-
(44,916)	-	(44,916)	-	-	-	-
(2,222,014)	-	(2,222,014)	-	-	-	-
<u>(214,274,767)</u>	<u>-</u>	<u>(214,274,767)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	(48,480)	(48,480)	-	-	-	-
-	(110,438)	(110,438)	-	-	-	-
-	<u>(3,544,924)</u>	<u>(3,544,924)</u>	-	-	-	-
-	<u>(3,703,842)</u>	<u>(3,703,842)</u>	-	-	-	-
<u>(214,274,767)</u>	<u>(3,703,842)</u>	<u>(217,978,609)</u>	-	-	-	-
-	-	-	(217,636,164)	-	-	-
-	-	-	-	(3,660,740)	-	-
-	-	-	-	-	2,108,756	-
-	-	-	-	-	-	(600)
-	-	-	<u>(217,636,164)</u>	<u>(3,660,740)</u>	<u>2,108,756</u>	<u>(600)</u>
109,091,603	-	109,091,603	-	-	-	-
90,410,603	-	90,410,603	-	-	-	-
18,029,283	-	18,029,283	-	-	-	-
825,414	-	825,414	320,408	5,608	337,728	-
-	-	-	196,294,787	3,647,844	-	-
-	3,172,692	3,172,692	-	-	-	-
1,951,488	-	1,951,488	-	-	-	-
(49,050)	49,050	-	-	-	-	-
<u>5,869,375</u>	<u>39,935</u>	<u>5,909,310</u>	<u>674,211</u>	<u>2,585</u>	<u>2,273,990</u>	-
<u>226,128,716</u>	<u>3,261,677</u>	<u>229,390,393</u>	<u>197,289,406</u>	<u>3,656,037</u>	<u>2,611,718</u>	-
<u>11,853,949</u>	<u>(442,165)</u>	<u>11,411,784</u>	<u>(20,346,758)</u>	<u>(4,703)</u>	<u>4,720,474</u>	<u>(600)</u>
241,501,601	18,062,956	259,564,557	189,749,294	2,170,433	111,722,849	190,054
<u>(68,393,093)</u>	-	<u>(68,393,093)</u>	<u>(244,385,039)</u>	<u>(1,262,529)</u>	<u>(3,851,002)</u>	-
<u>173,108,508</u>	<u>18,062,956</u>	<u>191,171,464</u>	<u>(54,635,745)</u>	<u>907,904</u>	<u>107,871,847</u>	<u>190,054</u>
<u>\$ 184,962,457</u>	<u>\$ 17,620,791</u>	<u>\$ 202,583,248</u>	<u>\$ (74,982,503)</u>	<u>\$ 903,201</u>	<u>\$ 112,592,321</u>	<u>\$ 189,454</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 81,705,984	\$ -	\$ -	\$ 81,705,984
Due from other funds	-	18,158,647	1,872,118	20,030,765
Restricted cash and investments	3,570,730	-	-	3,570,730
Taxes receivable	2,227,889	-	60,398	2,288,287
Income tax reserve, funds held by the state	14,401,043	-	-	14,401,043
Special tax assessments receivable	-	-	266	266
Notes receivable, Fire and Rescue loans	-	-	578,029	578,029
Accounts receivable	12,666,977	1,624,809	-	14,291,786
Inventory	1,331,602	-	-	1,331,602
Other	462,449	-	-	462,449
Fire and Rescue loans receivable, net of short-term portion	-	-	2,629,853	2,629,853
Special tax assessments receivable, net of short-term portion	-	-	162,262	162,262
<b>Total Assets</b>	<b>\$ 116,366,674</b>	<b>\$ 19,783,456</b>	<b>\$ 5,302,926</b>	<b>\$ 141,453,056</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 3,632,773	\$ 3,197,690	\$ 2,926	\$ 6,833,389
Compensation-related liabilities	10,629,204	-	16,609	10,645,813
Unearned revenue	243,012	-	3,373,510	3,616,522
Other liabilities	5,881,187	-	(1,857)	5,879,330
Due to other funds	21,213,199	-	-	21,213,199
Due to other governments	189,454	-	-	189,454
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable income tax distribution	14,401,043	-	-	14,401,043
<b>Total Liabilities and Deferred Inflow of Resources</b>	<b>56,189,872</b>	<b>3,197,690</b>	<b>3,391,188</b>	<b>62,778,750</b>
<b>FUND BALANCES</b>				
Nonspendable	2,232,100	-	-	2,232,100
Restricted	229,487	24,200,173	-	24,429,660
Committed	17,334,227	-	1,911,738	19,245,965
Assigned	3,879,316	-	-	3,879,316
Unassigned	36,501,672	(7,614,407)	-	28,887,265
<b>Total Fund Balances</b>	<b>60,176,802</b>	<b>16,585,766</b>	<b>1,911,738</b>	<b>78,674,306</b>
<b>Total Liabilities, Deferred Inflow and Resources and Fund Balances</b>	<b>\$ 116,366,674</b>	<b>\$ 19,783,456</b>	<b>\$ 5,302,926</b>	<b>\$ 141,453,056</b>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Capital Projects	Non-Major	Total
<b>REVENUES</b>				
Property taxes	\$ 109,091,603	\$ -	\$ -	\$ 109,091,603
Income taxes	90,410,603	-	-	90,410,603
Energy taxes	1,021,597	-	-	1,021,597
Recordation taxes	5,918,163	-	-	5,918,163
Transfer taxes	-	6,512,987	-	6,512,987
Agricultural/development taxes	-	604,536	-	604,536
Impact fees	-	1,634,800	-	1,634,800
Other local taxes	1,502,026	-	-	1,502,026
Highway user revenues	1,187,782	-	-	1,187,782
Licenses and permits	1,533,482	-	-	1,533,482
Intergovernmental	7,105,344	3,300,587	-	10,405,931
Charges for services	3,023,296	-	-	3,023,296
Fines and forfeitures	376,635	-	-	376,635
Special assessments	-	-	74,992	74,992
Other revenues	<u>1,132,282</u>	<u>-</u>	<u>3,337,469</u>	<u>4,469,751</u>
Sub-total	222,302,813	12,052,910	3,412,461	237,768,184
Pass-throughs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>222,302,813</u>	<u>12,052,910</u>	<u>3,412,461</u>	<u>237,768,184</u>
<b>EXPENDITURES</b>				
General government	22,039,539	3,048,027	-	25,087,566
Public safety	41,447,745	797,090	3,220,235	45,465,070
Public works	12,730,147	13,850,302	-	26,580,449
Health	3,024,679	-	-	3,024,679
Social services	4,278,970	-	-	4,278,970
Primary and secondary education	104,290,217	1,893,934	-	106,184,151
Post-secondary education	4,272,365	-	-	4,272,365
Parks, recreation and culture	3,879,847	1,899,467	-	5,779,314
Libraries	2,800,572	-	-	2,800,572
Conservation of natural resources	361,450	1,606,697	-	1,968,147
Economic development and opportunity	2,773,722	-	-	2,773,722
Debt service - principal and interest	11,228,198	150,753	42,369	11,421,320
Other	<u>3,222,191</u>	<u>-</u>	<u>-</u>	<u>3,222,191</u>
Sub-total	216,349,642	23,246,270	3,262,604	242,858,516
Pass-throughs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>216,349,642</u>	<u>23,246,270</u>	<u>3,262,604</u>	<u>242,858,516</u>
Excess of Revenues Over (Under) Expenditures	<u>5,953,171</u>	<u>(11,193,360)</u>	<u>149,857</u>	<u>(5,090,332)</u>
<b>OTHER FINANCING SOURCES AND USES</b>				
Proceeds from exempt financing	4,757,943	-	-	4,757,943
Proceeds from bonds	-	154,812	-	154,812
Fire & rescue loan repayments	-	-	574,429	574,429
Loans to fire and rescue	-	-	(577,500)	(577,500)
Capital projects - general fund pay-go	<u>(365,518)</u>	<u>365,518</u>	<u>-</u>	<u>-</u>
Total other financing sources / uses	<u>4,392,425</u>	<u>520,330</u>	<u>(3,071)</u>	<u>4,909,684</u>
Net Increase/(Decrease) in Fund Balances	10,345,596	(10,673,030)	146,786	(180,648)
<b>FUND BALANCE</b>				
Beginning of the year	<u>49,831,206</u>	<u>27,258,796</u>	<u>1,764,952</u>	<u>78,854,954</u>
End of year	<u>\$ 60,176,802</u>	<u>\$ 16,585,766</u>	<u>\$ 1,911,738</u>	<u>\$ 78,674,306</u>

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

Commissioners of St. Mary's County  
Reconciliations of the Governmental Funds to the Governmental Activities  
For the Year Ended June 30, 2018

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

Fund Balance - Governmental Funds	\$ 78,674,306
Capital assets, net of accumulated depreciation, are not reported in the balance sheet for governmental funds	302,032,158
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	(87,155,254)
Net pension liability	(86,397,880)
Net OPEB liability	(24,952,478)
Deferred inflow of resources - pension obligation	(2,070,354)
Deferred inflow of resources - OPEB obligation	(3,988,864)
Deferred outflow of resources - general obligation bond refunding	1,356,254
Deferred outflow of resources - OPEB obligation	156,626
Deferred outflow of resources - pension obligation	<u>7,307,943</u>

Net position - governmental activities \$ 184,962,457

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	\$ (180,648)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlays:	23,585,865
Depreciation expense:	(12,779,897)
Cost of capital assets disposed less accumulated depreciation which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(5,300)
Repayment of debt	27,949,882
Issuance of long-term debt	(20,251,113)
Effect of refunding	(329,244)
Recognized OPEB costs	(137,602)
Recognized pension costs less than the pension amount contributed	<u>(5,997,994)</u>

Increase (decrease) in net position of governmental activities \$ 11,853,949

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2018

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
<b>ASSETS</b>				
<u>Current assets:</u>				
Cash and cash equivalents	\$ -	\$ 10,000	\$ -	\$ 10,000
Due from other funds	1,105,963	118,844	703,029	1,927,836
Restricted cash from Investments	-	50,241	161,436	211,677
Accounts receivable	4,146	56,167	78,633	138,946
Inventory	-	29,576	-	29,576
Other, prepaids	-	11,347	-	11,347
<b>Total Current Assets</b>	<u>1,110,109</u>	<u>276,175</u>	<u>943,098</u>	<u>2,329,382</u>
<u>Non-current assets:</u>				
Capital assets	313,302	6,516,643	16,413,215	23,243,160
Accumulated depreciation	<u>(205,888)</u>	<u>(2,912,492)</u>	<u>(2,444,504)</u>	<u>(5,562,884)</u>
Capital assets, net of accumulated depreciation	<u>107,414</u>	<u>3,604,151</u>	<u>13,968,711</u>	<u>17,680,276</u>
<b>Total Assets</b>	<u>\$ 1,217,523</u>	<u>\$ 3,880,326</u>	<u>\$ 14,911,809</u>	<u>\$ 20,009,658</u>
<b>LIABILITIES</b>				
<u>Current liabilities:</u>				
Accounts payable	\$ 59,387	\$ 75,367	\$ 229,084	\$ 363,838
Compensation-related liabilities	103,327	103,537	196,742	403,606
Unearned revenue	283,222	84,012	-	367,234
<u>Noncurrent Liabilities:</u>				
Due within one year:				
Financing agreements	-	-	170,684	170,684
Advance from general fund	-	74,235	-	74,235
Due in more than one year:				
Financing agreements	-	46,062	160,004	206,066
Advance from general fund	-	671,167	-	671,167
Compensated absences	-	59,507	72,530	132,037
<b>Total Liabilities</b>	<u>445,936</u>	<u>1,113,887</u>	<u>829,044</u>	<u>2,388,867</u>
<b>NET POSITION</b>				
Net investment in capital assets	107,414	3,558,089	13,638,023	17,303,526
Unrestricted	<u>664,173</u>	<u>(791,650)</u>	<u>444,742</u>	<u>317,265</u>
<b>Total Net Position</b>	<u>771,587</u>	<u>2,766,439</u>	<u>14,082,765</u>	<u>17,620,791</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 1,217,523</u>	<u>\$ 3,880,326</u>	<u>\$ 14,911,809</u>	<u>\$ 20,009,658</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,419,160	\$ 1,232,703	\$ 544,579	\$ 4,196,442
Environmental/solid waste fees	-	-	3,172,692	3,172,692
	<u>2,419,160</u>	<u>1,232,703</u>	<u>3,717,271</u>	<u>7,369,134</u>
<b>OPERATING EXPENSES</b>				
Personal services	1,493,623	650,815	1,029,087	3,173,525
Operating supplies	254,464	265,709	29,369	549,542
Professional services	263,810	73,465	1,388,038	1,725,313
Communications	9,742	3,517	5,694	18,953
Transportation	32,911	28,351	64,073	125,335
Rentals	146,508	45,591	50,030	242,129
Public utilities	203,960	66,829	20,497	291,286
Other operating costs	(625)	14,101	79,284	92,760
Tipping fees	-	-	1,197,903	1,197,903
Retiree health benefits (OPEB)	-	36,000	23,000	59,000
Interest expense	-	453	(7,173)	(6,720)
Equipment	74,025	51,311	23,994	149,330
Depreciation	19,003	106,999	185,707	311,709
Total operating expenses	<u>2,497,421</u>	<u>1,343,141</u>	<u>4,089,503</u>	<u>7,930,065</u>
Operating Income (Loss)	(78,261)	(110,438)	(372,232)	(560,931)
Non-operating revenue (expense):				
Use of exempt financing	-	49,050	-	49,050
Grants revenue	29,781	-	-	29,781
Other	-	41,445	(1,510)	39,935
Increase/(Decrease) in net position	<u>(48,480)</u>	<u>(19,943)</u>	<u>(373,742)</u>	<u>(442,165)</u>
<b>NET POSITION</b>				
Beginning of the year	<u>820,067</u>	<u>2,786,382</u>	<u>14,456,507</u>	<u>18,062,956</u>
End of year	<u>\$ 771,587</u>	<u>\$ 2,766,439</u>	<u>\$ 14,082,765</u>	<u>\$ 17,620,791</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Charges for services	\$ 2,490,855	\$ 1,172,794	\$ 3,724,027	\$ 7,387,676
Personal services	(1,478,911)	(628,177)	(969,946)	(3,077,034)
Other expenses	(984,544)	(566,769)	(2,785,157)	(4,336,470)
Net cash provided (used) by operating activities	<u>27,400</u>	<u>(22,152)</u>	<u>(31,076)</u>	<u>(25,828)</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Net change in interfund loans	(57,181)	56,920	189,705	189,444
Grant revenue	29,781	-	-	29,781
Other revenue (expenses)	-	41,445	(1,510)	39,935
Net cash provided (used) by non-capital and related financing activities	<u>(27,400)</u>	<u>98,365</u>	<u>188,195</u>	<u>259,160</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Construction / purchase of capital assets	-	240	(21,505)	(21,265)
Proceeds from exempt financing	-	184,449	57,608	242,057
Principal payments on long-term debt	-	(138,387)	(31,786)	(170,173)
Other reductions in long-term debt	-	(72,274)	-	(72,274)
Net cash used by capital and related financing activities	<u>-</u>	<u>(25,972)</u>	<u>4,317</u>	<u>(21,655)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest income	-	-	-	-
Net increase (decrease) in cash	-	50,241	161,436	211,677
<b>CASH</b>				
Beginning of year	-	10,000	-	10,000
End of year	<u>\$ -</u>	<u>\$ 60,241</u>	<u>\$ 161,436</u>	<u>\$ 221,677</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (78,261)	\$ (110,438)	\$ (372,232)	\$ (560,931)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Depreciation	19,003	106,999	185,707	311,709
(Increase) decrease in accounts receivable	7,717	(56,167)	6,756	(41,694)
(Increase) decrease in inventory	-	7,143	-	7,143
(Increase) decrease in other prepaids	-	(2,783)	-	(2,783)
Increase (decrease) in accounts payable	251	14,198	89,552	104,001
Increase (decrease) in compensation-related liabilities	14,712	22,638	59,141	96,491
Increase (decrease) in unearned revenue	63,978	(3,742)	-	60,236
Net cash provided (used) by operating activities	<u>\$ 27,400</u>	<u>\$ (22,152)</u>	<u>\$ (31,076)</u>	<u>\$ (25,828)</u>
<b>SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES:</b>				
Total capital asset additions	\$ -	\$ 48,810	\$ 21,505	\$ 70,315
Less amount financed	-	(49,050)	-	(49,050)
Net cash (provided) used for purchase of capital assets	<u>\$ -</u>	<u>\$ (240)</u>	<u>\$ 21,505</u>	<u>\$ 21,265</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF FIDUCIARY NET POSITION - SHERIFF'S OFFICE RETIREMENT PLAN  
JUNE 30, 2018

	Sheriff's Office Retirement Plan
ASSETS	
Cash and cash equivalents	\$ 7,228,752
Restricted cash and investments	77,963,649
 Total assets	 \$ 85,192,401
NET POSITION	
Net position held in trust for pension benefits	\$ 85,192,401
 Total net position	 \$ 85,192,401

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - SHERIFF'S OFFICE RETIREMENT PLAN  
FOR THE YEAR ENDED JUNE 30, 2018

	Sheriff's Office Retirement Plan
<b>ADDITIONS</b>	
Contributions - employer	\$ 5,147,467
Contributions - employee	<u>1,054,144</u>
	<u>6,201,611</u>
Interest and dividends	1,595,651
Realized gain	2,267,833
Net unrealized loss on investments	<u>2,203,586</u>
	<u>6,067,070</u>
 Total additions	 <u>12,268,681</u>
<b>DEDUCTIONS</b>	
Benefits	(4,324,120)
Administrative costs	<u>(1,019,378)</u>
 Total deductions	 <u>(5,343,498)</u>
 Change in net position	 6,925,183
<b>NET POSITION</b>	
Beginning of year	<u>78,267,218</u>
End of year	<u>\$ 85,192,401</u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
 STATEMENT OF FIDUCIARY NET POSITION  
 RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY, MARYLAND  
 JUNE 30, 2018

	Retiree Benefit Trust of St. Mary's County, Maryland
ASSETS	
Restricted cash and investments	\$ <u>79,717,937</u>
Total assets	\$ <u><u>79,717,937</u></u>
NET POSITION	
Net position restricted for other post-employment benefits	\$ <u>79,717,937</u>
Total liabilities and net position	\$ <u><u>79,717,937</u></u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY, MARYLAND  
YEAR ENDED JUNE 30, 2018

	Retiree Benefit Trust of St. Mary's County, Maryland
ADDITIONS	
Contributions to the trust - employer	\$ -
Payments to retirees - employer	3,133,686
	3,133,686
Interest and dividends	2,390,882
Realized gain	4,941,898
Net unrealized gain/(loss) on investments	1,051,956
	8,384,736
Total additions	11,518,422
DEDUCTIONS	
Benefits paid directly to retirees	(3,133,686)
Administrative costs	(421,646)
	(3,555,332)
Change in net position	7,963,090
NET POSITION	
Beginning of year	71,754,847
End of year	\$ 79,717,937

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

COMMISSIONERS OF ST. MARY'S COUNTY  
 STATEMENT OF FIDUCIARY NET POSITION - LENGTH OF SERVICE AWARDS  
 PROGRAM (LOSAP) OF ST. MARY'S COUNTY, MARYLAND  
 JUNE 30, 2018

	LOSAP of St. Mary's County, Maryland
ASSETS	
Restricted cash and investments	\$ <u>2,214,985</u>
Total assets	\$ <u><u>2,214,985</u></u>
NET POSITION	
Net position restricted for benefits	\$ <u>2,214,985</u>
Total liabilities and net position	\$ <u><u>2,214,985</u></u>

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

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - LENGTH OF SERVICE AWARDS  
PROGRAM (LOSAP) OF ST. MARY'S COUNTY, MARYLAND  
YEAR ENDED JUNE 30, 2018

	LOSAP of St. Mary's County, Maryland
ADDITIONS	
Contributions to the trust - employer	\$ 1,565,503
Interest and dividends	26,126
Realized gain/(loss)	(6,706)
Total additions	1,584,923
DEDUCTIONS	
Benefits paid directly to retirees	(963,835)
Administrative costs	(9,095)
Total deductions	(972,930)
Change in net position	611,993
NET POSITION	
Beginning of year	1,602,992
End of year	\$ 2,214,985

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

Commissioners of St. Mary's County

Index - Notes to Financial Statements

June 30, 2018

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Commissioners of St. Mary's County  
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June 30, 2018

1. Reporting entity and summary of significant accounting policies

Financial reporting entity

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

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

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

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

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

Financial reporting entity (continued)

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

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

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

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

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

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

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

Financial statements

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

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

Government-wide statements

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

Fund financial statements

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

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB 34 sets forth minimum criteria (percentage of the assets, deferred outflow of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds by category are summarized into a single column.

Governmental funds

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

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

Proprietary funds

The focus of proprietary fund measurement is based upon determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). Proprietary (Enterprise) Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity, (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to cover similar costs.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

Fiduciary funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support County programs. When these assets are held under the terms of a formal trust agreement either a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent. The reporting focus for fiduciary funds is on net position and changes in net position and accounting principles used are similar to proprietary funds.

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

Basis of accounting and measurement focus

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

Basis of accounting

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

Measurement focus

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

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

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

Accounting policies

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

Budget and budgetary accounting

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

- a. Prior to April 1 of each year, the Commissioners of St. Mary's County shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance by June 1.
- d. All revisions that alter the expenditures of each fund must be approved by the Commissioners of St. Mary's County or the Chief Financial Officer.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund, special assessment fund and enterprise funds.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

Budget and budgetary accounting (continued)

- f. The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America, except that appropriations of fund balance are treated as other financing sources. Budget comparisons presented for the general fund in this report are on a non-GAAP basis. The capital projects funds' budgets are prepared on a project-length basis, and accordingly, annual budgetary comparisons are not presented in the financial statements. The enterprise funds' budgets are flexible annual operating budgets. Budgetary comparisons are not presented in the financial statements for the enterprise funds.
- g. The budgeted amounts are as adopted, including amendments, by the Commissioners of St. Mary's County.

Encumbrances

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

Cash, cash equivalents and investments

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

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

Investments in the Pension Trust Fund of the Sheriff's Department Retirement Plan, the Length of Service Award Program and the Retiree Health Benefit Plan are carried at fair value as determined on June 30 of each year, based on appraisals or quotations by an independent investment counselor. These investments are offset by a restriction, which indicates that they do not constitute available spendable resources even though they are a component of net position. The trusts are governed by separate investment policies and allow investments in common stocks, equity funds, fixed income and alternative investments.

Long-term receivables

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

Annual, personal and sick leave benefits

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

Annual, personal and sick leave benefits (continued)

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

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

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

Use of estimates

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

Capital assets

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

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

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

Capital assets (continued)

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

Primary government

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

Component units

St. Mary's County Public Schools

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

St. Mary's County Library

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

St. Mary's County Metropolitan Commission

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

St. Mary's County Building Authority Commission

Buildings	40 years
Furniture and equipment	10 years

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

Inventory and prepaid expenditures

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

Long-term obligations

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

Pension accounting

Employee contributions are recognized in the Pension Trust Funds in the period the contributions are due. Employer contributions are recognized when due and the County has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Administrative costs are funded from investment income. Any net pension liability or asset is calculated on an actuarial basis consistent with the requirements of GASB Statement No. 68 – Accounting and Financial Reporting for Pensions. Expenditures are recognized when paid or are expected to be paid with current available resources. The net pension liability (asset) is reported in the government-wide financial statements.

2. Cash, cash equivalents and investments

PRIMARY GOVERNMENT

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

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

2. Cash, cash equivalents and investments (continued)

PRIMARY GOVERNMENT (continued)

Cash deposits

At year end, the carrying amount of the County's deposits was \$73,678,817 (in addition, petty cash totaling \$12,600 at various County Departments) and the collected bank balance was \$75,059,775. Of the collected bank balance, \$632,133 was covered by Federal Deposit Insurance Corporation (FDIC), and \$74,427,642 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 fiduciary funds have separate formal investment policies which allow alternative investments at the discretion of the Trustees.

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. As permitted by GASB 79, the MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated "AAAM" by Standards and Poor's. The County is not subject to any limitations or restrictions on withdrawals of its investments in the MLGIP.

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

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

2. Cash, cash equivalents and investments (continued)

PRIMARY GOVERNMENT (continued)

Investments (continued)

The summary below identifies the fair market value levels of the investments of the primary government and fiduciary funds as of June 30, 2018.

	Level 1	Level 2	Level 3	Balance
<b><u>Investments at fair value level</u></b>				
Retiree Benefit Trust (OPEB):				
Cash and equivalents	\$ 512,000	\$ -	\$ -	\$ 512,000
Common stock/equity funds	-	46,937,325	-	46,937,325
Bond funds	-	14,483,265	-	14,483,265
Venture/ltd. partnership/closely held	-	-	16,605,563	16,605,563
MACo OPEB pooled account	-	-	-	1,179,784
Length of Service Awards Trust (LOSAP):				
Cash and equivalents	1,329,892	-	-	1,329,892
Bond funds	-	361,628	-	361,628
Equity funds	-	521,797	-	521,797
Pension Fund: Sheriff's Office Retirement Plan:				
Cash and equivalents	7,263,941	-	-	7,263,941
Bond funds	-	14,069,552	-	14,069,552
Common stock	-	15,836,617	-	15,836,617
Venture/ltd. partnership/closely held	-	-	7,412,475	7,412,475
Equity funds	-	39,545,377	-	39,545,377
Other - miscellaneous	-	1,064,439	-	1,064,439
Total investments at fair value	<u>\$ 9,105,833</u>	<u>\$ 132,820,000</u>	<u>\$ 24,018,038</u>	<u>\$ 167,123,655</u>
<b><u>Investments carried at amortized cost</u></b>				
Government-wide financials:				
MLGIP	\$ -	\$ -	\$ -	\$ 8,186,003
Total investments at amortized cost	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total investments	<u>\$ 9,105,833</u>	<u>\$ 132,820,000</u>	<u>\$ 24,018,038</u>	<u>\$ 167,123,655</u>

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

At June 30, 2018 the net position of the Trust was valued at \$36.8 million; the County's interest was \$1.2 million. Contributions to the Trust Fund qualify as "contributions in relation to the actuarially determined contribution" within the meaning of GASB Statement No. 75 and the Trust Fund qualifies as a "trust or equivalent arrangement" under the meaning of GASB Statement No. 43. The Trust is audited annually by an independent CPA firm. Separately issued financial statements may be obtained by sending a request to the following address: Board of the MACo Pooled Investment Trust, 169 Conduit Street, Annapolis, MD 21401.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

2. Cash, cash equivalents and investments (continued)

PRIMARY GOVERNMENT (continued)

Investments (continued)

The summary below identifies the fair market value levels of the investments of the MACo Pooled Investment Trust as of June 30, 2018.

	<b>Investments at fair value</b>			
	Level 1	Level 2	Level 3	Total
<b>Debt Securities:</b>				
U.S. Treasury obligations	\$ -	\$ 2,769,749	\$ -	\$ 2,769,749
U.S. Governmental agencies	-	1,469,591	-	1,469,591
Corporate & foreign bonds	-	4,353,332	-	4,353,332
Municipal obligations	-	518,371	-	518,371
<b>Equity Investments:</b>				
Taxable fixed income funds	-	1,821,322	-	1,821,322
Mutual funds	13,729,053	-	-	13,729,053
Global funds	1,936,289	-	-	1,936,289
International	5,850,724	-	-	5,850,724
<b>Total</b>	<b>\$ 21,516,066</b>	<b>\$ 10,932,365</b>	<b>\$ -</b>	<b>\$ 32,448,431</b>

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

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

COMPONENT UNITS

St. Mary's County Public Schools

Deposits - Custodial credit risk

*Custodial credit risk:* Custodial credit risk for deposits is the risk that in the event of bank failure, the School System's deposits may not be returned to it. Maryland State Law prescribes that local government unit's such as the School System must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2018 all of the School System's deposits, including the certificate of deposit, were either covered by federal depository insurance or were covered by collateral held by the School System's agent in the School System's name.

Investments

Maryland State Law authorizes the School System to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations, the State's sponsored investment pool, or interest bearing accounts in any bank. At June 30, 2018, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The school system has no policy on credit risk.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

2. Cash, cash equivalents and investments (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Investments (continued)

The carrying amount and market value of such investments were \$22,543,818, \$414,371, and \$590,289 for governmental activities, business-type activity, and fiduciary responsibilities, respectively.

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

The School System is not subject to any limitations or restrictions on withdrawals of its investments in MLGIP.

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, 2018, the carrying amount of the Library's cash was \$269,887, and the bank balances totaled \$287,908. The Library's bank balance is insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2018, the uninsured and uncollateralized bank balance totaled \$37,908.

Investments in the Maryland Local Government Investment Pool (MLGIP), an external investment pool, are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. The separately issued financial statement of the MLGIP may be obtained by contacting the contractor.

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government		
Investment Pool	<u>\$ 372,514</u>	<u>\$ 372,514</u>
Restricted:		
The Vanguard Group	<u>\$ 95,828</u>	<u>\$ 95,828</u>

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

2. Cash, cash equivalents and investments (continued)

COMPONENT UNITS (continued)

St. Mary's County Metropolitan Commission (MetCom)

Deposits

MetCom has certificates of deposits that have been issued through the Certificate of Deposit Account Registry Service (CDARS). The CDARS program allows a banking customer to maintain federal depository insurance on balances in excess of the FDIC limit.

Of the bank balances, all of the CDARS deposits are covered by FDIC insurance. The other bank deposits were covered by \$250,000 FDIC insurance at June 30, 2018, with the remaining \$6,635,825 adequately covered by collateral.

At June 30, 2018, there were no deposits exposed to custodial credit risk, interest rate risk or foreign currency risk.

Regulatory guidelines require that deposits placed through the CDARS program be considered brokered deposits. The cost and fair value of the CDARS broker deposits at June 30, 2018 was \$10,000,000.

Cash and cash equivalents consisted of the following:

Investments - MLGIP	\$ 9,441,375
Broker deposits – CDARS	10,000,000
Cash	7,788,901
Petty cash	<u>1,500</u>
	<u>\$ 27,231,776</u>

Investments

Investments in the MLGIP are not evidenced by securities. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. Separately issued financial statements may be obtained from the contractor: David Rommel, PNC Bank, One East Pratt Street, 5<sup>th</sup> Floor West, Baltimore, Maryland 21202. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments. The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares. The MLGIP is rated AAAM by Standard and Poors. As of June 30, 2018, MetCom's investments, for both custodial and credit risk purposes, consisted solely of shares in the MLGIP. This investment is not deemed to have either risk. The Pool is managed as a Rule 2a-7 pool. Therefore, MetCom faces no interest rate risk. The cost and fair value of the MLGIP investments at June 30, 2018 was \$9,441,375.

MetCom also joined the MACo Pooled OPEB trust in FY2015. Its interest in the trust at June 30, 2018 was \$4.7 million.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

3. Changes in capital assets

PRIMARY GOVERNMENT

A summary of changes in capital assets is as follows:

	Balance June 30, 2017	Additions	Transfers/ Disposals	Balance June 30, 2018
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 38,557,336	\$ 25,834	\$ (3,620)	\$ 38,579,550
Construction in progress	16,900,654	18,169,905	(19,466,148)	15,604,411
911 system & equipment	1,423,733	-	-	1,423,733
<b>Total capital assets not being depreciated</b>	<b>56,881,723</b>	<b>18,195,739</b>	<b>(19,469,768)</b>	<b>55,607,694</b>
Capital assets being depreciated:				
Buildings & improvements	116,949,539	1,651,142	-	118,600,681
Computer equipment	2,703,345	139,322	-	2,842,667
Other equipment	328,535	-	-	328,535
Vehicles - licensed	15,342,004	1,413,378	(710,382)	16,045,000
Off-road vehicles	2,253,747	604,563	(67,267)	2,791,043
Miscellaneous equipment	6,651,740	412,980	(15,119)	7,049,601
Roads	212,663,633	18,717,697	-	231,381,330
Curbing	946,791	-	-	946,791
Sidewalks	1,128,839	-	-	1,128,839
Guardrails	1,601,717	105,475	-	1,707,192
Airport infrastructure	4,910,724	8,500	-	4,919,224
Airport equipment	579,104	-	-	579,104
Baseball fields	802,670	-	-	802,670
Bridges	8,626,970	199,952	-	8,826,922
Parks & recreation	16,908,714	1,402,720	-	18,311,434
Marinas & docks	8,352,087	41,513	-	8,393,600
Irrigation systems	241,853	-	-	241,853
Signage	475,433	162,652	-	638,085
Parking lots	1,067,134	-	-	1,067,134
911 system & equipment	18,549,696	-	-	18,549,696
<b>Total capital assets being depreciated</b>	<b>421,084,275</b>	<b>24,859,894</b>	<b>(792,768)</b>	<b>445,151,401</b>
Accumulated depreciation for:				
Buildings & improvements	(47,397,735)	(2,272,746)	-	(49,670,481)
Computer equipment	(2,334,553)	(123,216)	-	(2,457,769)
Other equipment	(206,121)	(14,148)	-	(220,269)
Vehicles - licensed	(9,892,417)	(1,334,637)	706,164	(10,520,890)
Off-road vehicles	(1,634,368)	(96,791)	67,267	(1,663,892)
Miscellaneous equipment	(4,538,420)	(420,821)	14,037	(4,945,204)
Roads	(91,484,717)	(6,461,419)	-	(97,946,136)
Curbing	(767,370)	(19,524)	-	(786,894)
Sidewalks	(561,707)	(24,788)	-	(586,495)
Guardrails	(601,186)	(37,893)	-	(639,079)
Airport infrastructure	(4,624,053)	(42,372)	-	(4,666,425)
Airport equipment	(548,534)	(8,735)	-	(557,269)

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

3. Changes in capital assets (continued)

PRIMARY GOVERNMENT (continued)

	Balance June 30, 2017	Additions	Transfers/ Disposals	Balance June 30, 2018
Accumulated depreciation for: (continued)				
Baseball fields	\$ (482,673)	\$ (15,288)	\$ -	\$ (497,961)
Bridges	(3,111,667)	(172,081)	-	(3,283,748)
Parks & recreation	(5,710,080)	(553,687)	-	(6,263,767)
Marinas & docks	(5,590,325)	(207,727)	-	(5,798,052)
Irrigation systems	(142,436)	(5,787)	-	(148,223)
Signage	(436,117)	(7,975)	-	(444,092)
Parking lots	(513,929)	(65,321)	-	(579,250)
911 equipment	(6,156,100)	(894,941)	-	(7,051,041)
Total accumulated depreciation	<u>(186,734,508)</u>	<u>(12,779,897)</u>	<u>787,468</u>	<u>(198,726,937)</u>
Total capital assets being depreciated, net	<u>234,349,767</u>	<u>12,079,997</u>	<u>(5,300)</u>	<u>246,424,464</u>
Governmental activities capital assets, net	<u>\$ 291,231,490</u>	<u>\$ 30,275,736</u>	<u>\$ (19,475,068)</u>	<u>\$ 302,032,158</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,078,666	\$ -	\$ -	\$ 1,078,666
Solid waste facilities	13,220,472	-	-	13,220,472
Total capital assets not being depreciated	<u>14,299,138</u>	<u>-</u>	<u>-</u>	<u>14,299,138</u>
Capital assets being depreciated:				
Buildings & improvements	4,334,174	48,810	-	4,382,984
Computer equipment	57,188	-	-	57,188
Other equipment	39,359	-	-	39,359
Vehicles - licensed	2,269,792	-	-	2,269,792
Off-road vehicles	1,237,950	21,505	(161,433)	1,098,022
Miscellaneous equipment	586,691	-	-	586,691
Irrigation systems	509,986	-	-	509,986
Total capital assets being depreciated	<u>9,035,140</u>	<u>70,315</u>	<u>(161,433)</u>	<u>8,944,022</u>
Accumulated depreciation for:				
Buildings & improvements	(1,830,075)	(85,596)	-	(1,915,671)
Computer equipment	(57,188)	-	-	(57,188)
Other equipment	(38,894)	(130)	-	(39,024)
Vehicles - licensed	(1,647,782)	(134,320)	-	(1,782,102)
Off-road vehicles	(973,824)	(59,057)	161,433	(871,448)
Miscellaneous equipment	(485,780)	(15,912)	-	(501,692)
Irrigation systems	(379,065)	(16,694)	-	(395,759)
Total accumulated depreciation	<u>(5,412,608)</u>	<u>(311,709)</u>	<u>161,433</u>	<u>(5,562,884)</u>
Total capital assets being depreciated, net	<u>3,622,532</u>	<u>(241,394)</u>	<u>-</u>	<u>3,381,138</u>
Business-type activities capital assets, net	<u>\$ 17,921,670</u>	<u>\$ (241,394)</u>	<u>\$ -</u>	<u>\$ 17,680,276</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

3. Changes in capital assets (continued)

PRIMARY GOVERNMENT (continued)

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

Governmental activities

General Government	\$	1,477,902
Public Safety		2,397,252
Public Works		7,572,024
Social Services		106,320
Post -Secondary Education		49,328
Parks, Recreation, and Culture		988,263
Libraries		186,351
Economic Development and Opportunity		<u>2,457</u>

Total Depreciation - Governmental Activities \$ 12,779,897

Business-type activities

Recreation Activity Fund	\$	19,003
Solid Waste/Recycling		185,707
Wicomico		<u>106,999</u>

Total Depreciation - Business-Type Activities \$ 311,709

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

3. Changes in capital assets (continued)

COMPONENT UNITS

St. Mary's County Public Schools

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Additions	Deletions/ Transfers	Balance June 30, 2018
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 3,742,759	\$ -	\$ -	\$ 3,742,759
Construction in process	<u>25,099,603</u>	<u>1,558,084</u>	<u>(191,831)</u>	<u>26,465,856</u>
	<u>28,842,362</u>	<u>1,558,084</u>	<u>(191,831)</u>	<u>30,208,615</u>
Capital assets being depreciated:				
Buildings and improvements	372,906,801	462,062	191,831	373,560,694
Furniture and equipment	9,092,372	719,007	(548,516)	9,262,863
Equipment leased under financing agreements	<u>6,676,139</u>	<u>-</u>	<u>-</u>	<u>6,676,139</u>
	<u>388,675,312</u>	<u>1,181,069</u>	<u>(356,685)</u>	<u>389,499,696</u>
Accumulated depreciation for:				
Buildings and improvements	(147,437,291)	(8,276,809)	-	(155,714,100)
Furniture and equipment	<u>(12,281,203)</u>	<u>(531,771)</u>	<u>523,029</u>	<u>(12,289,945)</u>
	<u>(159,718,494)</u>	<u>(8,808,580)</u>	<u>523,029</u>	<u>(168,004,045)</u>
Governmental activities capital assets, net	<u>\$ 257,799,180</u>	<u>\$ (6,069,427)</u>	<u>\$ (25,487)</u>	<u>\$ 251,704,266</u>
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,882,102	\$ 120,878	\$ (69,803)	\$ 1,933,177
Accumulated depreciation for:				
Furniture and equipment	<u>(1,388,998)</u>	<u>(88,797)</u>	<u>69,803</u>	<u>(1,407,992)</u>
Business-type activities capital Assets, net	<u>\$ 493,104</u>	<u>\$ 32,081</u>	<u>\$ -</u>	<u>\$ 525,185</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

3. Changes in capital assets (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2018, as follows:

Governmental activities

Administration	\$	27,213
Mid-level administration		20,892
Other instructional costs		107,408
Special education		6,869
Student personnel services		682
Student transportation services		140,237
Operation of plant		8,484,032
Maintenance of plan		<u>21,247</u>

Total governmental activities depreciation expenses \$ 8,808,580

Business-type activities

Food services	\$	<u>88,797</u>
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St. Mary's County Library

Activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Additions	Deletions/ Transfers	Balance June 30, 2018
Capital assets:				
Furnishings and equipment	\$ 966,335	\$ 53,330	\$ -	\$ 1,019,665
Leasehold improvements	87,735	-	-	87,735
Vehicles	34,944	-	-	34,944
Books	<u>4,577,686</u>	<u>409,632</u>	<u>690,510</u>	<u>4,296,808</u>
	<u>5,666,700</u>	<u>462,962</u>	<u>690,510</u>	<u>5,439,152</u>
Accumulated depreciation:				
Furnishings and equipment	927,280	30,072	-	957,352
Leasehold improvements	12,285	1,754	-	14,039
Vehicles	30,678	3,808	-	34,486
Books	<u>3,351,500</u>	<u>409,204</u>	<u>609,510</u>	<u>3,151,194</u>
	<u>4,321,743</u>	<u>444,838</u>	<u>609,510</u>	<u>4,157,071</u>
Net capital assets	<u>\$ 1,344,957</u>	<u>\$ 18,124</u>	<u>\$ 81,000</u>	<u>\$ 1,282,081</u>

Governmental activities depreciation expense of \$444,838 was charged to Library services.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

3. Changes in capital assets (continued)

COMPONENT UNITS (continued)

St. Mary's County Metropolitan Commission

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets:				
Utility plants	\$ 145,100,502	\$ 2,109,526	\$ 2,953	\$ 147,207,075
Water plant systems	50,539,836	1,770,622	-	52,310,458
Equipment	9,290,178	373,969	738,152	8,925,995
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,919,608</u>	<u>18,464</u>	<u>-</u>	<u>3,938,072</u>
Subtotal	209,668,325	4,272,581	741,105	213,199,801
Not being depreciated:				
Utility plant construction in process	2,119,832	2,552,280	2,109,526	2,562,586
Water plant construction in process	8,494,133	4,002,450	1,770,622	10,725,961
Land/land rights	<u>1,184,975</u>	<u>126,128</u>	<u>-</u>	<u>1,311,103</u>
	<u>221,467,265</u>	<u>10,953,439</u>	<u>4,621,253</u>	<u>227,799,451</u>
Accumulated depreciation:				
Utility plants	41,953,334	4,235,125	2,953	46,185,506
Water plant systems	12,692,560	1,671,883	-	14,364,443
Equipment	6,756,096	711,835	738,152	6,729,779
Capitalized interest	368,190	16,364	-	384,554
Buildings	<u>1,810,449</u>	<u>159,886</u>	<u>-</u>	<u>1,970,335</u>
	<u>63,580,629</u>	<u>6,795,093</u>	<u>741,105</u>	<u>69,634,617</u>
Net capital assets	<u>\$ 157,886,636</u>	<u>\$ 4,158,346</u>	<u>\$ 3,880,148</u>	<u>\$ 158,164,834</u>

Depreciation expenses of \$6,795,093 was charged to activities as follows:

Sewer activities	\$ 4,663,956
Water activities	2,025,186
Engineering activities	35,780
Administrative	<u>70,171</u>
Total	<u>\$ 6,795,093</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

4. Property tax

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied each July 1, and the taxpayer has the option to pay in full without interest by September 30 or elect a semiannual payment option. If a semiannual payment option is elected, the first payment is payable without interest by September 30 and the second payment, including a service charge, is payable without interest by December 31. Interest is charged for each month or fraction thereof if the taxes remain unpaid beginning October 1 on accounts under the annual payment option or January 1 for accounts under the semiannual payment option. Maryland law grants the Treasurer of St. Mary's County the power to immediately advertise and sell any real property after the taxes are delinquent for a period of one year. Property taxes are levied at rates enacted by the Commissioners in the annual budget applied to the assessed value of the property as determined by the Maryland State Department of Assessments and Taxation, an agency of the government of the State of Maryland. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice, and then only after public hearings. The real property tax rate during the year ended June 30, 2018, was \$.8478 per \$100 of assessed value based on the full valuation method. The Constant Yield tax rate for FY2018 was \$.8443. The personal property tax rate during the year ended June 30, 2018 was \$2.1195 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, 2018, net of the allowance for uncollectibles of \$697,821, is \$1,672,192 (this amount does not include state and emergency services taxes receivable). On October 1, a 3% penalty is assessed, and interest begins accruing at a rate of 1% for each month that real and personal property taxes are delinquent (unless taxpayer has elected semiannual payment option as described above).

5. Special tax assessment receivable and unearned revenue

PRIMARY GOVERNMENT

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

As of June 30, 2018, the amount of delinquent special assessment receivables due from taxpayers was \$266.

COMPONENT UNITS

St. Mary's County Public Schools

General fund

Unearned revenue primarily consists of payments received under restricted programs in excess of the expenses/ expenditures incurred to date under those programs at June 30, 2018, of \$3,972,812

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

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

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Capital projects fund

Unearned revenue consists of prefunding in the amount of \$491,968 for construction projects at Spring Ridge Middle School, and funds received for a removal security deposit to be used either towards the purchase of, or removal of an installed solar generating facility upon the expiration of a solar power purchase agreement in the amount of \$81,837.

Enterprise fund

Unearned revenue of \$178,753 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2019.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations

PRIMARY GOVERNMENT

<u>Governmental activities</u>	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Repayment</u>	<u>June 30, 2018</u>	<u>Amounts due within one year</u>
General obligation bonds - county	\$ 81,158,000	\$ 15,475,000	\$ 16,945,000	\$ (8,516,000)	\$ 71,172,000	\$ 8,748,000
Water quality loans	549,872	-	-	(328,356)	221,516	221,516
State loans	1,482,475	-	-	(131,581)	1,350,894	123,439
Surplus property transfer of debt	153	-	-	(153)	-	-
Exempt financing	<u>2,369,069</u>	<u>4,757,943</u>	<u>-</u>	<u>(1,835,792)</u>	<u>5,291,220</u>	<u>1,818,119</u>
	<u>85,559,569</u>	<u>20,232,943</u>	<u>16,945,000</u>	<u>(10,811,882)</u>	<u>78,035,630</u>	<u>10,911,074</u>
Landfill post-closure costs	4,039,000	-	-	(193,000)	3,846,000	-
Compensated absences (long-term)	<u>5,255,454</u>	<u>18,170</u>	<u>-</u>	<u>-</u>	<u>5,273,624</u>	<u>24,019</u>
	<u>9,294,454</u>	<u>18,170</u>	<u>-</u>	<u>(193,000)</u>	<u>9,119,624</u>	<u>24,019</u>
Amount reported in statement of net position	<u>\$ 94,854,023</u>	<u>\$ 20,251,113</u>	<u>\$ 16,945,000</u>	<u>\$ (11,004,882)</u>	<u>\$ 87,155,254</u>	<u>\$ 10,935,093</u>
<u>Business-type activities</u>						
Exempt financing	\$ 304,866	\$ 242,057	\$ -	\$ (170,173)	\$ 376,750	\$ 170,684
Compensated absences (long-term)	<u>130,409</u>	<u>1,628</u>	<u>-</u>	<u>-</u>	<u>132,037</u>	<u>-</u>
Amount reported in statement of net position	<u>\$ 435,275</u>	<u>\$ 243,685</u>	<u>\$ -</u>	<u>\$ (170,173)</u>	<u>\$ 508,787</u>	<u>\$ 170,684</u>

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities

General obligation bonds

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

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

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

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

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

On April 10, 2014, the 2005 General Obligation Bonds were refunded with an advance refunding for \$9,934,000. The 2014 Direct Bank Loan Refunding will mature on March 1, in 10 installments, beginning in 2016 and ending in 2025. The Refunding Bonds carry an interest rate of 2.32%. The County refunded these bonds to reduce its total debt service payments and to obtain an economic gain of \$626,595.

On July 26, 2016, the County issued General Obligation Bonds (\$25,000,000 Consolidated Public Improvement Bonds). The Consolidated Public Improvement Bonds will mature on August 1, in 20 annual serial installments, beginning in the year 2017 and ending with the year 2036. Interest on the Bonds is payable semiannually on each February 1 and August 1 to maturity with an average interest rate of 2.25%.

On October 24, 2017, the 2009 Series B, Build America Bonds were refunded in the 2017 General Obligation Bonds, Series 2017 for \$15,475,000. The 2017 General Obligation Bonds will mature on July 15, in 10 installments, beginning in 2020 and ending in 2029. Interest on the Bonds is payable semiannually on each January 15 and July 15 to maturity with an average interest rate of 1.89%.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities (continued)

2004 Maryland water quality loan

On May 26, 2004, Commissioners of St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$4,332,759 for landfill post-closure costs, St. Andrews Landfill area B, cells 3 and 5. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears an interest rate of 1.10% per annum, payable semiannually. Principal payments are due annually through 2019 beginning February 1, 2006. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2018, based on the final loan amount of \$3,934,347, are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative fee</u>	<u>Total</u>
2019	\$ 221,516	\$ 2,437	\$ 11,448	\$ 235,401
Total	<u>\$ 221,516</u>	<u>\$ 2,437</u>	<u>\$ 11,448</u>	<u>\$ 235,401</u>

2006 Surplus property, transfer of net debt

On June 6, 2006, Commissioners of St. Mary's County entered into a public school property transfer agreement with St. Mary's County Public Schools for the transfer of George Washington Carver Elementary School. With this property transfer, the County agreed to assume the total outstanding State bond debt of \$368,769. This debt was paid in full during the year ended June 30, 2018.

2015 Exempt financing equipment lease

On February 17, 2015, Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$1,910,000 for the purchase of vehicles. The lease bears interest at a rate of 1.49% per annum, payable annually through 2019. The balance will be used to reimburse eligible purchases upon delivery and approval of the invoice. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the primary government portion of the 2015 exempt financing equipment lease as of June 30, 2018, based on the total final lease amount of \$1,910,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	309,076	4,638	\$ 313,714
Total	<u>\$ 309,076</u>	<u>\$ 4,638</u>	<u>\$ 313,714</u>

2016 Exempt financing equipment lease

On October 29, 2016, Commissioners of St. Mary's County entered into an agreement with Banc of America Public Capital Corp. to borrow \$3,200,000 for the purchase of vehicles. The lease bears interest at a rate of 1.37% per annum, payable annually through 2020. The balance will be used to reimburse eligible purchases upon delivery and approval of the invoice. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the primary government portion of the 2016 exempt financing equipment lease as of June 30, 2018, based on the total final lease amount of \$3,200,000 are as follows:

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities (continued)

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 585,078	\$ 16,185	\$ 601,263
2020	593,117	8,148	601,265
Total	<u>\$ 1,178,195</u>	<u>\$ 24,333</u>	<u>\$ 1,202,528</u>

2018 Exempt financing equipment lease

On October 27, 2017, Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$4,200,000 for the purchase of vehicles and other replacement equipment. The lease bears interest at a rate of 1.78% per annum, payable annually through 2022. 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 2018 exempt financing equipment lease as of June 30, 2018, based on the total final lease amount of \$3,200,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 770,348	\$ 56,349	\$ 826,697
2020	784,064	42,633	826,697
2021	798,025	28,672	826,697
2022	812,089	14,462	826,551
Total	<u>\$ 3,164,526</u>	<u>\$ 142,116</u>	<u>\$ 3,306,642</u>

2018 Exempt financing equipment lease-Taxable

On October 27, 2017, Commissioners of St. Mary's County entered into an agreement with TD Equipment Finance, Inc. to borrow \$800,000 for the purchase of equipment for Fire and Rescue agencies. The taxable lease bears interest at a rate of 2.66% per annum, payable annually through 2022. The balance will be used to reimburse eligible purchases upon delivery and approval of the invoice. The annual requirements to amortize the 2018 exempt financing taxable equipment lease as of June 30, 2018, based on the total final lease amount of \$800,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 153,617	\$ 17,009	\$ 170,626
2020	157,703	12,922	170,625
2021	161,898	8,727	170,625
2022	166,205	4,421	170,626
Total	<u>\$ 639,423</u>	<u>\$ 43,079</u>	<u>\$ 682,502</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Governmental activities (continued)

Long-term obligations at June 30, 2018 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>			
<u>Maryland department of natural resources:</u>			
Holly Point Shores	2008-2032	None	\$ 140,399
Murray Road Revetment	2004-2028	None	36,320
Maryland Water Quality Loan	2005-2019	1.10%	221,516
Piney Point Lighthouse	2009-2026	None	269,096
Villas on Water Edge	2009-2032	None	305,144
Kingston Creek II	2010-2037	None	200,327
North Patuxent Beach	2009-2025	None	198,121
Thomas Road	2016-2030	None	115,440
Gibson Road	2017-2031	None	<u>86,047</u>
	Total state loans		<u>1,572,410</u>
<u>General obligation bonds</u>			
2009 General Obligation Bonds, Series A	2010-2020	2.5-4.0%	2,825,000
2009 Refunding Bonds, Series C	2010-2022	2-5%	7,025,000
2011 Refunding Bonds	2012-2024	2.25-2.41%	14,170,000
2014 Refunding Bonds	2016-2025	2.32%	7,512,000
2016 General Obligation Bonds	2017-2037	2.25%	24,165,000
2017 Refunding Bonds Series B	2020-2029	1.89%	<u>15,475,000</u>
	Total general obligation bonds		<u>71,172,000</u>
Total state loans and bonds			72,744,410
Accrued landfill closure and postclosure costs			3,846,000
Exempt Financing			5,291,220
Accumulated unpaid annual leave			<u>5,273,624</u>
Total			<u>\$ 87,155,254</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Business-type activities

2015 Exempt financing equipment lease

The annual requirements to amortize the business-type activities portion of the 2015 exempt financing equipment lease as of June 30, 2018, based on the total final lease amount of \$1,910,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	64,693	968	65,661
Total	<u>\$ 64,693</u>	<u>\$ 968</u>	<u>\$ 65,661</u>

2016 Exempt financing equipment lease

The annual requirements to amortize the business-type activities portion of the 2016 exempt financing equipment lease as of June 30, 2018, based on the total final lease amount of \$3,200,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	58,856	1,628	60,484
2020	59,664	820	60,484
Total	<u>\$ 118,520</u>	<u>\$ 2,448</u>	<u>\$ 120,968</u>

2018 Exempt financing equipment lease

The annual requirements to amortize the business-type activities portion of the 2018 exempt financing equipment lease as of June 30, 2018, based on the total final lease amount of \$3,200,000 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 47,135	\$ 3,378	\$ 50,513
2020	47,958	2,555	50,513
2021	48,795	1,718	50,513
2022	49,649	866	50,515
Total	<u>\$ 193,537</u>	<u>\$ 8,517</u>	<u>\$ 202,054</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2018 is composed of the following loans payable to the Maryland Department of Natural Resources:

Holly Point Shore Erosion Control, originally payable in twenty-five annual installments of \$10,029 without interest, guaranteed by the full faith and credit of the County.	\$ 140,399
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.	305,144
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>200,327</u>
	<u>\$ 645,870</u>

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

The annual requirements to amortize all debt outstanding as of June 30, 2018, including interest of \$14,331,147, 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>
2019	\$ 8,748,000	\$ 2,125,014	\$ 10,873,014
2020	8,990,000	1,876,466	10,866,466
2021	6,653,000	1,666,213	8,319,213
2022	6,857,000	1,474,103	8,331,103
2023	5,147,000	1,285,339	6,432,339
2024-2028	17,497,000	4,138,690	21,635,690
2029-2033	10,565,000	1,422,246	11,987,246
2034-2038	<u>6,715,000</u>	<u>343,076</u>	<u>7,058,076</u>
Total	<u>\$ 71,172,000</u>	<u>\$ 14,331,147</u>	<u>\$ 85,503,147</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

PRIMARY GOVERNMENT (continued)

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

	General Obligation Bonds	State Loans	Special Assessment Fund	Total
Principal	\$ 71,172,000	\$ 705,024	\$ 645,870	\$ 72,522,894
Interest	14,331,147	-	-	14,331,147
	<u>\$ 85,503,147</u>	<u>\$ 705,024</u>	<u>\$ 645,870</u>	<u>\$ 86,854,041</u>

COMPONENT UNITS

St. Mary's County Public Schools

Long-term liabilities

Long-term debt at June 30, 2018, consists of equipment financing obligations, accumulated compensated absences payable, net OPEB obligation, and net pension liability. The following is a summary of changes in the School System's long-term liabilities for the year ended June 30, 2018.

	June 30, 2017	Additions	Deductions	June 30, 2018	Amounts due within one year
Governmental activities:					
Equipment financing agreements	\$ 306,686	\$ 1,413,414	\$ (176,046)	\$ 1,544,054	\$ 402,951
Compensated absences	4,907,167	367,204	(391,626)	4,882,745	525,832
Net OPEB Liability*	311,450,088	25,506,396	(13,947,587)	323,008,897	-
Net pension obligation	13,229,614	-	(1,561,115)	11,668,499	-
	<u>\$ 329,893,555</u>	<u>\$ 27,287,014</u>	<u>\$ (16,076,374)</u>	<u>\$ 341,104,195</u>	<u>\$ 928,783</u>
Business-type activities:					
Compensated absences	\$ 175,715	\$ 33,652	\$ (4,492)	\$ 204,875	\$ 14,559

\* As restated for the Implementation of GASB75.

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

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 \$28,768 at interest rates ranging from 1.99% to 4.00% expiring through April 2023. All items purchased under the lease-purchase agreements are pledged as collateral under the agreements. Principal and interest payments for lease-purchase agreements are recorded as expenditures of the General Fund when due. Principal payments are reported as reductions of long-term obligations in the government-wide financial statements.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Long-term liabilities (continued)

The future minimum lease payments and the new present value of the minimum lease payments as of June 30, 2018, under these equipment financing agreements are as follows:

<u>Years ending June 30,</u>	
2019	\$ 402,951
2020	385,676
2021	299,297
2022	299,297
2023	<u>299,297</u>
	1,686,518
Less amount representing interest	<u>(142,464)</u>
Present value of minimum lease payments	<u>\$ 1,544,054</u>

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, 2018:

<u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>	<u>Amounts due within one year</u>
<u>\$ 103,017</u>	<u>\$ 5,884</u>	<u>\$ -</u>	<u>\$ 108,901</u>	<u>\$ -</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission

Long-term debt - bonds

Long-term bonds payable as of June 30, 2018 are as follows:

<u>Bonds payable description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Twenty-third Issue	2008-2027	3.5 - 4.25%	\$ 560,500	\$ 22,589
Twenty-seventh Issue	2011-2030	0.75 - 4.31%	8,466,800	2,446,199
Thirtieth Issue	2012-2029	2.96 - 3.4%	971,358	212,326
Thirty-first Issue	2013-2032	0.61 - 3.42%	6,467,800	1,667,832
Thirty-sixth Issue	2014-2033	4.31%	12,846,300	5,304,110
Thirty-eighth issue	2015-2034	3.51%	18,575,500	6,429,267
Thirty-ninth issue	2015-2021	1.31%	817,000	13,415
Fortieth issue	2015-2027	2.08%	5,419,000	622,648
			54,124,258	16,718,386
Less current portion			3,968,206	1,879,647
			<u>\$ 50,156,052</u>	<u>\$ 14,838,739</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2018 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019 (current)	\$ 3,968,206	\$ 1,879,647	\$ 5,847,853
2020	3,410,908	1,787,236	5,198,144
2021	3,446,339	1,703,123	5,149,462
2022	3,483,393	1,612,305	5,095,698
2023	3,585,471	1,512,513	5,097,984
2024-2028	18,954,937	5,815,524	24,770,461
2029-2033	15,786,004	2,340,246	18,126,250
2034	1,489,000	67,791	1,556,791
Total	<u>\$ 54,124,258</u>	<u>\$ 16,718,385</u>	<u>\$ 70,842,643</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Long-term debt - bonds (continued)

Twenty-third issue

On November 14, 2007, MetCom issued \$10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2015, MetCom had drawn only \$10,101,170 of the proceeds.

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

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

Twenty-seventh issue

On August 25, 2010, MetCom issued \$12,613,963 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2018, the unspent proceeds were \$2,467,518.

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

Thirtieth issue

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

The bonds may be prepaid at the following premiums:

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

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Long-term debt - bonds (continued)

Thirty-first issue

On December 19, 2012, MetCom issued \$8,719,514 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2018, the unspent proceeds were \$4,739,483.

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

Thirty-sixth issue

On October 2, 2013, MetCom issued \$15,948,168 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2018, the unspent proceeds were \$10,701,202.

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

Thirty-eighth issue

On August 28, 2014, MetCom issued \$22,075,230 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2018, the unspent proceeds were \$17,646,141.

The bonds mature on May 1, in 20 annual installments, beginning in 2015 and ending in 2034. The average interest yield on these bonds is 3.51%. Interest was payable on May 1, 2015 and semiannually thereafter on each May 1 and November 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2024. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Thirty-ninth issue

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Long-term debt - bonds (continued)

Thirty-ninth issue (continued)

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

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

Fortieth issue

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

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Notes, leases and loans payable as of June 30, 2018 are as follows:

<u>Note description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Undrawn</u>
MD Water Quality Loan #15	2020	2.700%	\$ 104,893	\$ 9,693	\$ -
MD Water Quality Loan #16	2023	1.200%	112,149	9,318	-
MD Water Quality Loan #18	2025	1.100%	1,767,724	166,346	-
MD Water Quality Loan #19	2024	1.100%	330,288	29,531	-
MD Water Quality Loan #20	2024	1.100%	257,835	19,387	-
MD Water Quality Loan #22	2027	1.100%	503,465	80,097	-
MD Water Quality Loan #25	2029	1.000%	114,607	13,085	-
MD Water Quality Loan #26	2030	1.000%	363,337	43,311	-
MD Water Quality Loan #28	2030	2.200%	301,274	62,931	-
MD Water Quality Loan #32	2034	1.800%	4,115,281	870,433	70,852
MD Water Quality Loan #33	2033	1.700%	320,386	62,420	-
MD Water Quality Loan #34	2035	2.100%	18,328,520	4,719,898	122,151
MD Water Quality Loan #35	2035	2.100%	4,582,130	1,179,992	30,539
MD Water Quality Loan #37 Leonardtwn #41	2034 2037	2.000% 1.800%	2,071,878 1,633,898	453,370 403,221	- -
MD Water Quality Loan #42	2038	1.500%	1,366,629	270,292	2,001,845
MD Water Quality Loan #43	2038	1.500%	1,320,589	261,232	1,171,179
MD Water Quality Loan #44	2039	1.600%	302,319	65,174	4,990,185
			37,897,202	8,719,731	\$ 8,386,751
Less current portion			2,295,331	858,566	
			\$ 35,601,871	\$ 7,861,165	

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2018, are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019 (current)	\$ 2,295,331	\$ 858,566	\$ 3,153,897
2020	2,349,725	826,888	3,176,613
2021	2,311,441	782,989	3,094,430
2022	2,257,949	736,808	2,994,757
2023	2,288,897	693,981	2,982,878
2024-2028	10,885,702	2,776,800	13,662,502
2029-2033	10,927,464	1,664,581	12,592,045
2034-2038	4,563,190	378,246	4,941,436
2039	17,503	872	18,375
Total	\$ 37,897,202	\$ 8,719,731	\$ 46,616,933

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

6. Long-term obligations (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

As of June 30, 2018, MetCom has seventeen loans from the Maryland Water Quality Financing Administration. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purpose of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for \$976,700 was used to replace the Lexington Park Wastewater Pumping Station. Loan number twenty for \$1,466,576 was for water meter installations. Loan number twenty-two for \$1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 was used for Patuxent Park Sewer Line Repair and the Marlay-Taylor Methane Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was used for the St. Clements Shore Well. Loan number thirty-two in the amount of \$4,874,202 is for the Radio Read Meter Project. As of June 30, 2018, MetCom had drawn \$4,803,350 of the proceeds. Loan number thirty-three in the amount of \$394,000 is for the Shangri La Drive/South Essex Drive Sewer Rehabilitation. Loan number thirty-four in the amount of \$21,082,400 is for the Marlay-Taylor Wastewater Reclamation Facility Enhanced Nutrient Removal, ENR, project. Loan number thirty-five in the amount of \$5,270,600 is also for Marlay-Taylor Wastewater Reclamation Facility ENR project. This loan will be paid for by Navy charges and is therefore taxable. As of June 30, 2018, MetCom has drawn \$26,200,310 of the proceeds on loans thirty-four and thirty-five. Loan number thirty-seven in the amount of \$2,420,291 is for the Route 235 and Route 712 Interceptor Rehabilitation. Loan number forty-two in the amount of \$3,368,474 is for the St. Clements Shores water system replacement project. As of June 30, 2018, MetCom had drawn \$1,366,629 of the proceeds. Loan number forty-three in the amount of \$2,491,768 is for the Piney Point water system replacement project. As of June 30, 2018, MetCom had drawn \$1,320,589 of the proceeds. Loan number forty-four in the amount of \$5,292,504 is being used to upgrade the Great Mills Wastewater pumping station. As of June 30, 2018, MetCom had drawn \$302,319 of the proceeds.

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

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2018 were as follows:

	June 30, 2017	Additions	Deductions	June 30, 2018	Amounts due within one year
Bonds payable	\$ 58,005,092	\$ -	\$ 3,880,834	\$ 54,124,258	\$ 3,968,206
Notes, Leases and loans payable	<u>36,696,309</u>	<u>3,348,465</u>	<u>2,147,572</u>	<u>37,897,202</u>	<u>2,295,331</u>
Total long-term debt	<u>\$ 94,701,401</u>	<u>\$ 3,348,465</u>	<u>\$ 6,028,406</u>	<u>\$ 92,021,460</u>	<u>\$ 6,263,537</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

7. Fund balances

A summary of the nonspendable, restricted, committed, assigned and unassigned fund balances as of June 30, 2018 is as follows:

	Special Revenue Funds			Debt Service Fund	
	General Fund	Fire & Rescue Revolving	Emergency Support	Special Assessments	Capital Projects Fund
<b>Nonspendable</b>					
Inventory	\$ 1,331,602	\$ -	\$ -	\$ -	\$ -
Prepaid expenses	155,096				
Interfund advance (Wicomico)	745,402	-	-	-	-
<b>Total nonspendable</b>	<b>2,232,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Restricted</b>					
Domestic Violence Programs	3,510	-	-	-	-
County matching funds for approved grants	225,977	-	-	-	-
Funding sources specified for capital projects					
Land preservation	-	-	-	-	2,133,663
Various capital projects - transfer tax	-	-	-	-	14,599,146
County pay-go	-	-	-	-	2,019,803
Roads- impact fees	-	-	-	-	96,084
Roads- mitigation	-	-	-	-	141,517
Parks- impact fees	-	-	-	-	351,056
Parks- mitigation	-	-	-	-	46,753
Schools-impact fees	-	-	-	-	4,778,026
Schools-mitigation	-	-	-	-	34,125
<b>Total restricted</b>	<b>229,487</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,200,173</b>
<b>Committed</b>					
Bond rating reserve	13,624,227	-	-	-	-
Rainy day fund	1,625,000	-	-	-	-
Operating budget, non-recurring items	2,085,000	-	-	-	-
Other, net, including grants	-	366,670	1,116,380	428,688	-
<b>Total committed</b>	<b>17,334,227</b>	<b>366,670</b>	<b>1,116,380</b>	<b>428,688</b>	<b>-</b>
Assigned	3,879,316	-	-	-	-
Unassigned	36,501,672	-	-	-	(7,614,407)
<b>Total fund balances</b>	<b>\$ 60,176,802</b>	<b>\$ 366,670</b>	<b>\$ 1,116,380</b>	<b>\$ 428,688</b>	<b>\$ 16,585,766</b>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

7. Fund balances (continued)

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

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

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

The nonspendable fund balance includes:

Inventory - The amount of inventory at June 30, 2018, 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 FY2018, but for which the period extends beyond June 30, 2018. These funds will be needed to meet the obligations of the grant.

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

The committed fund balance includes:

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

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

The debt service fund assigned fund balance includes:

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

The general fund assigned fund balance is composed of:

Encumbrances	\$ 2,697,515
Miscellaneous revolving fund	<u>1,181,801</u>
	<u>\$ 3,879,316</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

7. Fund balances (continued)

As a part of our FY2019 budget process, unassigned fund balance was used for \$2,085,000.

When unassigned fund balance is used, it is for one-time, non-recurring expenses.

In May 2018, as a part of the approval of the FY2019 budget, the Board approved to use unassigned fund balance: \$1,000,000 for school safety, and \$1,085,000 for Public Administration software upgrade and Public Safety study on software.

UNASSIGNED (\$28,309,751)

Remains unassigned; to help avoid sudden disruption or elimination of services, by allowing time for a plan to be developed to address such changes, revenue shortfalls, or cost shifts. And, given the still uncertain economy and the federal budget situation and its impact on the County's largest employment sector, it can help the County to weather negative revenue results for a limited period of time.

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans

PRIMARY GOVERNMENT

For the year ended June 30, 2018, the County recognized aggregated pension expense of \$10,538,862 for all three pension systems.

State retirement and pension system of Maryland

Plan description

All permanent, full-time employees of the County, (other than those covered by the Sheriff's Office Retirement Plan) are eligible to participate in the retirement plans of the State Retirement and Pension System of Maryland (the System). The System is a cost sharing multiple-employer defined benefit pension plan administered in accordance with Article 73B of the annotated Code of Maryland by the State Retirement Agency of Maryland (SRA) to provide survivor, disability, and retirement benefits to State and local government employees, teachers, police, correctional and law enforcement officers, judges, and legislators. The SRA operates under the direction of a 15-member Board of Trustees, which establishes policy, oversees investments, and represents various employee interests. The Maryland State Retirement and Pension System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the Systems. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202-1600, calling (800) 492-5909 or [www.sra.state.md.us/Agency/Downloads/CAFR/Default.aspx](http://www.sra.state.md.us/Agency/Downloads/CAFR/Default.aspx). The State of Maryland is obligated for the payment of all pension annuities, retirement allowances, refunds, reserves and other benefits of the System. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. The System is a component unit of the State of Maryland's financial reporting entity and is included in the State's financial statements as a pension trust fund.

Eligible employees participate in one of two State sponsored plans:

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

Plan benefits

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

Plan benefits (continued)

1. Members of the Employees' Pension Retirement System hired prior to July 1, 2011 (Alternate Contributory Pension Selection (ACPS))
  - Members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances:
    - a. age 62, & five years of eligibility service
    - b. age 63, & four years of eligibility service
    - c. age 64, & three years of eligibility service
    - d. age 65 or older, & two years of eligibility service
  - The annual pension allowance is equal to 1.2% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998, plus 1.8% of AFC for the three highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 1998. Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.
  - The cost of living adjustments for ACPS limits the increase the retiree may receive to a maximum of 3%, compounded annually. The adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate.
2. Members of the Employees' Pension System hired on or after July 1, 2011 (Reformed Contributory Pension Benefit (RCPB))
  - Eligibility for normal service retirement is determined by the Rule of 90. Members become eligible once the sum of their age and eligibility service is at least 90 or upon attaining at least age 65 and has accrued at least 10 years of eligibility service.
  - The annual pension allowance is equal to 1.5% of AFC for the five highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 2011. Members are eligible for early service pension allowances upon attaining age 60 with at least 15 years of eligibility service.
  - The cost of living adjustments for RCPB is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate (currently 7.5%). The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate.

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

Plan benefits (continued)

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

Actuarial assumptions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	In the 2017 actuarial valuation: 25- years closed schedule ending June 30, 2039; 21 years remaining
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary Increases	3.15% to 9.15% including wage inflation
Discount Rate	7.50%
Investment Rate of Return	7.50%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience
Note	There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the following assumption change in the 2017 valuation: Inflation assumption changed from 2.90% to 2.65%

Investments

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	36%	5.30%
Credit Opportunity	9%	3.60%
Rate Sensitive	21%	1.2%
Private Equity	11%	7.00%
Real Assets	15%	5.70%
Absolute Return	<u>8%</u>	3.10%
Total	<u>100%</u>	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2017.

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 10.02%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

Contributions required and made

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

The unfunded actuarial liability was being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000, actuarial valuation was being amortized over a 40-year period (as provided by law) from July 1, 1980, and as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, was being amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the System. The unfunded liability for each System is being amortized over a single closed 25-year period. Employee contributions, which are applied to normal cost, for fiscal year 2017 totaled approximately \$782,686,000. The County's contribution to the System for the year ended June 30, 2018 was \$2,050,819.

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

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

Discount rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability

The following presents the plan's net pension liability, calculated using a single discount rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher.

	(Expressed in thousands)		
	1% Decrease to 6.50%	Current Discount Rate 7.50%	1% Increase to 8.50%
Total System Net Pension Liability	\$30,645,067	\$21,623,704	\$14,138,519

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

State retirement and pension system of Maryland (continued)

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

At June 30, 2018, Commissioners of St. Mary's County reported liability of \$21,380,865 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of that date. Commissioners of St. Mary's County's portion of the net pension liability was based on Commissioners of St. Mary's County's share of contributions to the pension plan relative to the contribution of all participating employers. At June 30, 2018, Commissioners of St. Mary's County proportion was .098877%.

For the year ended June 30, 2018, Commissioners of St. Mary's County recognized pension expense of \$2,472 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 106,440	\$ -
Net difference between projected and actual investment earnings	-	854,219
Difference between actual and expected experience	-	1,035,964
Contributions subsequent to measurement date	<u>2,050,819</u>	<u>-</u>
Total	<u>\$ 2,157,259</u>	<u>\$ 1,890,183</u>

The \$2,050,819 reported as deferred outflows of resources related to pensions resulting from Commissioners of St. Mary's County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The \$106,440 from the change in assumptions and the \$1,035,964 from the difference between actual and expected experience, will be amortized over the service life of all employees, and the difference between projected and actual earnings of \$854,219 will be amortized over a five-year period. The amortization is as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Years ending June 30,</u>		
2019	\$15,206	\$361,550
2020	\$15,206	\$361,550
2021	\$15,206	\$361,550
2022	\$15,206	\$361,549
2023 and thereafter	\$45,616	\$443,984

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan

Plan description

The County administers the Sheriff's Office Retirement Plan which is a single employer defined benefit pension plan. The effective date of the plan is July 1, 1986, with amendments effective October 2000, September 2006, June 2007, July 2008 and January 2013. Generally, all Sheriff's Office covered employees ("Covered Employee" means any Employee who is classified by the County as the Sheriff, a Deputy Sheriff, a Correctional Officer, or an Inmate Services Coordinator of the Sheriff's Office) hired after June 30, 1986 participated in the plan. Also, each Sheriff's Department covered employee who was employed by St. Mary's County prior to July 1, 1986, and who participated in the Maryland State Retirement System, may elect to participate in the plan.

The membership data related to the St. Mary's County Sheriff's Office Retirement Plan at July 1, 2016 was as follows:

Retirees and beneficiaries currently receiving benefits	91
Terminated plan members entitled to but not yet receiving benefits	51
Active plan members	<u>203</u>
Total	<u>345</u>

Credited service

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

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

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

Credited service (continued)

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.

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.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

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

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

Survivor's pension

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

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

Deferred vested benefit

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

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

Withdrawal benefit

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

Form of benefit

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

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

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

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

Net pension liability of the county

The components of the net pension liability of the Sheriff's plan at June 30, 2018, were as follows:

Total pension liability	\$ 128,835,898
Plan fiduciary net position	(85,692,400)
County's net pension liability	<u>\$ 43,143,498</u>
Plan fiduciary net position as a percentage of the total pension liability	 66.51%

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2016 rolled forward to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Rates vary by participant service
Investment rate of return	7.25 percent, net of pension plan investment expense, including Inflation
Mortality	RP-2014 Combined Healthy tables with Blue Collar adjustment and generational projection by Scale MP-2016

The above is a summary of key actuarial assumptions. Full descriptions of the actuarial assumptions are available in the July 1, 2016 actuarial valuation report.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Sheriff's Plan net pension liability	\$62,905,239	\$43,143,498	\$27,230,796

Asset allocation

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

Asset Class	Allocation
Domestic equity	27%
International equity	20%
Emerging/frontier markets	6%
Fixed income	23%
Hedge funds	8%
Private equity	8%
Real assets	6%
Cash equivalents	2%
Total	100%

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

At June 30, 2018, the Sheriff's office retirement plan reported a net pension liability of \$43,143,498. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2018.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

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

For the year ended June 30, 2018, the Sheriff's office retirement plan recognized pension expense of \$8,686,081 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 2,411,079	\$ -
Net difference between projected and actual earnings on pension plan investments	2,216,988	-
Net difference between actual and expected experience	446,987	-
Contributions subsequent to measurement date	-	-
Total	<u>\$ 5,075,054</u>	<u>\$ -</u>

The \$2,411,079 from the change in assumptions will be amortized over the service life of all employees, and the \$2,216,988 from the difference between projected and actual earnings on pension plan investments will be amortized over a five-year period as follows:

<u>Years ending June 30,</u>	
2019	\$2,661,021
2020	\$1,601,712
2021	\$ 244,243
2022	\$ 291,774
2023	\$ 276,304
2024 and thereafter	\$ -

Discount rate

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

Development of plan costs

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

Sheriff's office retirement plan (continued)

Recommended contribution level

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

The County is required to contribute at an actuarially determined rate, currently 39.0% of covered payroll. Contribution requirements of plan members and the County are established and may be amended by the Commissioners. The amount of the Sheriff's Department's current year covered payroll is \$15,752,209 and the Sheriff's Department's total payroll for all employees is \$19,298,689. The following employer contributions were made during the fiscal year ended June 30, 2018:

	<u>Contributions</u>	<u>% of Covered Payroll</u>
Actuarially determined	\$ 5,147,000	39.0%

Volunteer fire departments, rescue squads and advanced life support unit

Plan description

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

Eligibility and benefits

- a. Any person who has served as a member of any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit is eligible to receive benefits provided that:
  - 1) The person is certified in accordance with the point system to have served as an active volunteer subsequent to December 31, 1979.
  - 2) Any person who discontinued active volunteer service prior to July 1, 1980, may receive credit for the service after being certified in accordance with the point system.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

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

Eligibility and benefits (continued)

- b. Beginning July 1, 1994, active volunteer fire and rescue squads and advanced life support unit personnel may select from two Length of Service program benefit options. Selection of a benefit option by the individual is irrevocable. The options, with rates reflected effective July 1, 2006, are:
- 1) Any person who has reached the age of sixty (60) and who has completed a minimum of twenty (20) years of certified active volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit, or combination thereof, shall receive two hundred dollars (\$200) per month, for life. Payments will begin in the month following eligibility.  

An additional payment of eight dollars (\$8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.
  - 2) Any person who has reached the age of fifty-five (55) and who has completed a minimum of twenty (20) years of certified volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit or combination thereof, shall receive one hundred fifty dollars (\$150) per month for life.  

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

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

Point system

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

- 1) One (1) point is credited for each hour of attendance in a recognized training course, provided that not more than twenty (20) points may be credited for all training courses attended per year.
- 2) One (1) point is credited for each company or county drill that is a minimum of two (2) hours in duration attended in its entirety, provided that not more than twenty-five (25) points may be credited for all drills attended per year.
- 3) One (1) point is credited for each official company or county meeting pertaining to St. Mary's County fire services or rescue services attended, provided that not more than fifteen (15) points may be credited for all meetings attended per year.
- 4) One (1) point is credited for each call to which a volunteer responds, provided that not more than forty (40) points may be credited for all calls responded to per year.
- 5) Twenty-five (25) points are credited for completion of a one-year term as an appointed or elected officer in any of the fire or rescue service organizations of St. Mary's County, provided that not more than one (1) office shall be counted in any calendar year.
- 6) One-half (1/2) of a point is credited for each hour of acceptable collateral duties, such as but not limited to apparatus and building maintenance, official standby and fire prevention, provided that not more than twenty-five (25) points may be credited for all collateral duties performed per year.
- 7) A volunteer member who serves or has served full-time military service in the armed forces of the United States receives credit at the rate of five (5) points for each month served, provided that not more than fifty (50) points can be credited for any calendar year. A maximum of four (4) years of creditable service may be acquired in this manner. The volunteer member must have been an active member for one (1) year prior to enlistment. The volunteer member must be reinstated within six (6) months after discharge.

This length of service program is funded by the County Commissioners by annual appropriations. The total contribution for the fiscal year ended June 30, 2018 was \$1,565,503.

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

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

Net pension liability of the county

The components of the net pension liability of the LOSAP plan at June 30, 2018, were as follows:

Total pension liability	\$ 23,845,663
Plan fiduciary net position	<u>(2,214,985)</u>
County's net pension liability	<u>\$ 21,630,678</u>
Plan fiduciary net position as a percentage of the total pension liability	9.29%

The total pension liability was determined by an actuarial valuation as of July 1, 2017 rolled forward to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	N/A
Investment rate of return	6.0 percent compounded annual, net of expenses
Mortality	RP-2014 Combined Healthy tables with Blue Collar adjustment and generational projection by Scale MP-2017

The above is a summary of key actuarial assumptions. Full descriptions of the actuarial assumptions are available in the July 1, 2017 actuarial valuation report.

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

	1% Decrease 5.0%	Current Discount Rate 6.0%	1% Increase 7.0%
LOSAP Plan net pension liability	\$25,271,093	\$21,630,678	\$18,730,989

Asset allocation

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

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

Asset allocation

Asset Class	Allocation
Large cap	24.0%
Small/mid cap Broad	6.0%
International equity	15.0%
Emerging equity	6.0%
Domestic fixed income	35.0%
Estate	8.0%
High yield	6.0%
Total	100%

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

At June 30, 2018, the LOSAP plan reported a net pension liability of \$21,630,678. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the new pension liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2018.

For the year ended June 30, 2018, the LOSAP plan recognized pension expense of \$1,850,309 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 180,171
Net difference between projected and actual earnings on pension plan investments	75,630	-
Net difference between actual and expected experience	-	-
Contributions subsequent to measurement date	-	-
Total	<u>\$ 75,630</u>	<u>\$ 180,171</u>

The \$180,171 from the change in assumptions will be amortized over the service life of all employees, and the \$75,630 from the difference between projected and actual earnings on pension plan investments will be amortized over a five-year period as follows:

<u>Years ending June 30,</u>	
2019	\$6,832
2020	\$6,832
2021	\$6,832
2022	\$6,830
2023	\$25,739
2024 and thereafter	\$51,476

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

PRIMARY GOVERNMENT (continued)

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

Discount rate

The current discount rate on the LOSAP plan is 6.0%.

Development of plan costs

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

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

8. Retirement plans (continued)

COMPONENT UNITS

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

St. Mary's County Public Schools

Contribution rates for employer and other non-employer contributing entities (including the State of Maryland) are established by annual actuarial valuations using the individual entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The School System made required contributions totaling \$6,172,196 or 4.83% of current covered payroll, and the State of Maryland made contributions on behalf of the School System totaling \$12,933,614 or 10.11% of current covered payroll for fiscal year 2018. The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by the GASB Codification.

At June 30, 2018, the School System reported a liability \$11,668,499 or .054% of the total liability of \$21,623,701,000.

St. Mary's County Library

For the year ended June 30, 2018, the Library's total payroll and payroll for covered employees were \$2,357,108 and \$2,320,443, respectively. No contributions were made by the Library for the year ended June 30, 2018.

For fiscal year 2018, the State contributed \$363,642 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement No. 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 15.67% of covered payroll.

St. Mary's Metropolitan Commission

Retirement and pension plan

MetCom's contribution to the System was \$430,869 for year ended June 30, 2018.

At June 30, 2018, MetCom reported a liability of \$4,558,356 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MetCom's proportion of the net pension liability was based on MetCom's share of contributions to the pension plan relative to the contribution of all participating employers. At June 30, 2018, MetCom's proportion was .02108%

Nationwide Retirement Solutions

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

9. Interfund balances

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2018:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>PRIMARY GOVERNMENT</u>		
<u>General fund</u>		
Fire & Rescue Revolving Loan Fund	\$ -	\$ 366,670
Emergency Services Support Fund	-	1,073,660
Debt Service Fund	-	431,788
Capital Projects Fund	-	18,158,647
Enterprise Fund	-	1,182,434
 <u>Special Revenue Funds</u>		
General Fund	1,440,330	-
 <u>Debt Service Fund</u>		
General Fund	431,788	-
 <u>Capital Projects Fund</u>		
General Fund	18,158,647	-
 <u>Enterprise Funds</u>		
General Fund	<u>1,182,434</u>	<u>-</u>
 Total due from/to other funds	 <u>\$ 21,213,199</u>	 <u>\$ 21,213,199</u>
 <u>COMPONENT UNITS</u>		
St. Mary's County Building Authority Commission	\$ 189,454	\$ -
Primary Government-General Fund	<u>-</u>	<u>189,454</u>
Total due to Primary Government from Component Unit	<u>\$ 189,454</u>	<u>\$ 189,454</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

10. Commitments and contingencies

PRIMARY GOVERNMENT

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

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, 2018 have not yet been completed. Accordingly, the County's compliance with applicable grant requirements will be verified in connection with performing the County's Single Audit. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

COMPONENT UNITS

St. Mary's County Public Schools

Legal proceedings

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

School construction

As of June 30, 2018, 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. They will be funded by the State of Maryland or County bond issues, totaling approximately \$9,547,617.

Grant program

The School System participates in a number of state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* for the current year. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

Health insurance

The School System is under a modified retrospective billing arrangement with a commercial insurance carrier to provide group health coverage. Under this arrangement, the insurance carrier assesses an initial charge paid by the School System through monthly premiums. At the end of the coverage period, there is a settlement of the difference between the billed premium and the actual claims and expenses. A deficiency in the billed premium represents the callable margin, which is owed by the School System, up to a maximum of 5%. If the actual claims and expenses are less than the billed premium, the School System would be entitled to a refund. For the year ended June 30, 2018, management anticipates a refund in the amount of \$2,995,878.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

10. Commitments and contingencies (continued)

COMPONENT UNITS (continued)

St. Mary's County Library

Grant audit

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

Support

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

11. Other post-employment benefits

PRIMARY GOVERNMENT

Plan description

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

The OPEB Plan is administered through the single-employer Retiree Benefit Trust of St. Mary's County, Maryland as an irrevocable trust. Assets of the trust are dedicated to providing post-retirement health, prescription, dental and vision coverage to current and eligible future retirees. 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 Maryland Association of Counties (MACo) OPEB Trust, and limited partnerships. 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.

At June 30, membership consisted of:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Retirees and their Beneficiaries Currently Receiving Benefits	443	434	418
Active Employees	<u>657</u>	<u>656</u>	<u>668</u>
Total	<u><u>1,100</u></u>	<u><u>1,090</u></u>	<u><u>1,086</u></u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

PRIMARY GOVERNMENT (continued)

Plan description (continued)

The Trustees determine how much is contributed to the OPEB Trust as part of the budget process. The County's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual determined contribution of the employer (ADC), an amount actuarially determined in accordance with the parameters of the GASB Codification. The ADC 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 current ADC is \$5,879,000. The ADC consists of the normal cost of \$3,248,000, and the amortization of unfunded accrued liability of \$2,631,000. The County contributed the pay-go amount of \$3,133,686 to the trust in FY 2018.

Investments

The County's investment authority is established in the Investment Policy for the Retiree Benefit Trust of St. Mary's County, Maryland. The assets allocation of the Trust, per the policy is as follows:

	Lower Limit	Strategic Allocation	Upper Limit
Domestic Large Cap Equities	12%	22%	32%
Domestic Small/Mid Cap Equities	5%	9%	14%
Real Estate Equities	4%	8%	12%
International Equities	7%	10%	13%
Emerging Market Equities	0%	5%	7%
Domestic Fixed Income	16%	22%	36%
TIPS	0%	5%	7%
High Yield Fixed Income	0%	5%	7%
Real Estate Alternatives	0%	6%	6%
Private Equity	0%	12%	12%
Cash Equivalentents	0%	0%	10%

As of June 30, 2018, 34% of the Trust assets are in exchange-traded funds.

For the year ended June 30, 2018, the annual money-weighted rate of return of the MACo OPEB trust investments, net of the MACo OPEB trust expense was 6.68%. The money-weighted rate of return reflects investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

PRIMARY GOVERNMENT (continued)

Net OPEB liability

The components of the net OPEB liability of the County at June 30, 2018 were:

	<u>2018</u>
Total OPEB liability	\$ 96,707,325
Plan fiduciary net position	<u>(71,754,847)</u>
Net OPEB liability	<u>\$ 24,952,478</u>

Plan fiduciary net position as a percentage of the total OPEB liability	74.20%
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The total OPEB liability was determined by an actuarial valuation as of October 1, 2016 with data rolled forward to June 30, 2017. The methods, assumptions, and participant data are detailed in the revised July 1, 2017 actuarial valuation report dated May 5, 2017, except for using the Entry Age Normal (EAN) cost method as required by GASB75. The actuarial assumptions included a 6% annual rate of return. The medical cost trend varied between 8.6% and 4% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 3.5% payroll increase rate.

The following table presents the County's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher.

Ultimate Trend	1% Decrease 2.90%	Medical Trend 3.90%	1% Increase 4.90%
Total OPEB Liability	\$81,972,908	\$96,707,325	\$115,645,032
Net OPEB Liability/(Asset)	\$10,218,061	\$24,952,478	\$43,890,185

The long-term nominal expected rate of return on OPEB plan investments was determined using a building-block method where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. Spread and the risk free rate are used for fixed income; and dividends, earnings growth and valuation are used for equity. These return expectations are weighted based on asset/target amounts. The arithmetic real rates of return for the MACo OPEB Trust as of June 30, 2018 was 6.68%.

The discount rate used to measure the total OPEB liability was 6.96%. The projection of cash flows used to determine this discount rate assumed that the County's contributions will be made at rates equal to the pay-go amount and not the actuarially determined contribution rates. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be unavailable to make all projected future benefit payments of current plan members in the year 2084. Therefore, a blended discount rate was determined based on the fully funded rate of 7.08% when assets are available prior to 2084, and the unfunded rate of 3.58% for 2084 and beyond. The blended rate of 6.96% was determined based on this method.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

PRIMARY GOVERNMENT (continued)

Net OPEB liability (continued)

The following table presents the County's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher, than the 6.96% discount rate.

Discount Rate	1% Decrease 5.96%	Discount Rate 6.96%	1% Increase 7.96%
Total OPEB Liability	\$113,468,261	\$96,707,325	\$83,440,378
Net OPEB Liability/(Asset)	\$41,713,414	\$24,952,478	\$11,685,531

For the year ended June 30, 2018, the County recognized OPEB expense of \$3,146,609, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 1,027,455
Net difference between projected and actual investment earnings	-	2,961,409
Difference between actual and expected experience	156,626	-
Contributions subsequent to measurement date	<u>3,133,686</u>	-
Total	<u>\$ 3,290,312</u>	<u>\$ 3,988,864</u>

The \$3,133,686 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in expense as follows:

<u>Year ending June 30,</u>	<u>Amortized amount</u>
2019	\$ (885,490)
2020	\$ (885,490)
2021	\$ (885,490)
2022	\$ (885,491)
2023	\$ (145,138)
Thereafter	\$ (145,139)

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS

St. Mary's County Library

For the year ended June 30, 2018, the cost of post-employment benefits was \$129,582.

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.

The Library's OPEB Plan is administered through the single-employer Retiree Benefit Trust of St. Mary's County Library as an irrevocable trust. Assets of the trust are dedicated to providing post-retirement health, prescription, dental and vision coverage to current and eligible future retirees. 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.

Membership

At June 30, membership consisted of:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Retirees and Beneficiaries Currently Receiving Benefits	8	8	11
Active Employees	<u>20</u>	<u>22</u>	<u>21</u>
Total	<u>28</u>	<u>30</u>	<u>32</u>

Investments

The Library's investment authority is established in the Retiree Health Benefit Trust of St. Mary's County Library.

For the year ended June 30, 2018, the annual money-weighted rate of return of the OPEB trust investments, net of the OPEB trust expense was 5.25%. The money-weighted rate of return reflects investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB liability

The Library's annual other post-employment benefit (OPEB) cost is calculated based on the annual determined contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 75. 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:

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Library (continued)

Net OPEB liability (continued)

	<u>2018</u>
Total OPEB liability	\$ 2,079,546
Plan fiduciary net position	<u>(963,719)</u>
Net OPEB liability	<u>\$ 1,115,827</u>
Plan fiduciary net position as a percentage of the total OPEB liability	46.34%

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017 with data rolled forward to June 30, 2017. In the December 6, 2016 actuarial valuation, the liabilities were computed using the Entry Age Normal (EAN) cost method as required by GASB 74. The EAN actuarial cost method requires a salary scale assumption; we used the State of Maryland salary scale assumption for general employees. The actuarial assumptions included a 6% annual rate of return. The medical cost trend varied between 6.9% and 3.9% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. Payroll is assumed to increase at 3.5% per annum.

The following table presents the Library's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher.

Ultimate Trend	1% Decrease 2.80%	Discount Rate 3.80%	1% Increase 4.80%
Total OPEB Liability	\$1,692,829	\$2,079,546	\$2,601,324
Net OPEB Liability/(Asset)	\$729,110	\$1,115,827	\$1,637,605

The long-term nominal expected rate of return on OPEB plan investments of 5.25% was determined using a building-block method where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. Spread and the risk free rate are used for fixed income; and dividends, earnings growth and valuation are used for equity. These return expectations are weighted based on asset/target amounts. The arithmetic real rates of return for the OPEB Trust as of June 30, 2018 was 5.25%.

The discount rate used to measure the total OPEB liability was 5.25%. The projection of cash flows used to determine this discount rate assumed that the Library's contributions will be made at rates equal to current contribution levels. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members after 2098. Therefore, the long-term expected rate of return on OPEB investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the Library's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher, than the 5.25% discount rate.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Library (continued)

Net OPEB liability (continued)

Discount Rate	1% Decrease 4.25%	Discount Rate 5.25%	1% Increase 6.25%
Total OPEB Liability	\$2,504,417	\$2,079,546	\$1,745,118
Net OPEB Liability/(Asset)	\$1,540,698	\$1,115,827	\$781,399

For the year ended June 30, 2018, the Library recognized OPEB expense of \$129,582, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ -
Net difference between projected and actual investment earnings	-	29,033
Difference between actual and expected experience	-	-
Contributions subsequent to measurement date	-	-
Total	<u>\$ -</u>	<u>\$ 29,033</u>

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

<u>Year ending June 30,</u>	<u>Amortized amount</u>
2019	\$ (7,258)
2020	\$ (7,258)
2021	\$ (7,258)
2022	\$ (7,259)
2023	\$ -
Thereafter	\$ -

St. Mary's Metropolitan Commission

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

Plan description

MetCom provides health, prescription, dental and vision care insurance benefits to eligible retirees, eligible retirees' family members and the family members of deceased employees as a single-employer plan. Eligible persons include employees with a minimum of ten years of eligible MetCom service entering an immediate retirement, family members of eligible

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Plan description (continued)

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.

MetCom's OPEB Plan is administered through the single-employer Retiree Benefit Trust of St. Mary's County Metropolitan Commission as an irrevocable trust. Assets of the trust are dedicated to providing post-retirement health, prescription, dental and vision coverage to current and eligible future retirees. 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, and the Maryland Association of Counties (MACo) OPEB Trust. The Trust does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or of another entity.

At June 30, membership consisted of:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Retirees and their Beneficiaries Currently Receiving Benefits	11	10	10
Active Employees	<u>73</u>	<u>71</u>	<u>71</u>
Total	<u><u>84</u></u>	<u><u>81</u></u>	<u><u>81</u></u>

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY 2018 Operating Budget included fully funding the OPEB cost. MetCom's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual determined contribution of the employer (ADC), an amount actuarially determined in accordance with the parameters of the GASB Codification. The ADC 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 ADC is \$527,000. The ADC consists of the normal cost of \$332,000, and the amortization of unfunded accrued liability of \$195,000. MetCom contributed \$527,000 to the trust in FY 2018.

Investments

MetCom's investment authority is established in the Retiree Benefit Trust of St. Mary's County Metropolitan Commission. Assets are allocated 87% in the MACo OPEB Trust as of June 30, 2018.

For the year ended June 30, 2018, the annual money-weighted rate of return of the MACo OPEB trust investments, net of the MACo OPEB trust expense was 6.68%. The money-weighted rate of return reflects investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Net OPEB liability

The components of the net OPEB liability of MetCom at June 30, 2018 were:

	<u>2018</u>
Total OPEB liability	\$ 9,007,972
Plan fiduciary net position	(5,481,334)
Net OPEB liability	\$ 3,526,538

Plan fiduciary net position as a percentage  
of the total OPEB liability 60.85%

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016 with data rolled forward to June 30, 2018. In the actuarial valuation dated January 30, 2017, the liabilities were computed using the Entry Age Normal (EAN) cost method as required by GASB 74. The EAN actuarial cost method requires a salary scale assumption; we used the State of Maryland salary scale assumption for general employees. The actuarial assumptions included a 6.5% annual rate of return. The medical cost trend varied between 8.6% and 4.0% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 2.3% rate of inflation and 3.0% annual payroll increase assumption.

The following table presents the Commission's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher.

Discount Rate	1% Decrease 5.68%	Discount Rate 6.68%	1% Increase 7.68%
Total OPEB Liability	\$10,609,532	\$9,007,972	\$7,730,866
Net OPEB Liability/(Asset)	\$5,128,198	\$3,526,638	\$2,249,532

The long-term nominal expected rate of return on OPEB plan investments was determined using a building-block method where return expectations are established for each asset class. The building-block approach uses the current underlying fundamentals, not historical returns. Spread and the risk free rate are used for fixed income; and dividends, earnings growth and valuation are used for equity. These return expectations are weighted based on asset/target amounts. The arithmetic real rates of return for the MACo OPEB Trust as of June 30, 2018 was 6.68%.

The discount rate used to measure the total OPEB liability was 6.68%. The projection of cash flows used to determine this discount rate assumed that MetCom contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the Commission's Total and Net OPEB liability. We also present the Total and Net OPEB liability if it is calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher, than the 6.68% discount rate.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's Metropolitan Commission (continued)

Net OPEB liability (continued)

Ultimate Trend	1% Decrease 2.90%	Discount Rate 3.90%	1% Increase 4.90%
Total OPEB Liability	\$7,446,364	\$9,007,972	\$11,041,053
Net OPEB Liability/(Asset)	\$1,965,030	\$3,526,638	\$5,559,719

For the year ended June 30, 2018, MetCom recognized OPEB expense of \$449,465, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ -
Net difference between projected and actual investment earnings	66,514	23,797
Difference between actual and expected experience	11,480	-
Contributions subsequent to measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ 77,994</u>	<u>\$ 23,797</u>

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

<u>Year ending June 30,</u>	<u>Amortized amount</u>
2019	\$ 9,976
2020	\$ 9,976
2021	\$ 9,978
2022	\$ 17,911
2023	\$ 1,281
Thereafter	\$ 5,075

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools

Plan description

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

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

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

The MABE Trust issues a publicly available audited GAAP-basis report that includes financial statements and required supplementary information for the Investment Trust. This report may be obtained by writing to the Trust Administrator, Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401-1112, or calling 410-841-5414.

Membership of the OPEB Plan currently enrolled in medical /drug coverage consisted of the following at July 1, 2017, the date of the latest actuarial valuation:

Number of participants

Active employees	1,553
Retirees – pre-medicare	276
Retirees – post-medicare	<u>818</u>
Total	<u>2,647</u>

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Plan description (continued)

The School System contributes the pay as you go portion, along with an annually budgeted prefunding amount of the annual determined contribution (ADC) of the employer, an amount actuarially determined in accordance with the parameters of the GASB Codification. The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ADC rate is 11.26% of annual covered payroll. The ADC consisted of the normal cost of \$5,268,000 and the amortization of unfunded accrued liability of \$9,133,000. The School System contributed \$8,300,000 for the year ended June 30, 2018, entirely consisting of contributions towards current healthcare and life insurance premiums accounted for in the general fund with no additional contributions in the current year to prefund future benefits to the retirement benefit trust fund.

Investments

*Investment policy:* The school System's policy in regard to the allocation of invested assets is established and may be amended by the School System board by a majority vote of its members. It is the policy of the board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The School System's target asset allocation policy was 100% in the MABE Trust as of June 30, 2018.

*Rate of return.* For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 7.43 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB liability

The components of the net OPEB liability of the School System at June 30, 2018, were as follows:

	<u>2018</u>
Total OPEB liability	\$ 368,481,514
Plan fiduciary net position	<u>(45,472,617)</u>
Net OPEB liability	<u>\$ 323,008,897</u>
Plan fiduciary net position as a percentage of the total OPEB liability	12.34%

*Actuarial assumptions.* The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions below, applied to all periods included in the measurement, unless otherwise specified.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Net OPEB liability (continued)

Actuarial assumptions used in the latest actuarial valuation were:

Inflation rate	2.40%
Salary increases	3.50%
Investment rate of return	7.00%
Discount rate	3.62%
Healthcare cost trend rate	5.7% initially reduced annually to an ultimate rate of 4% (Pre-medicine) 3.9% (post – Medicine) Mortality RP 2014 fully generational

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of a study for the period July 1, 2013 to December 31, 2018.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the MABE Trust as of June 30, 2018 was 3.62%.

*Discount rate.* The discount rate used to measure the total OPEB liability was 3.62 percent. The projection of cash flow used to determine the discount rate assumed that the School System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Sensitivity of the net OPEB liability to changes in the discount rate.*

The following presents the net OPEB liability of the School System, as well as what the School System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate:

Discount Rate	1% Decrease 2.62%	Discount Rate 3.62%	1% Increase 4.62%
Total OPEB Liability	\$404,849,519	\$323,008,897	\$260,251,354

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate.*

The following presents the net OPEB liability of the School System, as well as what the School System's net OPEB liability would be if it were calculated using healthcare cost trend rate that is 1-percentage-point lower (2.90%) or 1-percentage-point higher (4.90%) than the current healthcare cost trend rate:

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Net OPEB liability (continued)

Ultimate Trend	1% Decrease 2.90%	Discount Rate 3.90%	1% Increase 4.90%
Total OPEB Liability	\$254,572,607	\$323,008,897	\$416,085,179

OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2018, the Board recognized OPEB expense of \$21,969,947. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 2,274,613
Net difference between projected and actual investment earnings	-	125,053
Difference between actual and expected experience	275,586	-
Contributions subsequent to measurement date	-	-
Total	<u>\$ 275,586</u>	<u>\$ 2,399,666</u>

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

<u>Year ending June 30,</u>	<u>Amortized amount</u>
2019	\$ (281,142)
2020	\$ (281,142)
2021	\$ (281,142)
2022	\$ (281,143)
2023	\$ (249,879)
Thereafter	\$ (749,632)

Actuarial methods and assumptions

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

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

11. Other post-employment benefits (continued)

COMPONENT UNITS (continued)

St. Mary's County Public Schools (continued)

Actuarial methods and assumptions (continued)

In the July 1, 2017, 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 7.00% per year compounded annually, (b) projected salary increases of 3.50% compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 2.00% to 6.50% per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 5.70% initially, reduced annually to arrive at an ultimate healthcare cost trend of 3.90%, (e) rates of mortality based upon RP 2014 Combined Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.00% to 18.00%, disablement rates based on age, ranging from 0.03% to 0.46%, (h) retirement rates based on age, sex, and length of service, ranging from 1.00% to 33.00%, and (i) medical claims including prescription drugs are based on actual experience during the period from July 1, 2013 through December 31, 2016, and were projected with annual increases of 5.00% for medical claims and 5.00% for prescription drug claims. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 21 years for the year ended June 30, 2018.

12. Landfill closure and postclosure cost

State and federal laws and regulations require the Commissioners of St. Mary's County to place a final cover on landfill sites when the site stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Commissioners of St. Mary's County report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,846,000 reported as landfill closure and postclosure care liability at June 30, 2018, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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

13. Risk management

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

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

Annual premiums are assessed for the various policy coverages. During fiscal year 2018 the County paid premiums of \$561,526 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.

Commissioners of St. Mary's County  
Notes to Financial Statements  
June 30, 2018

14. Self-insurance (Worker's Compensation)

The County self-insures its worker's compensation costs and liabilities. The County establishes funding of claim liabilities as they occur. This funding level includes provisions for legal, medical and lost wages expenses which are all classified as incremental claim adjustment expenses. Unpaid claims in the self-insurance funds include liabilities for unpaid claims based upon individual case estimates for claims reported at June 30, 2018. The unpaid claims also include liabilities for incurred but not reported (IBNR) claims as of June 30, 2018.

15. Restated net position

The County adopted Governmental Accounting Standard Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ending June 30, 2018. The implementation of the statement required the County to restate the beginning net OPEB liability. As a result, the County restated beginning net position at July 1, 2017 by \$(46,657,874).

The County adopted Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*, during fiscal year ended June 30, 2015. The County had actuarially determined the LOSAP plan contribution, and had its first GASB68 Actuarial information prepared for the measurement period ended June 30, 2018. The County restated beginning Net Position at July 1, 2017 by (\$21,735,219) for the net pension liability as of June 30, 2017.

16. Subsequent events

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through December 31, 2018, the date the financial statements were available to be issued.

On September 28, 2018, the County sold \$30,000,000 in General Obligation Bonds – Consolidated Public Improvement Bonds, Series 2018. The bonds were closed on October 2, 2018, and were used to fund capital improvement projects.

**REQUIRED SUPPLEMENTARY INFORMATION**

COMMISSIONERS OF ST. MARY'S COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES  
AND OTHER FINANCING SOURCES AND USES  
BUDGET (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 108,280,130	\$ 109,269,130	\$ 109,091,603	\$ (177,527)
Income taxes	92,107,299	91,129,299	90,410,603	(718,696)
Energy taxes	1,000,000	1,000,000	1,021,597	21,597
Recordation taxes	5,300,000	5,300,000	5,918,163	618,163
Other Local taxes	1,380,000	1,380,000	1,502,026	122,026
Highway user revenues	1,181,558	1,181,558	1,187,782	6,224
Licenses and permits	1,618,350	1,618,350	1,533,483	(84,867)
State/federal grants	6,303,108	6,824,310	7,105,344	281,034
Charges for services	2,901,960	2,924,950	2,975,831	50,881
Fines and forfeitures	36,000	36,000	26,758	(9,242)
Investment and other revenues	215,700	218,815	992,605	773,790
Sub-total	<u>220,324,105</u>	<u>220,882,412</u>	<u>221,765,795</u>	<u>883,383</u>
Pass-throughs	-	-	-	-
<b>TOTAL GENERAL FUND REVENUES</b>	<u>220,324,105</u>	<u>220,882,412</u>	<u>221,765,795</u>	<u>883,383</u>
<b>EXPENDITURES</b>				
General government	25,428,524	24,921,199	23,151,778	1,769,421
Public safety	43,819,256	44,626,085	42,703,131	1,922,954
Public works	9,629,770	11,535,895	11,459,473	76,422
Health	2,930,933	3,302,299	3,024,679	277,620
Social services	4,105,445	4,167,547	4,111,331	56,216
Primary and secondary education	104,380,609	104,380,799	104,290,217	90,582
Post-secondary education	4,272,365	4,272,365	4,272,365	-
Parks, recreation and culture	3,913,743	3,942,449	3,826,967	115,482
Libraries	2,800,572	2,800,572	2,800,572	-
Conservation of natural resources	610,476	591,321	572,705	18,616
Economic development and opportunity	2,223,848	1,889,119	2,602,329	(713,210)
Debt service	11,255,230	11,255,230	11,214,597	40,633
Inter-governmental	44,916	44,916	44,916	-
Other	3,060,000	3,060,000	3,180,374	(120,374)
Sub-total	<u>218,475,687</u>	<u>220,789,796</u>	<u>217,255,434</u>	<u>3,534,362</u>
Pass-throughs	-	-	-	-
<b>TOTAL GENERAL FUND EXPENDITURES</b>	<u>218,475,687</u>	<u>220,789,796</u>	<u>217,255,434</u>	<u>3,534,362</u>
<b>OTHER FINANCING SOURCES AND USES</b>				
Fund balance	-	868,694	-	(868,694)
Reserves - grants (expenditures)	(1,000,000)	(441,192)	-	441,192
Reserves - grants (revenues)	1,000,000	441,693	-	(441,693)
Reserves - emergency appropriations	(1,082,900)	(196,293)	-	196,293
Reserves - bond rating	(400,000)	(400,000)	(294,206)	105,794
General fund transfer/pay-go - capital projects	(365,518)	(365,518)	(365,518)	-
<b>TOTAL OTHER FINANCING SOURCES AND USES</b>	<u>(1,848,418)</u>	<u>(92,616)</u>	<u>(659,724)</u>	<u>(567,108)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,850,637</u>	<u>\$ 3,850,637</u>

See Independent Auditor's Report.

COMMISSIONERS OF ST. MARY'S COUNTY  
NOTES TO THE STATEMENT OF REVENUES, EXPENDITURES,  
ENCUMBRANCES AND OTHER FINANCING SOURCES AND USES  
BUDGET (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018

A reconciliation of the revenues and expenditures of the general fund

	<u>Net Change in Fund Balance</u>	<u>End of Year Fund Balance</u>
Budgetary basis – general fund	\$ 3,850,637	\$ 51,497,893
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	260,769	1,260,877
Other adjustment	(328,261)	
Beginning of year encumbrances, rolled into FY2018	(1,149,787)	-
Appropriation from prior year rolled to FY2018 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2018	1,149,787	1,149,787
Budgeted use of fund balance	-	-
Increase in bond rating reserve	294,206	-
Restricted cash & investments:		
FY2018	3,570,730	3,570,730
FY2017	-	-
End of year encumbrances included in budget basis expenditures, not included for GAAP	<u>2,697,515</u>	<u>2,697,515</u>
GAAP basis	<u>\$ 10,345,596</u>	<u>\$ 60,176,802</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 RETIREMENT PLANS  
 FOR THE YEAR ENDED JUNE 30, 2018

Maryland State Retirement and Pension Plan

Schedule of net pension liability and related ratios

Date	Proportion of Collective NPL (a)	Proportionate Share of Collective NPL (b)	Covered Payroll (c)	NPL as a Percentage of Covered Payroll (b/c)	Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Collective)
06/30/15	0.0937813%	\$ 16,643,117	\$ 20,945,112	79.46%	71.87%
06/30/16	0.1046456%	\$ 21,747,150	\$ 22,117,812	98.32%	68.78%
06/30/17	0.1013120%	\$ 23,903,575	\$ 23,960,863	99.76%	65.79%
06/30/18	0.0988770%	\$ 21,380,865	\$ 24,077,933	88.80%	69.38%

Schedule of contributions and related ratios

Date	Actuarially Determined Contribution (a)	Actual Contribution (b)	Contribution Deficiency (Excess) (c)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
06/30/15	\$ 2,205,647	\$ 2,205,647	\$ -	\$ 20,945,112	10.53%
06/30/16	\$ 1,973,642	\$ 1,973,642	\$ -	\$ 22,117,812	8.92%
06/30/17	\$ 2,012,485	\$ 2,012,485	\$ -	\$ 23,960,863	8.40%
06/30/18	\$ 2,050,819	\$ 2,050,819	\$ -	\$ 24,077,933	8.52%

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

COMMISSIONERS OF ST. MARY'S COUNTY  
REQUIRED SUPPLEMENTARY INFORMATION  
RETIREMENT PLANS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2018

Maryland State Retirement and Pension Plan (continued)

Changes in benefit terms

There were no benefit changes during the year.

Changes in assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2017 valuation:

- Inflation assumption changed from 2.90% to 2.65%

Method and assumptions used in calculations of actuarially determined contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	In the 2017 actuarial valuation: 25- year closed schedule ending June 30, 2039; 21 years remaining
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary Increases	3.15% to 9.15% including inflation
Rate of Return	7.50%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period July 1, 2010 to June 30, 2014
Mortality	RP-2014 Mortality Tables with generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale.

COMMISSIONERS OF ST. MARY'S COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 RETIREMENT PLANS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2018

Sheriff's Office Retirement Plan

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

	2018	2017	2016	2015	2014
Total pension liability:					
Service cost	\$ 4,129	\$ 3,979	\$ 3,826	\$ 3,687	\$ 3,475
Interest	8,576	7,867	7,317	6,564	6,286
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	-	626	-	-	-
Changes of assumptions	-	1,308	-	3,445	-
Benefit payments, including refunds of member contributions	(4,324)	(3,672)	(3,436)	(3,193)	(2,862)
Net change in total pension liability	8,381	10,108	7,707	10,503	6,899
Total pension liability – beginning	120,455	110,347	102,640	92,137	85,238
Total pension liability – ending (a)	<u>\$ 128,836</u>	<u>\$ 120,455</u>	<u>\$ 110,347</u>	<u>\$ 102,640</u>	<u>\$ 92,137</u>
Plan fiduciary net position					
Contributions – employer	\$ 5,147	\$ 5,149	\$ 4,816	\$ 5,197	\$ 5,605
Contributions – member	1,055	1,085	1,011	945	1,082
Net investment income	5,661	7,724	(1,803)	(465)	8,480
Benefit payments, including refunds of member contributions	(4,324)	(3,672)	(3,436)	(3,193)	(2,862)
Administrative expense	(114)	(93)	(122)	(79)	(78)
Other	-	-	-	-	-
Net change in plan fiduciary net position	7,425	10,193	466	2,405	12,227
Plan fiduciary net position – beginning	78,268	68,075	67,609	65,204	52,977
Plan fiduciary net position – ending (b)	<u>\$ 85,693</u>	<u>\$ 78,268</u>	<u>\$ 68,075</u>	<u>\$ 67,609</u>	<u>\$ 65,204</u>
County's Net Pension Liability – ending (a) – (b)	<u>\$ 43,143</u>	<u>\$ 42,187</u>	<u>\$ 42,272</u>	<u>\$ 35,031</u>	<u>\$ 26,933</u>
Plan fiduciary net position as a percentage of the total pension	66.51%	64.98%	61.69%	65.87%	70.77%
Covered employee payroll	12,965	13,981	12,740	12,774	13,537
County's net pension liability as a percentage of covered employee payroll	332.77%	301.75%	331.81%	274.24%	198.96%
Expected average remaining service years of all participants	7	7	7	7	8

**Notes to Schedule:**

Information for FY2013 and earlier is not available.

*Benefit changes:* None.

*Changes of assumptions:* None.

COMMISSIONERS OF ST. MARY'S COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 RETIREMENT PLANS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2018

Sheriff's Office Retirement Plan (continued)

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 5,147	\$ 5,149	\$ 4,816	\$ 5,197	\$ 5,144
Contributions in relation to the actuarially determined contribution	<u>5,147</u>	<u>5,149</u>	<u>4,816</u>	<u>5,197</u>	<u>5,605</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(461)</u>
Covered employee payroll	<u>\$ 12,965</u>	<u>\$ 13,981</u>	<u>\$ 12,740</u>	<u>\$ 12,774</u>	<u>\$ 13,537</u>
Contributions as a percentage of covered employee payroll	39.70%	36.83%	37.80%	40.68%	41.41%

Notes to schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll over all years of service
Remaining amortization period	21 years (closed)
Asset valuation method	5-year smoothed market
Inflation	3.0 percent compounded annually
Salary increases	Rates vary by participant service
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation
Retirement age	Rates vary by participant age and service
Mortality	RP-2000 Combined Healthy tables with Blue Collar adjustment with generational projection by Scale AA

COMMISSIONERS OF ST. MARY'S COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 RETIREMENT PLANS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2018

Volunteer fire departments, rescue squads and advanced life support

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

	<u>2018</u>
Total pension liability:	
Service cost	\$ 608
Interest	1,354
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(206)
Benefit payments, including refunds of member contributions	(964)
Net change in total pension liability	<u>792</u>
Total pension liability – beginning	<u>23,053</u>
Total pension liability – ending (a)	<u><u>\$ 23,845</u></u>
Plan fiduciary net position	
Contributions – employer	\$ 1,566
Contributions – member	-
Net investment income	19
Benefit payments, including refunds of member contributions	(964)
Administrative expense	(9)
Other	-
Net change in plan fiduciary net position	<u>612</u>
Plan fiduciary net position – beginning	<u>1,603</u>
Plan fiduciary net position – ending (b)	<u><u>\$ 2,215</u></u>
County's Net Pension Liability – ending (a) – (b)	<u><u>\$ 21,630</u></u>
Plan fiduciary net position as a percentage of the total pension	9.29%
Covered employee payroll	N/A
County's net pension liability as a percentage of covered employee payroll	N/A
Expected average remaining service years of all participants	8

COMMISSIONERS OF ST. MARY'S COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 RETIREMENT PLANS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2018

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

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

	2018
Actuarially determined contribution	\$ 2,324
Contributions in relation to the actuarially determined contribution	1,566
Contribution deficiency (excess)	758
 Covered employee payroll	N/A
 Contributions as a percentage of covered employee payroll	N/A

Valuation date:

Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1). Actuarial valuations are performed every other year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Traditional Unit Credit
Amortization method	Level payments over closed periods
Remaining amortization period	20 years for gains and losses (closed), 20 years for prior plan and assumption changes
Asset valuation method	Market Value
Inflation	2.75 percent
Salary increases	Not Applicable
Investment rate of return	6.00 percent, compounded annually, net of expenses.
Retirement age	Normal retirement age
Mortality	RP-2014 Mortality Table with Blue Collar adjustment set forward 1 year with generational projection by scale MP-2017.

COMMISSIONERS OF ST. MARY'S COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 OTHER POST-EMPLOYMENT BENEFIT PLAN  
 FOR THE YEAR ENDED JUNE 30, 2018

Schedule of Changes in the County's Net OPEB Liability and Related Ratios

Primary government

<u>Measurement Date:</u>	<u>06/30/18</u>	<u>06/30/17</u>
Total OPEB liability		
Service Cost	\$ 2,267,917	\$ 2,233,155
Interest Cost	6,623,359	6,249,548
Changes in Benefit Terms	-	-
Differences Between Expected and Actual Experience	(5,529,846)	182,730
Changes of Assumptions	(6,079,590)	(1,198,697)
Benefit Payments	<u>(3,133,686)</u>	<u>(3,009,007)</u>
Net Change in Total OPEB Liability	(5,851,846)	4,457,729
Total OPEB liability - Beginning of Year	<u>96,707,325</u>	<u>92,249,596</u>
Total OPEB Liability - End of Year	<u>\$ 90,855,479</u>	<u>\$ 96,707,325</u>

Plan Fiduciary Net Position

Last 10 Fiscal Years

	<u>2018</u>	<u>2017</u>
Contributions - Employer	\$ 3,133,686	\$ 3,009,007
Net Investment Income	8,359,919	8,203,024
Benefit Payments	(3,133,686)	(3,009,007)
Administrative Expense	<u>(396,829)</u>	<u>(50,659)</u>
Net Change in Fiduciary Net Position	7,963,090	8,152,365
Fiduciary Net Position - Beginning of Year	<u>71,754,847</u>	<u>63,602,482</u>
Fiduciary Net Position - End of Year	79,717,937	71,754,847
Net OPEB Liability	<u>11,137,542</u>	<u>24,952,478</u>
Fiduciary Net Position as a % of Total OPEB Liability	<u>87.74%</u>	<u>74.20%</u>
Covered-Employee Payroll	\$ 39,830,142	\$ 39,755,794
Net OPEB Liability as a % of Payroll	<u>43.84%</u>	<u>41.11%</u>
Expected Average Remaining Service Years of All Participants	7	7

Notes to Schedule:

Benefit changes: None.

Changes of assumptions: Retirement, termination, and disability assumptions were updated to the most recent tables by the State of Maryland Pension Plan.

Discount rate:

06/30/17	6.96%
06/30/18	7.07%

COMMISSIONERS OF ST. MARY'S COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2018

Schedule of Contributions and Related Ratios

Date	Actuarially Determined Contribution (a)	Contributions in Relation to the Actuarially Determined Contribution (b)	Contribution Deficiency (Excess) (c)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
06/30/16	\$ 5,048,000	\$ 2,685,268	\$ 2,362,732	\$ 35,433,314	7.58%
06/30/17	\$ 5,217,000	\$ 3,009,007	\$ 2,207,993	\$ 39,755,794	7.57%
06/30/18	\$ 5,090,000	\$ 3,133,686	\$ 1,956,314	\$ 39,830,142	7.87%

Schedule of Investment Returns

	2018	2017
Annual money-weighted rate of return, net of investment expense	7.07%	6.96%

**OTHER SUPPLEMENTARY INFORMATION**

COMMISSIONERS OF ST. MARY'S COUNTY  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2018

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
<b>ASSETS</b>				
Due from other funds	\$ 431,788	\$ 366,670	\$ 1,073,660	\$ 1,872,118
Special tax assessments receivable, current portion	266	-	-	266
Notes receivable, fire and rescue loans, current portion	-	578,029	-	578,029
Emergency support services taxes receivable	-	-	60,398	60,398
Notes receivable, fire and rescue loans (net of current portion)	-	2,629,853	-	2,629,853
Special tax assessments receivable (net of current portion)	162,262	-	-	162,262
Total assets	\$ 594,316	\$ 3,574,552	\$ 1,134,058	\$ 5,302,926
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ 2,926	\$ 2,926
Unearned revenue	165,628	3,207,882	-	3,373,510
Other liabilities	-	-	(1,857)	(1,857)
Compensation - related liabilities	-	-	16,609	16,609
Due to other funds	-	-	-	-
Total liabilities	165,628	3,207,882	17,678	3,391,188
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	-
Committed	428,688	366,670	1,116,380	1,911,738
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	428,688	366,670	1,116,380	1,911,738
Total liabilities and fund balances	\$ 594,316	\$ 3,574,552	\$ 1,134,058	\$ 5,302,926

COMMISSIONERS OF ST. MARY'S COUNTY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2018

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
<b>REVENUES</b>				
Special assessments	\$ 74,992	\$ -	\$ -	\$ 74,992
Emergency services support tax	-	-	3,037,469	3,037,469
Other	-	-	300,000	300,000
	<u>74,992</u>	<u>-</u>	<u>3,337,469</u>	<u>3,412,461</u>
<b>EXPENDITURES</b>				
Debt service:				
Debt service	42,369	-	128,676	171,045
Public safety:				
LOSAP, pension and OPEB	-	-	1,565,503	1,565,503
Fire & rescue operating allocations	-	-	741,272	741,272
Advanced life support	-	-	585,281	585,281
Emergency services committee	-	-	199,503	199,503
Emergency management	-	-	-	-
	<u>42,369</u>	<u>-</u>	<u>3,220,235</u>	<u>3,262,604</u>
Excess of revenues over (under) expenditures	<u>32,623</u>	<u>-</u>	<u>117,234</u>	<u>149,857</u>
<b>OTHER FINANCING SOURCES AND USES</b>				
Fire and rescue loan repayments	-	574,429	-	574,429
Loans to fire and rescue	-	(577,500)	-	(577,500)
Capital projects fund transfer	-	-	-	-
	<u>-</u>	<u>(3,071)</u>	<u>-</u>	<u>(3,071)</u>
Net increase/(decrease) in fund balances	32,623	(3,071)	117,234	146,786
<b>FUND BALANCES</b>				
Beginning of year	396,065	369,741	999,146	1,764,952
End of year	<u>\$ 428,688</u>	<u>\$ 366,670</u>	<u>\$ 1,116,380</u>	<u>\$ 1,911,738</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		Variance
<b>PROPERTY TAXES:</b>				
Real property taxes	\$ 102,770,917	\$ 103,170,917	\$ 103,093,853	\$ (77,064)
Payments in lieu of taxes	338,091	338,091	325,220	(12,871)
Personal property	170,798	170,798	140,980	(29,818)
Public utilities	2,527,949	2,527,949	2,493,922	(34,027)
Ordinary business corporations	3,426,375	3,426,375	3,519,921	93,546
Additions and abatements	(500,000)	78,000	(246,235)	(324,235)
Penalties and interest	875,000	875,000	804,769	(70,231)
State homeowners credit (circuit breaker)	850,000	850,000	946,832	96,832
Homeowners tax credit (county)	(850,000)	(850,000)	(946,832)	(96,832)
Other tax credits	(1,329,000)	(1,318,000)	(1,040,827)	277,173
	<u>108,280,130</u>	<u>109,269,130</u>	<u>109,091,603</u>	<u>(177,527)</u>
<b>Income Tax</b>				
Local income tax	<u>92,107,299</u>	<u>91,129,299</u>	<u>90,410,603</u>	<u>(718,696)</u>
<b>Other Local Taxes</b>				
Recordation taxes	5,300,000	5,300,000	5,918,163	618,163
Energy taxes	1,000,000	1,000,000	1,021,597	21,597
Public accommodations tax	950,000	950,000	1,072,003	122,003
Trailer park tax	300,000	300,000	297,771	(2,229)
Admissions and amusement	<u>130,000</u>	<u>130,000</u>	<u>132,252</u>	<u>2,252</u>
	<u>7,680,000</u>	<u>7,680,000</u>	<u>8,441,786</u>	<u>761,786</u>
State-shared taxes - highway users	<u>1,181,558</u>	<u>1,181,558</u>	<u>1,187,782</u>	<u>6,224</u>
	<u>209,248,987</u>	<u>209,259,987</u>	<u>209,131,774</u>	<u>(128,213)</u>
<b>TOTAL TAXES</b>				
<b>LICENSES AND PERMITS:</b>				
Business	457,600	457,600	288,220	(169,380)
Marriage/animal licenses	12,500	12,500	5,940	(6,560)
Other	98,250	98,250	221,453	123,203
CATV franchise fees	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,017,870</u>	<u>(32,130)</u>
	<u>1,618,350</u>	<u>1,618,350</u>	<u>1,533,483</u>	<u>(84,867)</u>
<b>TOTAL LICENSES AND PERMITS</b>				
<b>INTER-GOVERNMENTAL:</b>				
General government	952,606	1,143,745	928,243	(215,502)
Public safety	1,875,099	2,052,120	1,719,674	(332,446)
Public works	1,576,812	1,584,364	2,026,198	441,834
Social services	825,460	897,356	809,733	(87,623)
Health	677,658	1,048,816	773,845	(274,971)
Parks, recreation and culture	20,000	45,000	27,738	(17,262)
Economic development & opportunity	<u>375,473</u>	<u>52,909</u>	<u>819,913</u>	<u>767,004</u>
	<u>6,303,108</u>	<u>6,824,310</u>	<u>7,105,344</u>	<u>281,034</u>
	<b>TOTAL INTER-GOVERNMENTAL</b>			

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018  
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
<b>CHARGES FOR SERVICES:</b>				
General government	\$ 651,701	\$ 673,691	\$ 961,041	\$ 287,350
Public safety	1,416,365	1,416,365	1,350,027	(66,338)
Public works	573,147	574,147	400,672	(173,475)
Social services	121,197	121,197	107,409	(13,788)
Parks, recreation and culture	139,550	139,550	156,682	17,132
Reimbursement - housing authority	-	-	-	-
TOTAL CHARGES FOR SERVICES	<u>2,901,960</u>	<u>2,924,950</u>	<u>2,975,831</u>	<u>50,881</u>
<b>FINES AND FORFEITURES:</b>				
General government	36,000	36,000	21,438	(14,562)
Public safety	-	-	5,320	5,320
TOTAL FINES AND FORFEITURES	<u>36,000</u>	<u>36,000</u>	<u>26,758</u>	<u>(9,242)</u>
<b>OTHER REVENUES</b>				
General Government				
Interest	139,000	139,000	810,233	671,233
Grant reserve	1,000,000	441,693	-	(441,693)
Contributions and donations	76,700	79,815	182,372	102,557
TOTAL OTHER REVENUES	<u>1,215,700</u>	<u>660,508</u>	<u>992,605</u>	<u>332,097</u>
TOTAL, BEFORE PASS-THROUGH PROCEEDS	<u>221,324,105</u>	<u>221,324,105</u>	<u>221,765,795</u>	<u>441,690</u>
Pass-through proceeds	-	-	-	-
<b>OTHER FINANCING SOURCES</b>				
Appropriation of fund balance	-	868,694	-	(868,694)
TOTAL REVENUES INCLUDING PASS-THROUGHS	<u>\$ 221,324,105</u>	<u>\$ 222,192,799</u>	<u>\$ 221,765,795</u>	<u>\$ (427,004)</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
<b>GENERAL GOVERNMENT:</b>				
Legislative/county commissioners:				
Legislative/county commissioners	\$ 458,748	\$ 450,928	\$ 429,794	\$ 21,134
County administrator	403,051	389,771	366,171	23,600
Public information	246,787	237,339	222,050	15,289
County attorney	692,294	772,777	746,293	26,484
Legislative/county commissioners	<u>1,800,880</u>	<u>1,850,815</u>	<u>1,764,308</u>	<u>86,507</u>
Department of finance:				
Administration/budget	714,451	699,041	683,559	15,482
Accounting	614,158	603,608	591,775	11,833
Auditing	50,980	50,980	46,280	4,700
Procurement	319,743	306,043	300,631	5,412
Department of finance	<u>1,699,332</u>	<u>1,659,672</u>	<u>1,622,245</u>	<u>37,427</u>
Department of technology:				
Technology	<u>3,471,839</u>	<u>3,271,015</u>	<u>3,214,602</u>	<u>56,413</u>
Department of human resources:				
Human resources	988,637	992,727	880,509	112,218
Risk management	809,310	809,450	622,855	186,595
Grants	-	20,790	11,740	9,050
Department of human resources	<u>1,797,947</u>	<u>1,822,967</u>	<u>1,515,104</u>	<u>307,863</u>
Department of public works & transportation:				
Building services	3,985,678	3,934,875	3,593,465	341,410
Development review	196,515	169,715	163,203	6,512
Mailroom/messenger services	124,110	114,290	104,752	9,538
Vehicle maintenance shop	1,661,083	1,655,511	1,488,780	166,731
Department of public works & transportation	<u>5,967,386</u>	<u>5,874,391</u>	<u>5,350,200</u>	<u>524,191</u>
Department of land use & growth management:				
Administration	799,650	663,651	568,541	95,110
Board of electrical examiners	14,300	14,300	14,251	49
Comprehensive planning	365,821	374,434	362,373	12,061
Development services	396,133	370,438	332,372	38,066
Inspections & compliance	719,154	606,654	541,011	65,643
Permit services	363,782	350,382	345,255	5,127
Zoning administration	333,214	333,964	325,339	8,625
Building code appeals board	2,900	2,900	-	2,900
Commission on the environment	2,825	2,825	25	2,800
Plumbing & gas board	1,850	1,850	-	1,850
Planning commission	26,764	26,764	24,454	2,310
Boards and commissions	20,036	20,036	17,664	2,372
Historical preservation	3,580	3,580	1,851	1,729
Grants	2,000	2,000	1,524	476
Department of land use & growth management	<u>3,052,009</u>	<u>2,773,778</u>	<u>2,534,660</u>	<u>239,118</u>
Circuit court:				
Administration	973,878	977,111	940,458	36,653
Law library	69,950	69,950	50,312	19,638
Grants	672,718	718,108	658,013	60,095
Orphan's court	56,152	56,312	55,978	334
Circuit court	<u>1,772,698</u>	<u>1,821,481</u>	<u>1,704,761</u>	<u>116,720</u>
Office of the state's attorney:				
Judicial	2,895,841	2,866,691	2,808,777	57,914
Grants	659,574	657,965	624,220	33,745
Office of the state's attorney	<u>3,555,415</u>	<u>3,524,656</u>	<u>3,432,997</u>	<u>91,659</u>
County treasurer	<u>459,565</u>	<u>470,565</u>	<u>449,837</u>	<u>20,728</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018  
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
Alcohol beverage board	\$ 298,157	\$ 298,563	\$ 198,945	\$ 99,618
Supervisors of elections	1,101,591	1,101,591	906,617	194,974
Ethics commission	833	833	691	142
SDAT - Leonardtown Office	450,872	450,872	456,811	(5,939)
<b>Total general government</b>	<b>\$ 25,428,524</b>	<b>\$ 24,921,199</b>	<b>\$ 23,151,778</b>	<b>\$ 1,769,421</b>
<b>PUBLIC SAFETY:</b>				
Department of emergency services:				
Emergency management	\$ 327,884	\$ 328,277	\$ 306,196	\$ 22,081
Animal control	806,921	796,715	926,629	(129,914)
Emergency communications center	2,757,392	2,704,500	2,650,483	54,017
Emergency radio communications	1,072,186	1,553,910	1,478,132	75,778
Grants	279,500	530,827	345,957	184,870
Department of emergency services	5,243,883	5,914,229	5,707,397	206,832
Office of the sheriff:				
Law enforcement	23,898,363	24,988,980	24,425,637	563,343
Corrections	12,498,419	11,522,910	10,750,728	772,182
Training	413,389	413,389	255,396	157,993
Canine	38,800	67,985	58,324	9,661
Court security	859,687	860,651	830,088	30,563
Grants	866,715	857,941	675,561	182,380
Office of the sheriff	38,575,373	38,711,856	36,995,734	1,716,122
<b>Total public safety</b>	<b>\$ 43,819,256</b>	<b>\$ 44,626,085</b>	<b>\$ 42,703,131</b>	<b>\$ 1,922,954</b>
<b>PUBLIC WORKS:</b>				
Department of PW and transportation:				
Administration	\$ 431,000	\$ 424,824	\$ 416,401	\$ 8,423
Engineering services	930,631	840,007	846,387	(6,380)
Construction & inspections	674,731	963,147	958,566	4,581
County highways	4,284,261	5,990,717	5,960,467	30,250
St Mary's county airport	25,475	25,475	26,123	(648)
St. Mary's transit system	3,283,672	3,291,725	3,251,529	40,196
Department of PW and transportation	9,629,770	11,535,895	11,459,473	76,422
<b>Total public works</b>	<b>\$ 9,629,770</b>	<b>\$ 11,535,895</b>	<b>\$ 11,459,473</b>	<b>\$ 76,422</b>
<b>HEALTH:</b>				
Operating allocation:				
Health department	\$ 2,193,775	\$ 2,193,830	\$ 2,193,730	\$ 100
Mosquito control	59,500	59,500	59,500	-
Operating allocation	2,253,275	2,253,330	2,253,230	100
Human services:				
Human services	70,000	112,031	73,648	38,383
Grants	607,658	936,938	697,801	239,137
Human services	677,658	1,048,969	771,449	277,520
<b>Total health</b>	<b>\$ 2,930,933</b>	<b>\$ 3,302,299</b>	<b>\$ 3,024,679</b>	<b>\$ 277,620</b>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018  
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
<b>SOCIAL SERVICES:</b>				
Department on aging:				
Department on aging	\$ 1,712,569	\$ 1,706,997	\$ 1,663,636	\$ 43,361
Grants	988,690	1,056,964	1,047,225	9,739
Non Profit Allocation	826,612	826,612	826,612	-
Department on aging	<u>3,527,871</u>	<u>3,590,573</u>	<u>3,537,473</u>	<u>53,100</u>
Department of social services	<u>433,974</u>	<u>433,374</u>	<u>430,258</u>	<u>3,116</u>
Operating allocation:				
Tri-County Youth Services Bureau	<u>143,600</u>	<u>143,600</u>	<u>143,600</u>	<u>-</u>
Operating allocation	<u>143,600</u>	<u>143,600</u>	<u>143,600</u>	<u>-</u>
Total social services	<u>\$ 4,105,445</u>	<u>\$ 4,167,547</u>	<u>\$ 4,111,331</u>	<u>\$ 56,216</u>
<b>PRIMARY AND SECONDARY EDUCATION:</b>				
Board of Education	\$ 102,189,940	\$ 102,189,940	\$ 102,189,940	\$ -
Non-public school bus transportation	2,172,494	2,172,684	2,082,102	90,582
Operating allocation:				
Non Profit Allocation	<u>18,175</u>	<u>18,175</u>	<u>18,175</u>	<u>-</u>
Total primary and secondary education	<u>\$ 104,380,609</u>	<u>\$ 104,380,799</u>	<u>\$ 104,290,217</u>	<u>\$ 90,582</u>
<b>POST-SECONDARY EDUCATION:</b>				
College of Southern Maryland - general operations	<u>\$ 4,207,365</u>	<u>\$ 4,207,365</u>	<u>\$ 4,207,365</u>	<u>\$ -</u>
Operating allocation:				
Southern Md. Higher Education Center	40,000	40,000	40,000	-
Non Profit Allocation	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
	<u>65,000</u>	<u>65,000</u>	<u>65,000</u>	<u>-</u>
Total post-secondary education	<u>\$ 4,272,365</u>	<u>\$ 4,272,365</u>	<u>\$ 4,272,365</u>	<u>\$ -</u>
<b>PARKS, RECREATION AND CULTURE:</b>				
Department of recreation and parks:				
Administration	\$ 1,187,090	\$ 1,143,625	\$ 1,133,028	\$ 10,597
Parks maintenance	2,055,104	2,152,183	2,088,163	64,020
Museum division	556,969	507,061	483,458	23,603
Non Profit Agency - Miscellaneous	94,580	94,580	94,580	-
Grants	<u>20,000</u>	<u>45,000</u>	<u>27,738</u>	<u>17,262</u>
Department of recreation and parks	<u>3,913,743</u>	<u>3,942,449</u>	<u>3,826,967</u>	<u>115,482</u>
Total parks, recreation and culture	<u>\$ 3,913,743</u>	<u>\$ 3,942,449</u>	<u>\$ 3,826,967</u>	<u>\$ 115,482</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018  
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
<b>LIBRARIES:</b>				
County funding - general operations	\$ 2,800,572	\$ 2,800,572	\$ 2,800,572	\$ -
<b>CONSERVATION OF NATURAL RESOURCES:</b>				
University of MD Extension-St. Mary's	\$ 257,400	\$ 237,682	\$ 225,971	\$ 11,711
Soil Conservation District	73,946	73,946	72,879	1,067
Conservation of natural resources	331,346	311,628	298,850	12,778
Allocation of agriculture and seafood (Division of DED)	250,830	251,393	245,555	5,838
Operating allocation:				
SMC Forest Conservation District Board	2,500	2,500	2,500	-
Southern Md. Resource Conservation/Dev.	13,300	13,300	13,300	-
Watermen's Association	12,500	12,500	12,500	-
Operating allocation	28,300	28,300	28,300	-
Total conservation of natural resources	\$ 610,476	\$ 591,321	\$ 572,705	\$ 18,616
<b>ECONOMIC DEVELOPMENT AND OPPORTUNITY:</b>				
Department of economic & community development:				
Administration/office of the director	\$ 414,096	\$ 396,096	\$ 381,000	\$ 15,096
Tourism development	430,937	388,837	367,590	21,247
Agriculture & seafood development	334,440	335,190	327,406	7,784
Less allocation (see above)	(250,830)	(251,393)	(245,555)	(5,838)
Business development/lexington park revitalization	316,528	316,908	280,914	35,994
Non-Profit Allocation	33,580	33,580	33,580	-
Grants	375,473	52,909	849,913	(797,004)
Department of economic & community development	1,654,224	1,272,127	1,994,848	(722,721)
Office of Community Services:				
Office of community services	448,274	493,277	484,503	8,774
Human relations commission	1,850	1,850	1,156	694
Commission for the disabled	2,300	2,300	2,275	25
Commission for women	7,000	9,365	9,347	18
	459,424	506,792	497,281	9,511
Operating allocation:				
Tri-County Comm Action Com	16,000	16,000	16,000	-
Tri-County Council	94,200	94,200	94,200	-
Operating allocation	110,200	110,200	110,200	-
Total economic development and opportunity	\$ 2,223,848	\$ 1,889,119	\$ 2,602,329	\$ (713,210)
<b>DEBT SERVICE:</b>				
Debt service	\$ 11,255,230	\$ 11,255,230	\$ 11,214,597	\$ 40,633
<b>INTER-GOVERNMENTAL:</b>				
Leonardtown tax rebate	44,916	44,916	44,916	-
Total inter-governmental	\$ 44,916	\$ 44,916	\$ 44,916	-

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY (NON-GAAP) BASIS AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018  
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
OTHER:				
Employer contributions-retiree health benefits	\$ 3,000,000	\$ 3,000,000	\$ 3,135,991	\$ (135,991)
Unemployment compensation	30,000	30,000	19,551	10,449
Bank service fees	30,000	30,000	24,832	5,168
Total other	<u>\$ 3,060,000</u>	<u>\$ 3,060,000</u>	<u>\$ 3,180,374</u>	<u>\$ (120,374)</u>
Total expenditures, before pass-throughs	\$ 218,475,687	\$ 220,789,796	\$ 217,255,434	\$ 3,534,362
Pass-through expenditures	-	-	-	-
Total expenditures, including pass-throughs	<u>\$ 218,475,687</u>	<u>\$ 220,789,796</u>	<u>\$ 217,255,434</u>	<u>\$ 3,534,362</u>
RESERVES:				
Reserve - grants	\$ 1,000,000	\$ 441,192	\$ -	\$ 441,192
Reserve - bond rating	400,000	400,000	294,206	105,794
Reserve - emergency appropriations	1,082,900	196,293	-	196,293
Reserves	<u>2,482,900</u>	<u>1,037,485</u>	<u>294,206</u>	<u>743,279</u>
Total reserves	<u>\$ 2,482,900</u>	<u>\$ 1,037,485</u>	<u>\$ 294,206</u>	<u>\$ 743,279</u>
Total expenditures, including pass-throughs and reserves	\$ 220,958,587	\$ 221,827,281	\$ 217,549,640	\$ 4,277,641
Transfer:				
Capital projects - general fund transfer/pay-go	365,518	365,518	365,518	-
Total expenditures and other financing uses	<u>\$ 221,324,105</u>	<u>\$ 222,192,799</u>	<u>\$ 217,915,158</u>	<u>\$ 4,277,641</u>

COMMISSIONERS OF ST. MARY'S COUNTY  
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS  
 FOR THE YEAR ENDED JUNE 30, 2018

LAND PRESERVATION

Rural Legacy Program	\$ 4,260,912	
Agriculture Preservation	4,213,629	
Critical Area Planting	<u>207,663</u>	\$ 8,682,204

HIGHWAYS

FDR Blvd MD4 to Pegg Rd	\$ 13,788,961	
Patuxent Park Neighborhood Preservation	4,097,942	
Regional Water Quality&Nutrient	2,472,288	
Water Qlty&Nutr Remov Grant	1,841,511	
Buck Hewitt Road	1,544,592	
Modified Seal Surface Treatment	612,985	
Buck Hewitt Rd Sidewalk Northside	476,314	
Asphalt Overlay	436,957	
Roadway Base Widening & Repairs	306,641	
Removal of Roadside Obstacles	168,750	
Retrofit Sidewalk Program	71,913	
Bridge/Culvert Replace	68,743	
Streetscape Improvement	56,911	
Regional Stormwater Management	<u>78</u>	25,944,586

MARINE

Ellis Road Revetment	\$ 354,945	
St. Patrick Creek Maintenance	140,000	
South Sandgates Revetment	20,000	
St. Jerome's Creek Dredge	<u>407</u>	515,352

PUBLIC WORKS

Leonardtwn Library/Garvey Sr. Center	\$ 19,917,366
Airport Master Plan	6,819,819
Sheriff District 4 Office	3,808,511
Airport Improvements	1,711,417
800 MHz Radio Enhancement	1,484,601
SMHEC Building 3	1,000,000
Adult Detention Center Upgrades	949,287
Building Maintenance & Repair - Critical	532,415
Charlotte Hall Farmers Market	528,388
Building Maintenance & Repair - Programmatic	356,145
ADC Upgrades	278,432
Base Realignment & Closure	227,008
Tri-County Reg Animal Shelter	224,920
Energy Efficiency & Conservation	196,868
Advanced Life Support New Building	172,864
Airport Wetlands Mitigation	165,243
Northern Senior Activity Center Addition	96,000
Parking & Site Improvement	54,210
Paging System Enhancement	50,000
CSM Tech Infrastructure Upgrade	16,345

COMMISSIONERS OF ST. MARY'S COUNTY  
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS  
FOR THE YEAR ENDED JUNE 30, 2018  
(CONTINUED)

Navy Museum Bldg B/C Upgrades	7,485	
Patuxent Naval Museum	<u>5,438</u>	38,602,762
 <u>PIERS AND BOAT RAMPS</u>		
St. Inigoes Landing Bulkhead Replacement	\$ 152,917	
Derelict Boat Removal	<u>5,000</u>	157,917
 <u>PUBLIC SCHOOLS</u>		
DSS IT & Warehouse Facility	\$ 1,955,369	
Building Infrastructure - Programmatic	1,155,963	
New ES Central County	1,043,000	
Piney Point ES Roof Replacement	675,760	
Auditorium Lighting Replacement	528,930	
Park Hall ES Roof/HVAC	496,185	
Track Resurfacing	487,650	
Building Infrastructure - Critical	476,000	
Hollywood ES Roof/HVAC	459,760	
Relocatables for Various Sites	399,161	
Fairlead Academy Relocatables	263,991	
Site Acquisition - Future School	170,227	
Fairlead Academy Building	118,812	
Qualified Zone Academy Bond	59,455	
Spring Ridge MS Relocatables	42,889	
Great Mills Roof Top Unit	28,306	
Capt Duke Elementary School	27,563	
High School Science Lab	25,000	
Esperanza Middle School Soil Erosion	16,800	
Aging School Program	14,515	
Lettie Dent Roof Top Unit	12,384	
Playground Equipment	<u>5,000</u>	8,462,720
 <u>RECREATION &amp; PARKS</u>		
Recreation Facility Park Improvements	\$ 1,296,988	
Nicolet Park Entrance	740,418	
Parks Land Acquisition	659,101	
Leonardtown Park	449,221	
Chapito Park - Phased Dev	175,000	
Piney Point Lighthouse Museum	129,166	
Fireman's Heritage Museum	105,000	
St. Clements Island Museum Renovation	26,040	
Three Notch Trail - Phase 7	<u>354,050</u>	3,934,984
 <u>SOLID WASTE</u>		
Landfill Mitigation	<u>\$ 18,628</u>	<u>18,628</u>
Total		<u>\$ 86,319,153</u>

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

To the Commissioners of St. Mary's County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commissioners of St. Mary's County, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commissioners of St. Mary's County's basic financial statements, and have issued our report thereon dated December 31, 2018. Our report includes a reference to other auditors who audited the financial statements of the St. Mary's County Public Schools, as described in our report on the Commissioners of St. Mary's County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
December 31, 2018