



# MARYLAND ENVIRONMENTAL SERVICE

259 Najoles Road  
Millersville, MD 21108

*(A Component Unit of the State of Maryland)*

Financial Statements

Fiscal Years Ended June 30, 2018 and 2017

*(With Independent Public Accountants' Report Thereon)*



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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Directors  
Maryland Environmental Service

### **Report on the Financial Statements**

We have audited the statements of net position of the Maryland Environmental Service (the Service), a component unit of the State of Maryland, as of June 30, 2018 and 2017, and the related statements of revenue, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Service's basic financial statements.

### ***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 an opinion on these financial statements based on our audits. We conducted our audits 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 Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Service as of June 30, 2018 and 2017, and its changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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***Other Matters***

***Required Supplementary Information***

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

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

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2018, on our consideration of the Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Service's internal control over financial reporting and compliance.

Hunt Valley, Maryland  
September 28, 2018

*SB & Company, LLC*

**Maryland Environmental Service  
Management's Discussion and Analysis  
June 30, 2018 and 2017  
(In thousands except where noted)**

**Overview of Financial Statements**

Maryland Environmental Service (the Service) is an independent agency of the State of Maryland that provides environmental services to both the public and private sectors on a fee for service basis. Substantially all the Service's revenue is derived from the delivery of technical and operational environmental services. The Service is organized into three basic groups: Administration, Environmental Operations (recycling and solid waste services), and Environmental Services. The Environmental Services group includes water and wastewater, dredging, and environmental monitoring services. The financial statements present a report and use accounting methods similar to those employed by private sector companies.

The purpose of the discussion and analysis that follows is to provide an understanding of the financial performance and activities of the Service as of and for the fiscal years ended June 30, 2018 and 2017, with 2016 for comparative purposes. As required supplementary information, the accompanying analysis of financial information should be used in conjunction with the financial statements and related notes thereto included elsewhere to assess the overall financial condition and reported operating results of the Service.

The following table presents condensed financial information about the Service's net position as of June 30, 2018, 2017 and 2016:

<b>Net Position</b> <i>(Expressed in Thousands)</i>			
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 68,304	\$ 69,933	\$ 62,428
Capital assets	16,388	17,743	18,641
Total assets	84,692	87,676	81,069
Deferred Outflows related to OPEB	69	-	-
Deferred Outflows related to Pensions	651	1,231	767
Current and long-term debt and capital leases	2,615	4,002	4,657
Other liabilities	53,028	58,458	53,133
Total liabilities	55,643	62,460	57,790
Deferred Inflows related to OPEB	1,178	122	
Deferred Inflows related to Pensions	517	89	221
Net position:			
Net investment in capital assets	13,773	13,741	13,985
Restricted	12	12	12
Unrestricted	14,289	12,483	9,828
Total net position	\$ 28,074	\$ 26,236	\$ 23,825

**Maryland Environmental Service  
Management's Discussion and Analysis  
June 30, 2018 and 2017  
(In thousands except where noted)**

**Fiscal Year 2018**

Net position represents the difference between total assets and deferred outflows and total liabilities and deferred inflows.

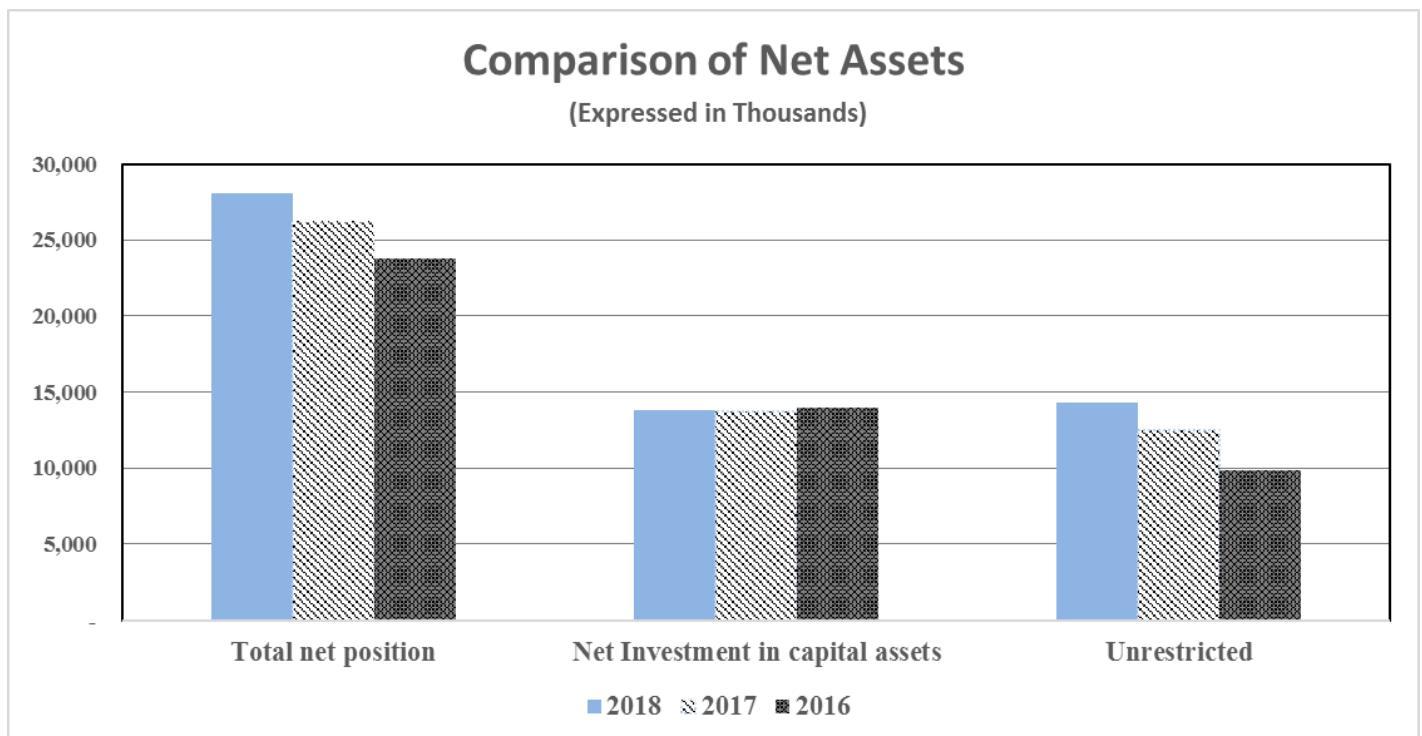
Total net position increased \$1,838 thousand in 2018, which is related to the excess of revenue over expenses. Net investment in capital assets increased \$32 thousand from the net of depreciation and acquisition of equipment. The remaining components, restricted and unrestricted net position of \$14,301 thousand, represent funds available for future expenditures. Over time, increases and decreases in net position provide an indicator of improving or deteriorating financial position.

In 2018, the Service implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. There are no significant changes to the financial Statements from the adoption of above GASB statement.

**Fiscal Year 2017**

The Service implemented GASB No. 74, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, which is reflected in external reporting for Other Post Employment Benefits. There was no impact on the net position. Total net position increased \$2,411 thousand in 2017, which is related to the excess of revenue over expenses. Net investment in capital assets decreased \$244 thousand from depreciation. The remaining components, restricted and unrestricted net position of \$12,495 thousand, represent funds available for future expenditures. Over time, increases and decreases in net position provide an indicator of improving or deteriorating financial position.

A comparison of years ended June 30, 2018, 2017 and 2016 are presented graphically below:



**Maryland Environmental Service  
Management's Discussion and Analysis  
June 30, 2018 and 2017  
(In thousands except where noted)**

The following table presents condensed financial information about the Service's revenue, expenses and changes in net position for the years ended June 30, 2018, 2017 and 2016:

**Changes in Net Position  
(Expressed in Thousands)**

	2018	2017	2016
Total operating revenue	\$ 155,299	\$ 165,784	\$ 159,505
Operating expenses			
Salaries and benefits	51,699	53,730	50,090
Other	85,898	94,456	93,046
General and administrative	15,271	15,021	14,311
Total operating expenses	152,868	163,207	157,447
Operating income	2,431	2,577	2,058
Nonoperating expense, net	(593)	(166)	(250)
Change in net position	1,838	2,411	1,808
Net position, beginning of year	26,236	23,825	22,017
Net position, end of year	\$ 28,074	\$ 26,236	\$ 23,825

The following table presents revenue by business type activity for the years ended June 30, 2018, 2017 and 2016:

**Revenue by Business Type Activity  
(Expressed in Thousands)**

	2018	2017	2016
Environmental Dredging & Restoration	\$ 44,243	\$ 50,742	\$ 41,666
Water/Wastewater Operations	29,926	30,216	33,809
Recycling	15,714	16,834	16,001
Solid Waste Management	29,430	34,009	34,738
Energy Co-Generation	7,162	6,887	6,769
Environmental Engineering	2,398	2,263	2,735
Environmental Monitoring	19,384	17,580	16,499
Hazardous Waste Treatment	4,837	4,766	4,819
Grants	1,699	2,092	2,061
Other	506	395	408
Total Revenue	\$ 155,299	\$ 165,784	\$ 159,505

**Maryland Environmental Service  
Management's Discussion and Analysis  
June 30, 2018 and 2017  
(In thousands except where noted)**

**Revenue by Business Type Activity**

**Fiscal Year 2018**

The total decrease in operating revenue for the year ended June 30, 2018 was \$10,485 thousand over June 30, 2017. The change represents a decrease of 6% in operating revenue. There was a decrease in Solid Waste Management of \$4,579 thousand, Hazardous Waste Treatment decreased by \$3,548 thousand, Environmental dredging decreased \$2,880 thousand, and Environmental Monitoring increased by \$1,804.

The large decrease for Environmental Dredging is attributable to the completion of the Wet Basin Storm Drain relocation, offset by several one-time large construction projects including two trash interceptors, and the Kurt Iron Slip Vessel removal. Another large decrease is Solid Waste Management, this is attributable to ending a contract with Baltimore County for operation of several solid waste facilities. The Environmental Monitoring increase is for State Highway Administration new projects including storm water inspections and survey work, and storm water remediation work.

**Fiscal Year 2017**

The total increase in operating revenue for the year ended June 30, 2017 was \$6,279 thousand over June 30, 2016. The change represents an increase of 4% in operating revenue. There was an increase in Environmental Dredging of \$9,076 thousand, Environmental Monitoring increased by \$1,081 thousand, and Water and Wastewater decreased \$3,593 thousand.

The large increase for Environmental Dredging is attributable to new projects with the Port Administration: Confined Aquatic Pilot project, and the Seagirt Dundalk Access project. The increase for Environmental Monitoring is for new projects for Maryland Department of Transportation State Highway Administration pertaining to environmental compliance and storm water monitoring. The revenue decrease in Water and Wastewater is attributable to the near completion of the Freedom District plant.

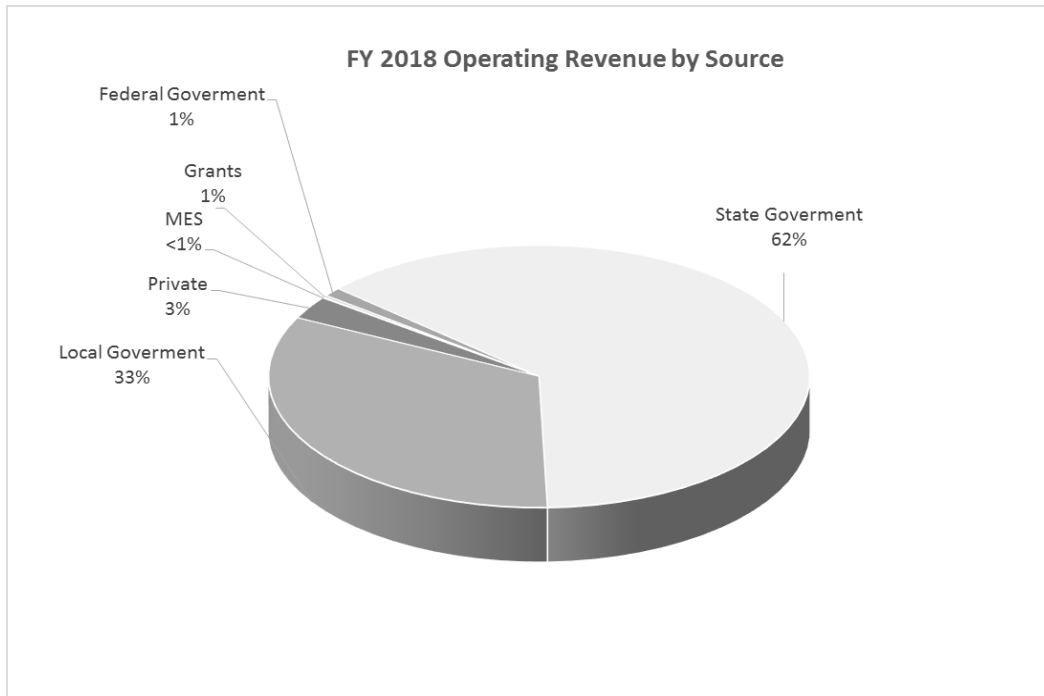
The following table presents revenue by source for the years ended June 30, 2018, 2017, and 2016:

<b>Revenue by Source</b>			
<i>(Expressed in Thousands)</i>			
	<b>2018</b>	<b>2017</b>	<b>2016</b>
State government	\$ 97,587	\$ 105,530	\$ 97,246
Local government	51,057	53,440	54,416
Private	4,415	3,991	4,745
Federal government	135	398	704
MES product revenues	406	333	333
Grants	1,699	2,092	2,061
Total Revenue	\$ 155,299	\$ 165,784	\$ 159,505

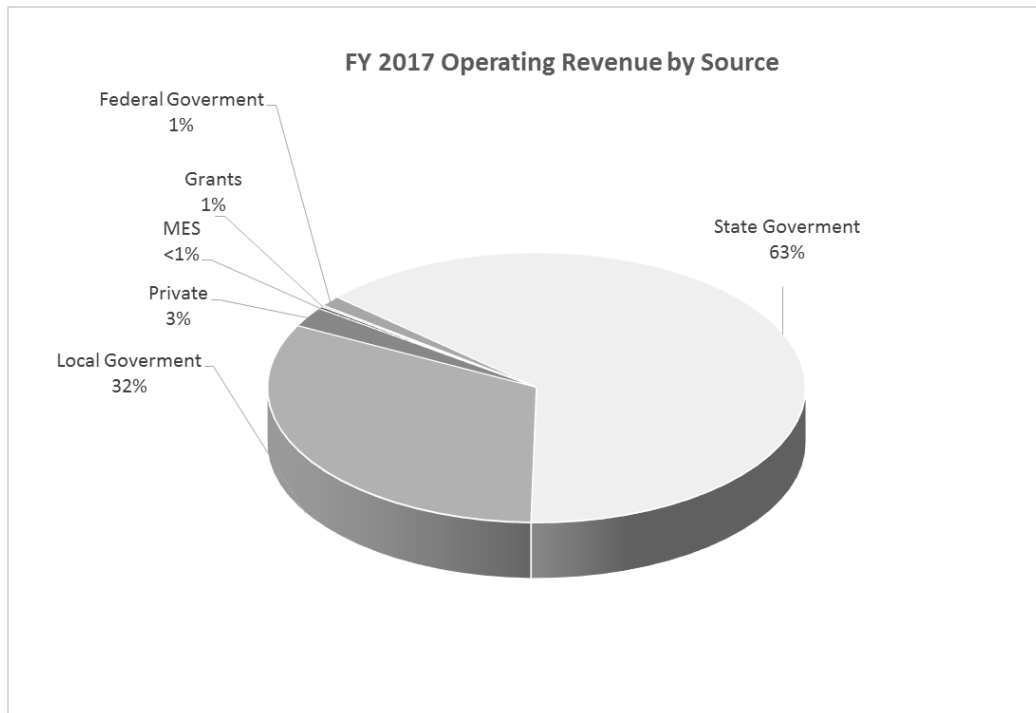


**Maryland Environmental Service  
Management's Discussion and Analysis  
June 30, 2018 and 2017  
(In thousands except where noted)**

The following graph presents revenue by source for the year ended June 30, 2018:



The following graph presents revenue by source for the year ended June 30, 2017:



**Maryland Environmental Service  
Management's Discussion and Analysis  
June 30, 2018 and 2017  
(In thousands except where noted)**

**Fiscal Year 2018**

State government revenues decreased by \$7,943 thousand in 2018, and local government revenue decreased by \$2,383 thousand. Grants decreased by \$393 thousand, and all other sources of revenue increased by \$234 thousand.

The completion of the Seagirt Dundalk Access project was the main factor that contributed to the State revenue decrease. However, this decrease was offset by an increase in Masonville Dredging and Construction projects, specifically the construction of a Trash Interceptor. Local government revenue decreased due to termination of the Baltimore County for operation of several waste facilities. This loss was offset by a new capital project to expand food waste processing capacity.

**Fiscal Year 2017**

State government revenue increased by \$8,284 thousand in 2017, while local government revenue decreased by \$976 thousand. Grants increased by \$31 thousand, and all other sources of revenue decreased by \$1,060 thousand.

The Confined Aquatic Pilot Project, and the Seagirt Dundalk Access Project were the two large projects that contributed to the State revenue increases. Local government revenue decreased from the prior year due to the near completion of the Baltimore County Eastern Acceptance Facility Project.

**Operating Expenses**

Operating expenses are predominantly related to those classified as cost of goods and services, general and administrative, and depreciation on capital assets. Operating expenses were 96% of revenue in 2018 and 98% in 2017.

**Operating Income Fiscal Year 2018**

Operating income reported in 2018 was \$2,431 thousand compared to \$2,577 thousand in 2017, a decrease of \$146 thousand. The loss of the contract related to Baltimore County accounts for the decrease. However, MES minimized the impact by acquiring additional projects.

**Operating Income Fiscal Year 2017**

Operating income reported in 2017 was \$2,577 thousand compared to \$2,058 thousand in 2016, an increase of \$519 thousand. The reasons for the increase in operating income from the previous fiscal year were an increase in indirect cost recovery as a result of the growth in labor revenue and project variances.

**Maryland Environmental Service  
Management's Discussion and Analysis  
June 30, 2018 and 2017  
(In thousands except where noted)**

**Non-operating Revenue (Expense), Net**

**Fiscal Year 2018**

Non-operating expenses, net decreased \$427 thousand to \$593 thousand in 2018. Non-operating items primarily include interest income and interest expense. For 2018, interest income increased by \$151 thousand, interest expense decreased by \$137 thousand, and net gain/loss on sale of equipment decreased by \$715 thousand due to transfer of assets related to the Baltimore County project that were not fully depreciated.

**Fiscal Year 2017**

Non-operating expenses, net decreased \$84 thousand to \$166 thousand in 2017. Non-operating items primarily include interest income and interest expense. For 2017, interest income increased by \$45 thousand, interest expense decreased by \$45 thousand, and net gain/loss on sale of equipment decreased by \$6 thousand.

**Grants**

**Fiscal Year 2018**

Operating grants in 2018 totaled \$1,699 thousand compared to \$2,092 thousand in 2017.

**Fiscal Year 2017**

Operating grants in 2017 totaled \$2,092 thousand compared to \$2,061 thousand in 2016.

**Maryland Environmental Service  
Management's Discussion and Analysis  
June 30, 2018 and 2017  
(In thousands except where noted)**

**Investment in Capital Assets**

The following tables present capital assets, net of depreciation as of June 30, 2018, 2017 and 2016, and capital expenditures for the years ended June 30, 2018, 2017 and 2016:

**Capital Assets, Net of Depreciation  
(Expressed in Thousands)**

	2018	2017	2016
Land and improvements	\$ 4,262	\$ 4,262	\$ 4,262
Buildings and improvements	5,356	6,199	6,627
Infrastructure	215	198	284
Machinery and equipment	6,555	7,084	7,468
Total	\$ 16,388	\$ 17,743	\$ 18,641

**Capital Expenditures  
(Expressed in Thousands)**

	2018	2017	2016
Autos and trucks	\$ 1,199	\$ 715	\$ 868
Construction and production equipment	-	-	1,235
Computer hardware/software	-	421	127
Tools/machinery/equipment	343	401	53
Leasehold improvements	105	-	-
Total	\$ 1,647	\$ 1,537	\$ 2,283

**Fiscal Year 2018**

As of June 30, 2018, the carrying value of capital assets, net of depreciation was \$16,388 thousand, a decrease of \$1,355 thousand from 2016. The decrease is comprised of capital additions of \$1,647 thousand, net disposals of \$822 thousand, and depreciation of \$2,180 thousand. The capital additions for the year were fleet vehicle replacements, and construction and farm equipment additions.

**Fiscal Year 2017**

As of June 30, 2017, the carrying value of capital assets, net of depreciation was \$17,743 thousand, a decrease of \$898 thousand from 2016. The decrease is comprised of capital additions of \$1,537 thousand, net disposals of \$32 thousand, and depreciation of \$2,403 thousand. The capital additions for the year were fleet vehicle replacements, and GIS IT equipment.

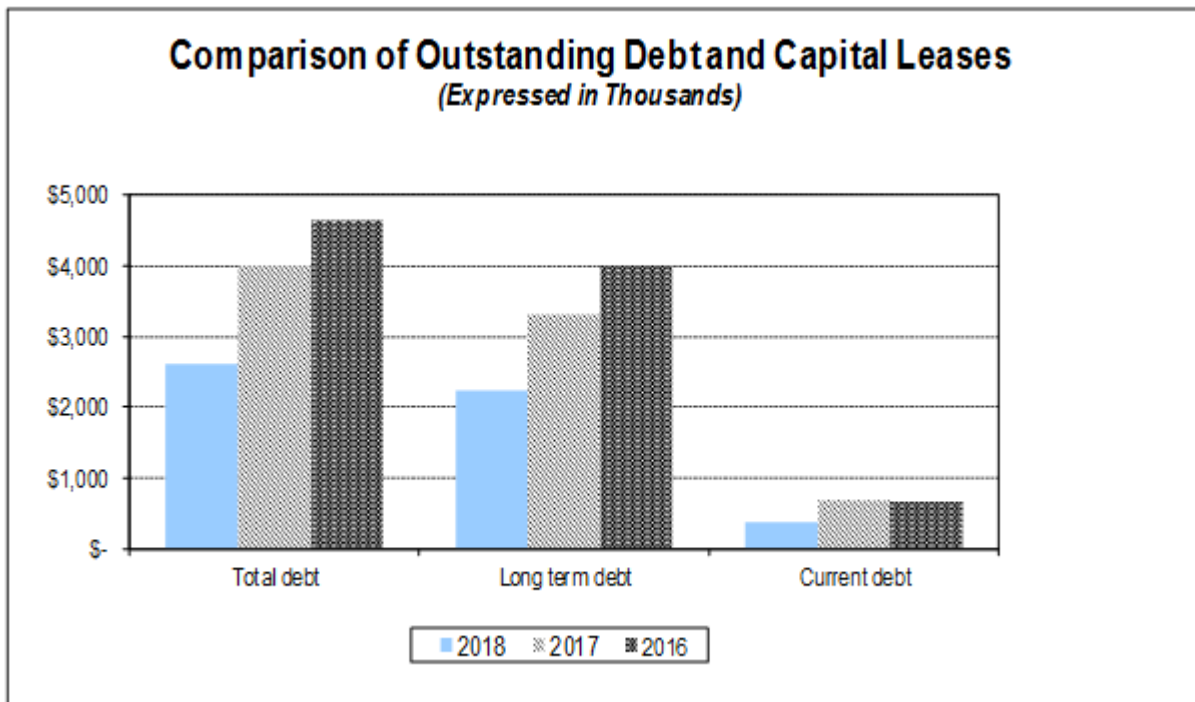
**Maryland Environmental Service  
Management's Discussion and Analysis  
June 30, 2018 and 2017  
(In thousands except where noted)**

**Outstanding Bond and Capital Lease**

The following table and graph present outstanding bond and capital lease as of June 30, 2018, 2017, and 2016:

**Outstanding Debt and Capital Leases  
(Expressed in Thousands)**

	2018	2017	2016
Capital leases	\$ 2,430	\$ 3,772	\$ 4,384
General obligation bond / note	185	230	273
<b>Total</b>	<b>\$ 2,615</b>	<b>\$ 4,002</b>	<b>\$ 4,657</b>



**Fiscal Year 2018**

As of June 30, 2018, outstanding bond and capital lease was \$2,615 thousand, representing a net decrease in borrowing of \$1,387 from 2017. The net decrease consists of principal payments.

**Fiscal Year 2017**

As of June 30, 2017, outstanding bond and capital lease was \$4,002 thousand, representing a net decrease in borrowing of \$654 from 2016. The net decrease consists of principal payments.

**MARYLAND ENVIRONMENTAL SERVICE  
FINANCIAL STATEMENTS**

*Maryland Environmental Service*  
*Statements of Net Position*  
*As of June 30, 2018 and 2017*  
*(Expressed in Thousands)*

<b>Assets</b>	<b>2018</b>	<b>2017</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 19,937	\$26,742
Investments	5,977	5,999
Accounts receivable (net of allowance of \$50)	28,806	26,009
Unbilled project costs accrued	5,978	3,710
Other	316	258
Total current assets	61,014	62,718
<b>Other assets:</b>		
Restricted cash	303	259
Due from project participants	6,987	6,956
<b>Capital assets, net of accumulated depreciation:</b>		
Land	4,262	4,262
Buildings and improvements	5,356	6,199
Infrastructure	215	197
Machinery and equipment	6,555	7,085
Total capital assets	16,388	17,743
Total other assets	23,678	24,958
Total assets	84,692	87,676
Deferred outflows related to OPEB	69	-
Deferred outflows related to pensions	651	1,231
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	19,473	20,450
Accrued annual leave	3,155	3,030
Due to Midshore and other projects	9,220	8,109
Advances from project participants	13,647	17,263
Current portion of long-term debt and capitalized leases	381	688
Accrued workers' compensation costs	394	399
Total current liabilities	46,270	49,939
<b>Other liabilities:</b>		
Advances from project participants	1,776	1,630
Long-term debt and capitalized leases, net of current portion and bond discount	2,234	3,314
Accrued workers' compensation costs	2,231	2,264
Net OPEB Liability	310	1,552
Net Pension Liability	2,822	3,761
Total other liabilities	9,373	12,521
Total liabilities	55,643	62,460
Deferred inflows related to OPEB	1,178	122
Deferred inflows related to pensions	517	89
<b>Net Position</b>		
Net investment in capital assets	13,773	13,741
Restricted net position	12	12
Unrestricted net position	14,289	12,483
<b>Total net position</b>	<b>\$ 28,074</b>	<b>\$26,236</b>

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

**Maryland Environmental Service**  
**Statements of Revenue, Expenses and Change in Net Position**  
**For the years ended June 30, 2018 and 2017**  
*(Expressed in Thousands)*

	<b>2018</b>	<b>2017</b>
<b>Operating revenue:</b>		
Charges for services	\$ 153,600	\$ 163,692
Operating grants	1,699	2,092
<b>Total operating revenue</b>	<b>155,299</b>	<b>165,784</b>
<b>Operating expenses:</b>		
Salaries and benefits	51,699	53,730
Contractual services	24,409	23,305
Technical fees	10,492	9,793
Utilities	7,314	6,837
Repairs and maintenance	4,426	4,387
Materials and supplies	7,968	8,649
Land, structures and equipment	27,414	38,009
Depreciation	2,180	2,403
General and administrative	15,271	15,021
Other	1,695	1,073
<b>Total operating expenses</b>	<b>152,868</b>	<b>163,207</b>
<b>Operating income</b>	<b>2,431</b>	<b>2,577</b>
<b>Nonoperating revenue (expenses):</b>		
Investment income	216	65
Interest expense	(162)	(299)
(Loss)/gain on sale and transfer of equipment, net	(647)	68
<b>Nonoperating expenses, net</b>	<b>(593)</b>	<b>(166)</b>
<b>Change in net position</b>	<b>1,838</b>	<b>2,411</b>
Net position, beginning of year	26,236	23,825
<b>Net position, end of year</b>	<b>\$ 28,074</b>	<b>\$ 26,236</b>

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



**Maryland Environmental Service**  
**Statements of Cash Flows**  
**For the years ended June 30, 2018, and 2017**  
*(Expressed in Thousands)*

	<b>2018</b>	<b>2017</b>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	\$ 150,234	165,619
Payments to suppliers	(103,527)	(107,073)
Payments to employees	(51,699)	(53,730)
Payments from project participants	-	2,900
Other payments project Midshore	1,111	110
Other receipts	(99)	(122)
Net cash from operating activities	(3,980)	7,704
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchases of capital assets	(1,647)	(1,537)
Principal paid on capital debt	(1,387)	(654)
Interest paid on capital debt	(162)	(299)
Other receipts/disbursements	178	55
Net cash from capital and related financing activities	(3,018)	(2,435)
<b>Cash Flows From Investing Activities</b>		
Purchases of investments	(18,000)	(10,000)
Sales and maturities of investments	17,977	9,998
Interest and dividends	216	66
Net cash from investing activities	193	64
Net changes in cash and cash equivalents	(6,805)	5,333
<b>Cash and cash equivalents - beginning of the year</b>	26,742	21,409
<b>Cash and cash equivalents - end of the year</b>	\$ 19,937	26,742
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 2,431	\$ 2,577
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,180	2,403
Change in non-cash operations:		
Receivables, net	(2,797)	(2,592)
Other assets	(1,848)	1,675
Accounts and other payables	632	(131)
Due to project participants	(3,470)	2,862
Net Pension Liability	(939)	793
Net OPEB Liability	(1,242)	-
Net change due to/from Midshore	1,111	110
Accrued workers compensation	(38)	7
Net cash from operating activities	\$ (3,980)	\$ 7,704

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

<i>Midshore Regional Landfill Private Purpose Trust Fund</i>		
<i>Statements of Net Position</i>		
<i>As of June 30, 2018, and 2017</i>		
<i>(Expressed in Thousands)</i>		
<b>Assets</b>	<b>2018</b>	<b>2017</b>
Current assets:		
Cash and cash equivalents	\$ 101	\$ 127
Due from MES	9,220	8,109
Accounts receivable	816	558
Total current assets	10,137	8,794
Other assets:		
Restricted investments	2,285	2,246
Capital assets not depreciated	2,165	1,690
Capital assets being depreciated, net	21,603	22,240
Total capital assets	23,768	23,930
Total other assets	26,053	26,176
Total assets	36,190	34,970
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	433	646
Advances from project participants	483	483
Current portion of long-term debt and capitalized leases	1,138	1,098
Total current liabilities	2,054	2,227
Other liabilities:		
Long-term debt and capitalized leases, net of current portion and bond discount	17,609	18,807
Accrued landfill closure & postclosure care costs	5,124	4,928
Total other liabilities	22,733	23,735
Total liabilities	24,787	25,962
<b>Net Position</b>		
Net investments in capital assets	5,022	4,026
Net assets designated-closure/post closure	2,598	2,447
Net assets designated-Easton	883	871
Unrestricted net position	2,900	1,664
<b>Total net position</b>	<b>\$ 11,403</b>	<b>\$ 9,008</b>

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

**Midshore Regional Landfill Private Purpose Trust Fund**  
**Statements of Revenue, Expenses and Change in Net Position**  
**For the years ended June 30, 2018, and 2017**  
*(Expressed in Thousands)*

	<b>2018</b>	<b>2017</b>
<b>Operating revenue:</b>		
Charges for services	\$ 7,901	\$ 6,878
<b>Operating expenses:</b>		
Salaries and benefits	1,336	1,337
Contractual services	221	285
Technical fees	297	120
Utilities	31	31
Operations and maintenance	464	419
Materials and supplies	127	114
Land, structures and equipment	372	402
Depreciation	637	605
Closure/post closure	917	675
General and administrative	388	405
Other, net	42	56
Total operating expenses	4,832	4,449
Operating income	3,069	2,429
<b>Nonoperating revenue (expenses):</b>		
Interest income	73	17
Interest expense	(747)	(799)
Loss sale of equipment, net	-	(7)
Nonoperating expenses, net	(674)	(789)
<b>Change in net position</b>	<b>2,395</b>	<b>1,640</b>
Net position, beginning of year	9,008	7,368
<b>Net position, end of year</b>	<b>\$ 11,403</b>	<b>\$ 9,008</b>

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

*Maryland Environmental Service  
Other Post Employment Benefit Plan  
Statement of Plan Net Position  
As of June 30, 2018  
(Expressed in Thousands)*

<b>Assets</b>	<b>2018</b>
Cash and short-term investments	\$ 120
Investments:	
Equities	2,224
Other	1,369
<b>Total investments</b>	<b>3,593</b>
<b>Total assets</b>	<b>3,713</b>
<b>Net position held in trust for other postemployment benefits</b>	<b>\$ 3,713</b>

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

*Maryland Environmental Service  
Other Post Employment Benefit Plan  
Statement of Changes in Plan Net Position  
For the year ended June 30, 2018  
(Expressed in Thousands)*

<b>Additions</b>	<b>2018</b>
Employer contributions	\$ 368
Investment Income:	
Net appreciation in fair value of investments	80
Interests and dividends	87
	167
Less investment expense	13
Net investment income	154
<b>Total additions</b>	<b>522</b>
<b>Deductions</b>	
Benefits paid	89
<b>Net increase</b>	<b>433</b>
<b>Net position held in trust for other postemployment benefits</b>	
Net position, beginning of year	3,280
<b>Net position, end of year</b>	<b>\$ 3,713</b>

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

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

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

***(a) Reporting Entity***

The General Assembly created Maryland Environmental Service (the Service) in 1970 as an agency of the Maryland State Department of Natural Resources. Major activities of the Service include the provision of water supply and wastewater treatment, sewage sludge management, recycling assistance, solid waste management, and resource recovery from waste and dredging services. Services are provided to State of Maryland owned facilities, local communities, political subdivisions, Federal facilities, and the private sector.

Pursuant to Chapter 196 of the 1993 Acts of the Maryland General Assembly, effective July 1, 1993, the Service was established as an instrumentality of the State and a public corporation independent of the Department of Natural Resources. Chapter 196 also expanded the Service's Board of Directors from seven to nine members; provided for the appointment of the Deputy Director, Secretary and Treasurer by the Director, with the approval of the Governor; provided for the appointment of the remaining Board members by the Governor, with the advice and consent of the Senate; exempted the Service from most provisions of the State Procurement Law; established the retirement and health benefits available for certain employees of the Service; authorized the Service to create a new personnel system; exempted the Service from most provisions of the State Merit System Law effective January 1, 1995; authorized the Service to create private corporations; authorized the Service to exercise the corporate powers granted Maryland corporations under the Maryland General Corporation Law; and made other changes to the law governing the Service. For financial reporting purposes, the Service is considered a component unit of the State of Maryland.

The Service operates public and private water and wastewater treatment plants throughout the State of Maryland. Licensed and certified personnel operate and maintain the facilities. Projects range in size from basic pumping stations to advanced wastewater treatment facilities. Capabilities include laboratory testing, operations oversight, and management, operations, maintenance and plant supervision.

In the area of solid waste management, the Service operates state-of-the-art waste facilities including municipal solid waste and rubble landfills, incinerators, resource reclamation facilities in Montgomery and Prince George's Counties.

The Service has the capabilities to provide site analysis, planning, engineering, design and construction services, and the resources to finance and build water, wastewater and solid waste projects. The Service operates the Hart-Miller Island, Poplar Island, Cox Creek and Masonville Dredge Material Disposal Facilities as well as provides technical support for the Maryland Department of Transportation Maryland Port Administration.

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

Certain employees of the Service are eligible to participate in the Retiree Medical Reimbursement Plan (OPEB Plan), which is a single employer defined benefit plan administered by the Service. The plan is considered part of the Service's financial reporting entity. A separate report for the OPEB Plan is prepared in compliance with GASB 74.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

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

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

The accompanying financial statements, which are all business type activities, present the financial position and results of operations of all of the Service's activities. The Service utilizes the accrual basis of accounting and the economic measurement focus in preparing its financial statements wherein revenues are recognized when earned and expenses are recognized when incurred.

The Service also reports a private purpose trust fund. The purpose of this fund is to account for the operations of the Midshore Regional Landfills. The landfills, located in Talbot County, Maryland and Caroline County, Maryland, are operated for the benefit of the governments of Caroline, Kent, Queen Anne's and Talbot Counties. The counties have the ultimate responsibility for payment of operating expenses and debt of the facilities.

***(c) Revenue Recognition***

The Service distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenue of the Service are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. Interest income is recognized as non-operating revenue as earned. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

***(d) Cash Equivalents***

The Service's cash is considered to be cash on hand and demand deposits. Cash equivalents include overnight investment funds.

***(e) Investments***

Investments are recorded at fair value, which is based on quoted market prices.

***(f) Capital Assets***

Capital assets are stated at cost and consist primarily of Service-owned assets related to projects operated for participants. Certain contracts contain provisions whereby the participants have the option to purchase certain equipment during the terms of the contracts.

The Service defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded to thousands) and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an assets' life are not capitalized.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

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

*(f) Capital Assets (continued)*

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred net of interest earned during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized in fiscal years 2018 and 2017.

Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets, which range from 3 to 40 years. For purposes of the statements of revenue, expenses and change in net position, the depreciation on assets, which are not directly related to projects, are included in general and administrative expenses and product costs.

Certain contracts contain provisions whereby the Service purchases equipment or constructs assets for clients. These expenses are recorded as land, structures and equipment in the statements of revenue, expenses and change in net position and are not capitalized.

*(g) Compensated absences*

Employees of the Service earn vacation benefits based on time in service. The rights to such benefits are vested and recorded as earned. Sick leave is also earned and accumulated by employees based on time in service. However, such benefits do not vest and are not paid or recorded unless sickness causes employees to be absent.

*(h) Pensions and Other Postemployment Benefits.*

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

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

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



**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

*(i) Advances from Project Participants*

Advances from project participants are received by the Service as provided for under contracts and are generally for working capital purposes. Such advances are recorded as a liability and are generally refunded to project participants at the end of the related contracts.

*(j) Bond Discount*

Bond discount is amortized to interest expense using the effective interest method over the contractual term of the bonds.

*(k) Arbitrage*

The U.S. Treasury has issued regulations on calculating the rebate due to the Federal government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the Service temporarily invests the proceeds of tax-exempt debt in securities with higher yields. The Service treats the estimated rebate payable as a reduction of any interest income earned. As of June 30, 2018 and 2017, there were no arbitrage rebate liabilities.

*(l) Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

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

**(m) Implementation of Accounting Pronouncement.**

In 2018, the Service adopted Governmental Accounting Standards Board (GASB) Statement No. 75 *Postemployment Benefits Other Than Pensions*. There are no significant changes to the financial statements from the adoption of above GASB statement.

Due to the implementation of the GASB Statement No. 75, the Service recorded a beginning net OPEB liability and a beginning deferred inflow of resources for the unfunded actuarial accrued liability. The net OPEB liability recorded was offset by an amount due from project participants to reflect the recovery of the postemployment benefits costs from its participants. Thus, the net impact on the net position as of June 30, 2017, was zero on net position.

**(n) Recent Pronouncements.**

As of the year ended June 30, 2018, GASB issued statements No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placement*, GASB No. 80, *Blending Requirements for Certain Component Units – and amendment of GASB Statement No. 14*, GASB No. 81, *Irrevocable Split-Interest Agreements*, GASB No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, GASB No. 83, *Certain Asset Retirement Obligations*, GASB No. 84, *Fiduciary Activities*, GASB No. 85, *Omnibus 2017*, GASB No. 86, *Certain Debt Extinguishment Issues*, and GASB No. 87, *Leases*. These statements may have a material effect on the Service's financial statements once implemented. The Service will be analyzing the effects of these pronouncements and plans to adopt them, as applicable, by their effective date.

**(2) Cash and Cash Equivalents and Investments**

State statutes require that deposits and investments with financial institutions be fully collateralized. The investment policies for all of the Service's funds are the same as those of the State of Maryland Treasurer (Finance and Procurement Article 6-222). The Service's cash is considered to be cash on hand and demand deposits. Cash and cash equivalents totaled \$19,937 thousand and \$26,742 thousand as of June 30, 2018 and 2017, respectively. Included, as cash equivalents for financial statement presentation, were certain overnight investments of \$24,878 and \$27,652 as of June 30, 2018 and 2017, respectively, which are included in the investment discussion below. Investments are valued at fair value, which is based on quoted market prices.

The State Finance and Procurement Article Section 6-222 defines the types of securities authorized as appropriate investments for the Service and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. The National Resource Article Section 3-126 authorizes the investment in obligation as described in the State Finance and Procurement Article Section 6-222.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Service's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State. The Service intends to hold investments until maturity to reduce adverse effect of changes in interest rates.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Service's policy for reducing its exposure to credit risk is to comply with the State, which states that investments with financial institutions must be fully collateralized.

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

The Service has the following recurring fair value measurements as of June 30, 2018:

- Bank of America FNMA of \$5,977 and Money market fund of \$2,285 are valued at quoted market price (Level 1 inputs)

As of June 30, 2018, the Service had the following investments and quality ratings:

Investment Type	Ratings by Organization Moody's	Fair Value (In Thousands)	Investment Maturities (in Years)					
			Less than				More than	
			1	1-5	6-10	11-15	15	
Bank of America FNMA	Aaa	\$ 5,977	\$ 5,977	\$ -	\$ -	\$ -	\$ -	\$ -

As of June 30, 2018, the Midshore Regional Landfill had the following investments and quality ratings:

Investment Type	Ratings by Organization Moody's	Fair Value (In Thousands)	Investment Maturities (in Years)					
			Less than				More than	
			1	1-5	6-10	11-15	15	
Money Market Funds	Aaa	\$ 2,285	\$ 2,285	\$ -	\$ -	\$ -	\$ -	\$ -

The Service has the following recurring fair value measurements as of June 30, 2017:

- Bank of America FNMA of \$5,999 and Money market fund of \$2,246 are valued at quoted market price (Level 1 inputs)

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

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

As of June 30, 2017, the Service had the following investments and quality ratings:

Investment Type	Ratings by Organization Moody's	Fair Value (In Thousands)	Investment Maturities (in Years)				
			Less than 1	1-5	6-10	11-15	More than 15
Bank of America FNMA	Aaa	\$ 5,999	\$ 5,999	\$ -	\$ -	\$ -	\$ -

As of June 30, 2017, the Midshore Regional Landfill had the following investments and quality ratings:

Investment Type	Ratings by Organization Moody's	Fair Value (In Thousands)	Investment Maturities (in Years)				
			Less than 1	1-5	6-10	11-15	More than 15
Money Market Funds	Aaa	\$ 2,246	\$ 2,246	\$ -	\$ -	\$ -	\$ -

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Service's policy for reducing this risk of loss is to comply with State regulation.

The issuance of debt is authorized by National Resource Article Section 3-112. Each Bond issue includes a Tax and Section 148 Certificate, which specifies the investment type and yield requirements.

Restricted cash and investments include deposits and investments that relate to the bond indentures and restricted project funds, which are not available to pay the general operating expenses of the Service.

The restricted cash and investments are comprised of the following funds as of June 30, 2018 and 2017:

Maryland Environmental Service:

	<u>2018</u>	<u>2017</u>
Service held:		
Project restricted	<u>\$ 303</u>	<u>\$ 259</u>

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

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

Midshore Regional Landfill:

Trustee held:	<b>2018</b>	<b>2017</b>
Closure Fund	\$ 771	\$ 764
Construction Funds	701	678
Service held:		
Liability Fund	813	804
	\$ 2,285	\$ 2,246

OPEB Trust:

All investments are valued at fair value. Fair value for investments is determined using quoted market value of securities. Assets held in trust are held in a custodial account for which the custodian makes no investment decisions. PNC Institutional Investments is the advisor that provides investment management services.

The Service follows the asset allocation policy adopted by the State of Maryland for the Post-Retirement Health Benefits Trust (the Plan).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increases in interest rates.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan would not be able to recover the value of its investments that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the Plan's name. Investments of \$3,712,994 are uncollateralized and exposed to credit risk as of June 30, 2018.

The Service has the following recurring fair value measurements as of June 30, 2018:

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

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in the securities of a single issuer. As of June 30, 2018, the Plan had the following investments, which represented 5% or more of total investments:

Issue	Fair Value	Percentage
Vanguard Total Stock Market ETF	\$ 786,829	21%
Vanguard Total Bond Market Index Fund	717,918	19%
iShares MSCI EAFE EFT	578,822	16%
Dodge & Cox International Stock Fund	554,583	15%
T Rowe Price Real Estate Fund	360,788	10%

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(3) Capital Assets**

The tables below represent the changes in capital assets for the years ended June 30, 2018 and 2017:

Maryland Environmental Service:

<b>2018</b>	<b>Balance</b>			<b>Transfers</b>		<b>Balance</b>
	<b>6/30/2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>In/Out</b>		<b>06/30/18</b>
<hr/>						
Capital assets, not depreciated						
Land and improvements	\$ 4,262	\$ -	\$ -	\$ -		\$ 4,262
Capital assets, being depreciated						
Structures and improvements	30,616	105	(19,220)	-		11,501
Equipment	19,464	1,542	(1,815)	-		19,191
Total capital assets being depreciated	<u>50,080</u>	<u>1,647</u>	<u>(21,035)</u>	<u>-</u>		<u>30,692</u>
Less: accumulated depreciation for						
Structures and improvements	24,219	231	(18,509)	-		5,941
Equipment	12,380	1,949	(1,704)	-		12,625
Total accumulated depreciation	<u>36,599</u>	<u>2,180</u>	<u>(20,213)</u>	<u>-</u>		<u>18,566</u>
Total capital assets, net	<u>\$ 17,743</u>	<u>\$ (533)</u>	<u>\$ (822)</u>	<u>\$ -</u>		<u>\$ 16,388</u>
<hr/>						
<b>2017</b>	<b>Balance</b>			<b>Transfers</b>		<b>Balance</b>
	<b>06/30/16</b>	<b>Additions</b>	<b>Deletions</b>	<b>In/Out</b>		<b>06/30/17</b>
<hr/>						
Capital assets, not depreciated						
Land and improvements	\$ 4,262	\$ -	\$ -	\$ -		\$ 4,262
Capital assets, being depreciated						
Structures and improvements	30,616	-	-	-		30,616
Equipment	19,040	1,537	(1,113)	-		19,464
Total capital assets being depreciated	<u>49,656</u>	<u>1,537</u>	<u>(1,113)</u>	<u>-</u>		<u>50,080</u>
Less: accumulated depreciation for						
Structures and improvements	23,704	515	-	-		24,219
Equipment	11,573	1,888	(1,081)	-		12,380
Total accumulated depreciation	<u>35,277</u>	<u>2,403</u>	<u>(1,081)</u>	<u>-</u>		<u>36,599</u>
Total capital assets, net	<u>\$ 18,641</u>	<u>\$ (866)</u>	<u>\$ (32)</u>	<u>\$ -</u>		<u>\$ 17,743</u>

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(4) Capital Assets** (continued)

Midshore Regional Landfill:

<b>2018</b>	<b>Balance</b>		<b>Transfers</b>		<b>Balance</b>
	<b>06/30/17</b>	<b>Additions</b>	<b>Deletions</b>	<b>In/Out</b>	<b>06/30/18</b>
<b>Capital assets, not depreciated</b>					
Land and improvements	\$ 1,690	\$ -	\$ -	\$ -	\$ 1,690
Construction in progress	-	475	-	-	475
Total capital assets, not depreciated	1,690	475	-	-	2,165
<b>Capital assets, being depreciated</b>					
Structures and improvements	39,925			-	39,925
Equipment	4,164		(343)	-	3,821
Total capital assets being depreciated	44,102	-	(343)	-	43,746
<b>Less: accumulated depreciation for</b>					
Structures and improvements	17,705	632	-	-	18,337
Equipment	4,144	5	(343)	-	3,806
Total accumulated depreciation	21,849	637	(343)	-	22,143
Total capital assets, net	\$ 23,930	\$ (162)	\$ -	\$ -	\$ 23,768
<b>2017</b>	<b>Balance</b>		<b>Transfers</b>		<b>Balance</b>
	<b>06/30/16</b>	<b>Additions</b>	<b>Deletions</b>	<b>In/Out</b>	<b>06/30/17</b>
<b>Capital assets, not depreciated</b>					
Land and improvements	\$ 1,690	\$ -	\$ -	\$ -	\$ 1,690
Construction in progress	-	-	-	-	-
Total capital assets, not depreciated	1,690	-	-	-	1,690
<b>Capital assets, being depreciated</b>					
Structures and improvements	39,961	9	(45)	-	39,925
Equipment	4,141	47	(24)	-	4,164
Total capital assets being depreciated	44,102	56	(69)	-	44,089
<b>Less: accumulated depreciation for</b>					
Structures and improvements	17,172	533	-	-	17,705
Equipment	4,089	72	(17)	-	4,144
Total accumulated depreciation	21,261	605	(17)	-	21,849
Total capital assets, net	\$ 24,531	\$ (549)	\$ (52)	\$ -	\$ 23,930

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(5) Construction Commitments**

The Service entered into construction contracts with unrelated parties in the amount of \$8.9 million for the construction of Midshore Cell # 3. As of June 2018, \$8.5 million of such contract commitments had not yet been incurred.

**(6) Concentrations of Credit**

The Service derived approximately 63% and 64% of its revenue in 2018 and 2017, respectively, from providing services to the State of Maryland.

**(7) Leases**

Operating Leases

The Service leases office, warehouse, and parking space under operating leases, which expire over the next twenty years.

Rent expense for operating leases was \$212 thousand and \$202 thousand for the years ended June 30, 2018 and 2017.

Capital Leases

The Service has entered into several leases for financing the building, furniture, fixtures and equipment used in administration and project operations. These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations from capital leases and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

<u>Years ending June 30:</u>	
2019	\$ 472
2020	472
2021	472
2022	472
2023	472
2024-2025	<u>551</u>
Total minimum lease payments	2,911
Less: amount representing interest	<u>481</u>
Present value of minimum lease payments	2,430
 Less: current portion	 334
 Long-term portion of capital leases	 <u><u>\$ 2,096</u></u>



**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

Certain assets acquired using capital leases are held in custody for various customers. Accordingly, such assets are not capitalized by the Service.

**(7) Debt**

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

Maryland Environmental Service:

	<b>2018</b>	<b>2017</b>
Bank of America- General Obligation Bond		
Interest at 4.05% and principal due in quarterly installments of \$18 through March 31, 2022.	\$ 185	\$ 230
Less: current portion	47	45
Long-term portion of debt	\$ 138	\$ 185

Future minimum payments for long-term debt as of June 30, 2018, were as follows:

<b>Years ending June 30:</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 53	\$ 47	\$ 6
2020	53	48	5
2021	54	51	3
2022	40	39	1
Total	\$ 200	\$ 185	\$ 15

The Landfill Project Revenue Bonds, 1993 Series, were issued in connection with the acquisition and construction of a sanitary landfill facility in Garrett County and the closure of an existing landfill facility. Garrett County leased the site of the landfill to the Service for a term equal to the term of the bonds and will pay the Service a service fee to cover the costs of financing and operating the landfill, including payment of principal and interest on the bonds. The bonds constitute special obligations of the Service payable solely from revenue from the landfill.

The General Obligation Bond of 2007 was issued to finance the acquisition of property associated with a project in Talbot County. Costs associated with carrying and maintaining the property will be charged to the project, however the debt is payable from Agency resources.

The Master Equipment Lease Purchase Agreements with financing institutions are used to finance the purchase of equipment used to build and operate various project facilities. The Service charges for the use of the construction and operating equipment and the revenues received are used to retire the associated debt and to purchase additional equipment. Substantially, all assets under the agreements serve as collateral under such agreements.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(7) Debt (continued)**

The various trust indentures stipulate that the value of the assets in the debt service reserve funds (recorded as restricted cash or investments) meet the related debt service reserve fund requirements. As of June 30, 2018, such debt service reserve requirements were met, and management believes the Service is in compliance with all other significant requirements of the indentures.

Long-term debt (including current portion) consists of the following as of June 30, 2018 and 2017:

Midshore Regional Landfill:

	<b>2018</b>	<b>2017</b>
Midshore II Regional Landfill Project Revenue Bonds, Series 2011; February 2011		
\$13,630 (plus bond premium of \$345); interest at 3.0% to 5.1% paid semiannually on May 1 and November 1; due in annual installments beginning 2013 through 2030 in varying amounts from \$600 to \$1,385.	\$ 13,975	\$ 14,775
Midshore II Regional Landfill Project Revenue Bonds, Series 2014		
\$3,490 ; interest at 3.14% paid semiannually on May 1 and November 1; due in annual installments beginning 2014 through 2029 in varying amounts from \$247 to \$369	3,490	3,752
Hobbs Road Landfill Closure Project Water Quality Bond, Series 2011A; April 2011		
\$1,282; interest at 1.1% paid semiannually in February and August; due in annual installments beginning 2013 through 2031 in varying amounts from \$90 to \$111.	1,282	1,378
	18,747	19,905
Total	18,747	19,905
Less: current portion	1,138	1,098
Long-term portion of debt	\$ 17,609	\$ 18,807

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

(7) **Debt** (continued)

Midshore Regional Landfill:

Future minimum payments for long-term debt as of June 30, 2018, were due as follows:

<u>Years ending June 30:</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,914	\$ 1,137	\$ 777
2020	1,913	1,182	731
2021	1,912	1,232	680
2022	1,914	1,287	627
2023	1,914	1,343	571
2024-2028	9,556	7,630	1,926
2029-2031	4,911	4,591	320
	<u>24,034</u>	<u>18,402</u>	<u>5,632</u>
Plus: Unamortized bond premium	<u>345</u>	<u>345</u>	<u>-</u>
<b>Total</b>	<u><u>\$ 24,379</u></u>	<u><u>\$ 18,747</u></u>	<u><u>\$ 5,632</u></u>

The Regional Landfill Project Revenue Bonds, 2011 Series, were issued in connection with the construction of the Midshore II Landfill Facility. The bonds constitute special obligations of the Service and are payable solely from revenues (tipping fees and supplemental fees) from the project pledged by the Service under the bond indentures. Neither the State of Maryland, nor any political subdivision, nor the Service shall be obligated to pay the bonds or the interest thereon, except from such project revenue. In the event of any participating county's failure to pay any amounts required under the related Waste Service Agreement when due, the Service may accept Acceptable Waste generated outside the Midshore Counties. In addition, the State Intercept Provision (Md. Natural Resource Article Section 3-108(b)) provides that if a Midshore County fails to pay the Service within 60 days of the due date as established by contract, all State funds, or that portion of them required, relating to the income tax, the tax on racing, the recordation tax, the tax on amusements and the license tax which would otherwise be distributed to such Midshore County by the Comptroller of Maryland shall be paid directly to the Service.

The Maryland Environmental Service Water Quality Bond, Series 2011A, was issued in connection with the closure and capping of the Hobbs Road Landfill. The bond constitutes special obligations of the Service and are payable solely from revenues (tipping fees and supplemental fees) from the project pledged by the Service under the bond indentures. Neither the State of Maryland, nor any political subdivision, nor the Service shall be obligated to pay the bonds or the interest thereon, except from such project revenue. In the event of any participating county's failure to pay any amounts required under the related Waste Service Agreement when due, the Service may accept Acceptable Waste generated outside the Midshore Counties. In addition, the State Intercept Provision (Md. Natural Resources Article Section 3-108(b)) provides that if a Midshore County fails to pay the Service within 60 days of the due date as established by contract, all State funds, or that portion of them required, relating to the income tax, the tax on racing, the recordation tax, the tax on amusements and the license tax which would otherwise be distributed to such Midshore County by the Comptroller of Maryland shall be paid directly to the Service.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

(7) **Debt** (continued)

Midshore Regional Landfill: (continued)

The Regional Landfill Project Revenue Bond, 2014 Series, was issued in connection with the construction of a new landfill cell to increase the capacity of the Midshore II Regional Landfill. The bond constitutes a special obligation of the Service and is payable solely from revenues (tipping fees and supplemental fees) from the project pledged by the Service under Indenture of Trust. Neither the State of Maryland, nor any political subdivision, nor the Service shall be obligated to pay the bond or the interest thereon, except from such project revenues. In the event of any participating county's failure to pay any amounts required under the related Waste Disposal Service Agreement when due, the Service may accept Acceptable Waste generated outside the Midshore Counties. In addition, the State Intercept Provision, (Md. NR Code Ann., Section 3- 108(b)), provides that if any local government fails to pay the Service within 60 days of the due date as established by contract, all State funds, or that portion of them required, relating to the income tax, the tax on racing, the recordation tax, the tax on amusements and the license tax which would otherwise be distributed to such local government, including a Midshore County, by the Comptroller of Maryland shall be paid directly to the Service.

The following table represents changes in long-term liabilities for the years ended June 30, 2018 and 2017:

Maryland Environmental Service:

<b>2018</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Advances from project participants	\$ 18,893	\$ 44,417	\$ (47,887)	\$ 15,423	\$ 13,647
Capitalized leases	3,773		(1,343)	2,430	334
Long-term debt	230		(45)	185	47
Workers' compensation	2,663	494	(532)	2,625	394
Net OPEB Liability	1,552		(1,242)	310	-
Net Pension Liability	3,761		(939)	2,822	-
Long-term liabilities	<u>\$ 30,872</u>	<u>\$ 44,911</u>	<u>\$ (51,988)</u>	<u>\$ 23,795</u>	<u>\$ 14,422</u>

<b>2017</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Advances from project participants	\$ 16,031	\$ 58,843	\$ (55,981)	\$ 18,893	\$ 17,263
Capitalized leases	4,384	-	(611)	3,773	644
Long-term debt	273	-	(43)	230	45
Workers' compensation	2,656	7	-	2,663	399
Net OPEB Liability	-	1,552	-	1,552	-
Net Pension Liability	2,968	793	-	3,761	-
Long-term liabilities	<u>\$ 26,312</u>	<u>\$ 61,195</u>	<u>\$ (56,635)</u>	<u>\$ 30,872</u>	<u>\$ 18,351</u>

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

(7) **Debt** (continued)

Midshore Regional Landfill:

<b>2018</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Long-term debt	\$ 19,905	\$ -	\$ (1,158)	\$ 18,747	\$ 1,138
Landfill closure & post closure care	4,928	1,004	(808)	5,124	-
Long-term liabilities	<u>\$ 24,833</u>	<u>\$ 1,004</u>	<u>\$ (1,966)</u>	<u>\$ 23,871</u>	<u>\$ 1,138</u>

<b>2017</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Long-term debt	\$ 21,014	\$ -	\$ (1,109)	\$ 19,905	\$ 1,098
Landfill closure & post closure care	5,187	392	(651)	4,928	-
Long-term liabilities	<u>\$ 26,201</u>	<u>\$ 392</u>	<u>\$ (1,760)</u>	<u>\$ 24,833</u>	<u>\$ 1,098</u>

(8) **Unrestricted Net Position**

Total unrestricted net position as of June 30, 2018 and 2017, was as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Total unrestricted net position	<u>\$ 14,289</u>	<u>\$ 12,483</u>

*a. Business Research and Development/Contingency*

The Service has dedicated funds for the furtherance of its program development activities. These uses may include, but are not limited to: developing, supporting, researching, promoting, securing, providing and procuring goods and services for new and proposed projects, experiments, programs and facilities. Additionally, these funds are available for project contingencies.

*b. Equipment*

The Service has dedicated funds to facilitate procurement and maintenance of equipment for itself and its clients. The Service charges the appropriate projects for the usage of equipment procured from this reserve and accumulates the costs applicable to that equipment. The operating results of this fund have been restricted for the future use of the fund.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(9) Accrued Workers' Compensation Costs**

The accrued workers' compensation costs, applicable to the Service's coverage discussed in note 14, are recorded as a short-term and long-term liability. As these costs are recoverable under the Service's contracts, a receivable from project participants has been recorded to reflect the future funding of this liability.

**(10) Pension**

Employees of the Service who were members of the State Employees Retirement or Pension systems on June 30, 1993, continue to participate in the Employees' Retirement and Pension Systems. These systems are part of the Maryland State Retirement and Pension System (the System), and are cost-sharing multiple employer public employee retirement systems. The System, which is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland, consists of several plans, which are managed by the Board of Trustees for the System. The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completion of five years of service. Members of the Retirement System may retire with full benefits after attaining the age of 60, or completing 30 years of Service Credit, regardless of age. Members of the Pension system may retire with full benefits after attaining the age of 62 or after completing 30 years of Service Credit, regardless of age. The State Employees Retirement and Pension System prepares a separately audited Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202 or at [http://www.sra.state.md.us/Agency/Downloads/CAFR/CAFR\\_Financial.pdf](http://www.sra.state.md.us/Agency/Downloads/CAFR/CAFR_Financial.pdf).

Members of the Retirement System are required to contribute to the System either 7% or 5% of their regular salaries and wages depending upon the retirement option selected. Members of the Contributory Pension System are required to contribute to the System 7% of their regular salaries and wages. Employer contribution rates are determined by the State annually. The Service's share of the cost of participation was \$303 thousand and \$318 thousand, for the years ended June 30, 2018 and 2017, respectively.

All other employees of the Service participate in a Vanguard 401(k) Savings Plan. The plan requires the Service to contribute to the fund. The Service's share of the cost of participation for the years ended June 30, 2018 and 2017 were \$2,367 thousand and \$2,324 thousand, respectively. Employees are fully vested when eligible for the plan.

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

As of June 30, 2018 and 2017, the Service reported a liability of approximately \$2,822 thousand and \$3,761 thousand respectively for its proportionate share of the ERS net pension liability. The ERS net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Service's proportion of the ERS net pension liability was based on a projection of the Service's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined. As of June 30, 2018, the Service's proportion for ERS was 0.0131 percent, which was substantially the same from its proportion measured as of June 30, 2017 of 0.0159 percent.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(10) Pension** (continued)

For the year ended June 30, 2018 and 2017, the Board recognized pension expense for ERS of approximately \$318 thousand and \$515 thousand. As of June 30, 2018, the Service reported deferred outflows of resources and deferred inflows of resources related to ERS from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 108	\$ -
Net difference between projected and actual earnings on pension plan investment	240	-
Net difference between actual and expected experience	-	(205)
Net change in proportionate share	-	(313)
Contributions made subsequent to the measurement date	300	-
<b>Total</b>	<b>\$ 648</b>	<b>\$ (518)</b>

The \$300 thousand reported as deferred outflows of resources related to ERS resulting from the Service contributions subsequent to the measurement date will be recognized as a reduction of the ERS net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS will be recognized in pension expense as follows:

<b>Years Ending June 30</b>	<b>Deferred Outflows</b>		<b>Deferred Inflows</b>	
	<b>Change in Assumptions</b>	<b>Net difference between projected and actual earnings on pension plan investments</b>	<b>Net change in proportionate share</b>	<b>Actual and Expected Experience</b>
2019	\$ 42	\$ 73	\$ (53)	\$ (50)
2020	34	131	(53)	(50)
2021	27	65	(54)	(47)
2022	3	(29)	(63)	(36)
2023	2	-	(90)	(22)
<b>Total</b>	<b>\$ 108</b>	<b>\$ 240</b>	<b>\$ (313)</b>	<b>\$ (205)</b>

Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position are available at [www.sra.state.md.us/Agency/Downloads/CAFR/](http://www.sra.state.md.us/Agency/Downloads/CAFR/).

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(10) Pension** (continued)

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

The Service's proportionate share of the ERS net pension liability calculated using the discount rate of 7.50 percent is \$2,822 thousand. Additionally, the Service's proportionate share of the ERS net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) is \$3,999 or 1-percentage-point higher (8.50 percent) is \$1,845.

**(11) Other Post-Employment Benefits (OPEB)**

*Plan Description.* The Maryland Environmental Service (the Service) Retiree Medical Reimbursement Plan (the Plan) is a single-employer defined benefit plan. It is offered to eligible employees not covered under the State Retiree Medical Plan. To be eligible, employees must have 30 years of service with the Service, or retire at age 60 or older and have 16 years of employment with the Service. Retired employees or their spouses ages 60 and over can be reimbursed up to \$3,600 per calendar year for medical expenses.

The number of participants in OPEB Plan as of June 30, 2018, was as follows:

Active	751
Surviving Spouse	1
Retired	<u>27</u>
Total	<u><u>779</u></u>

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

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

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

In the July 1, 2017, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.0% estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits, which are the assets held in the trust.



**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(11) Other Post-Employment Benefits (OPEB)** (continued)

*Funding Policy.* The Service has an irrevocable trust, the Maryland Environmental Service OPEB Trust Fund, for the sole purpose of funding post-employment benefits for current and future retirees. Contribution requirements are determined according to actuarial valuations. The Service contributed \$368 thousand in 2018 and \$335 thousand in 2017. Total reimbursement of medical expenses was \$89 thousand in 2018 and \$84 thousand in 2017.

As of the valuation date, the plan was 92.3 percent funded. The actuarial accrued liability for benefits was \$4,023 thousand resulting in an unfunded actuarial accrued liability of \$310 thousand

*Annual OPEB Cost and Net Obligation.* The Service's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the fiscal year ended June 30, 2018, the Service's annual OPEB cost was \$266 thousand.

The components of the net OPEB liability of the Service as of June 30, 2018, were as follows:

Total OPEB liability	\$ 4,022,508
Plan fiduciary net position	<u>(3,712,994)</u>
MES's Net OPEB Liability	<u>\$ 309,514</u>
Plan fiduciary net position as a percentage of the total OPEB liability	92.3%

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

	<b>1% Decrease</b>	<b>Discount Rate</b>	<b>1% Increase</b>
	<b>6.0%</b>	<b>7.0%</b>	<b>8.0%</b>
Net OPEB liability	\$ 876,017	\$ 309,514	\$ (160,539)

The following presents the net OPEB liability of the Service, as well as what the Service's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7 percent decreasing to 4.5 percent) or 1-percentage-point higher (9 percent decreasing to 6.5 percent) than the current healthcare cost trend rates:

	<b>Healthcare Cost</b>		
	<b>1% Decrease</b>	<b>Trend Rates</b>	<b>1% Increase</b>
	<b>(7% decreasing to 4.5%)</b>	<b>(8% decreasing to 5.5%)</b>	<b>(9% decreasing to 6.5%)</b>
Net OPEB liability	\$ 68,671	\$ 309,514	\$ 569,177

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(12) Contingent Liabilities**

The Service is involved in litigation arising from the normal course of its operations. In the opinion of management, the amount of liability, if any, resulting from the final resolution of these matters will not be material to the financial position of the Service.

On April 15, 2011, the Maryland Environmental Service issued \$1.5 million of Water Quality Bond, Series 2011B with the Maryland Water Quality Financing Administration (the Administration) in connection with the closure and capping of the Hobbs Road Landfill. Pursuant to the Clean Water Act, the Administration has forgiven the repayment of the principal amount and interest payment of the bond subject to MES continues to perform its other obligations under the agreement. Upon determination by the Administration that any of the other obligations under the agreement have been violated, payment of the principal and interest will be become due and payable on demand. As of June 30, 2018, management believes it is in compliance with its obligations and has not violated the agreement.

**(13) Landfill Closure and Postclosure Care Costs**

State and Federal laws require the Service to cover and to perform certain maintenance and monitoring functions at Midshore I, Easton Landfill, Midshore II and Hobbs Road Landfill sites for 30 years after closure. Although closure and postclosure care costs will be paid near or after the date the landfills stop accepting waste, the Service reports a portion of these closure and post closure costs as a liability based upon the estimated useful life of the landfills.

Midshore I stopped accepting waste on December 31, 2010, was capped, and is now in the post closure monitoring and maintenance period. Total closure and postclosure care costs for the landfill is currently estimated to be \$3,154 thousand, as determined through engineering studies and \$1,715 has been recognized as a liability by the Service as of June 30, 2018.

Midshore II current cells are approximately 20% filled as of June 30, 2018, with a remaining life of 32 years. Total closure and postclosure care costs for the landfill is currently estimated to be \$19,901 thousand, as determined through engineering studies, and \$3,409 thousand has been recognized as a liability by the Service as of June 30, 2018. Costs may be subject to change due to inflation, deflation, technology, and changes in applicable laws and regulations.

Under Federal regulations, the Service satisfied its financial assurance requirements based upon local government financial ratio tests of the project participants as of June 30, 2017. The Service expects to satisfy these requirements as of June 30, 2018 using the same criteria.

The Service serves as an operator for various landfills throughout the State of Maryland and no liability is recognized in regards to landfill closure and postclosure costs related to these landfills because of the Service's limited role solely as an operator of these facilities.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**(14) Risk Management**

The Service is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Service participates in the State of Maryland's self-insurance program (the program). The program covers general liability, property and casualty, workers' compensation (see note 9), and environmental liabilities, and provides certain employee health benefits. The program allocates its cost of providing claims servicing and claims payments by charging a "premium" to the Service based on a percentage of estimated current payroll or based on average loss experience. The Service's premium for the years ended June 30, 2018 and 2017 was \$4,561 thousand and \$5,094 thousand, respectively.

**(15) Subsequent Event**

On July 25, 2018, the service authorized the issuance of Maryland Environmental Service Revenue Bonds Series 2018 in the amount of \$8.9 million, for the purpose of financing the cost of Midshore II Regional Landfill Project Cell #3, to improve or increase the disposal capacity of the Midshore II Landfill.

MES evaluated the accompanying financial statements for subsequent events and transactions through September 28, 2018, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure except as disclosed above.

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**Schedule of Changes in Net OPEB Liability and Related Ratios**  
**Other Post Employment Benefits**

	<u>2018</u>	<u>2017</u>
<b>Total OPEB liability</b>		
Service cost	\$ 106,790	\$ 151,966
Interest	342,616	318,861
Changes of benefit terms	-	-
Difference between expected and actual experience	(501,232)	-
Changes of assumptions	(668,977)	-
Benefit payments	(88,818)	(83,778)
<b>Net change in total OPEB liability</b>	<u>(809,621)</u>	<u>387,049</u>
<b>Total OPEB liability - beginning</b>	4,832,129	4,445,080
<b>Total OPEB liability - ending (a)</b>	<u>\$ 4,022,508</u>	<u>\$ 4,832,129</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 367,867	\$ 335,340
Net investment income	153,638	348,816
Benefit payments	(88,818)	(83,778)
<b>Net change in plan fiduciary net position</b>	<u>432,687</u>	<u>600,378</u>
<b>Plan fiduciary net position - beginning</b>	3,280,307	2,679,929
<b>Plan fiduciary net position - ending (a)</b>	<u>\$ 3,712,994</u>	<u>\$ 3,280,307</u>
<b>Net OPEB liability - ending (a) - (b)</b>	<u>\$ 309,514</u>	<u>\$ 1,551,822</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	92.3%	211.4%
<b>Covered-employee payroll</b>	\$42,883,302	\$39,956,452
<b>MES's net OPEB liability as a percentage of covered-employees payroll</b>	0.7%	3.9%

**Notes to the Schedule:**

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

**Maryland Environmental Service**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**  
*(In thousands except where noted)*

**Schedule of Employer Contributions**  
**Other Post Employment Benefits**

<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>Annual Contribution</b>	<b>Percentage Contributed</b>
6/30/2012	\$ 224,643	\$ 270,652	120.5%
6/30/2013	224,643	288,033	128.2%
6/30/2014	238,596	308,216	129.2%
6/30/2015	248,140	319,086	128.6%
6/30/2016	241,602	335,633	138.9%
6/30/2017	243,491	335,340	137.7%
6/30/2018	265,870	367,867	138.4%

**Schedule of Investment Returns**

	<b><u>2018</u></b>
Annual money-weighted rate of return, net of investment expense	4.94%

**Maryland Environmental Service**  
**Required Schedule of Proportionate Share of Net Pension Liability**  
*(In thousands except where noted)*

**Schedule of Proportionate Share of Net Pension Liability:**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The Service's proportion of the ERS net pension liability	0.0131%	0.0159%	0.0143%	0.0125%
The Service's proportionate share of the ERS net pension liability	\$ 2,822	\$ 3,761	\$ 2,968	\$ 2,102
The Service's covered-employee payroll	1,365	2,557	2,483	2,177
The Service's proportionate share of the net pension liability as a percentage of its covered-employee payroll	207%	147%	120%	97%
Plan fiduciary net position as a percentage of the total pension liability	69.38%	65.79%	68.78%	71.87%

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

**Schedule of Contributions:**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (ERS)	\$ 303	\$ 318	\$ 336	\$ 301
Contributions in relation to the contractually required contribution	303	318	336	301
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
The Service's covered-employee payroll	\$ 1,365	\$ 2,557	\$ 2,483	\$ 2,177
Contributions as a percentage of covered-employee payroll	22.19%	12.43%	13.53%	13.83%

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



**S B & COMPANY, LLC**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROLS 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 Board of Directors  
Maryland Environmental Service

**Report on the Financial Statements**

We have audited in accordance with the auditing standards generally accepted in 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 basic financial statements of the Maryland Environmental Service (the Service) as of and for the year ended June 30, 2018 and have issued our report thereon dated September 28, 2018.

**Internal Controls over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Service's internal controls 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 Service internal control. Accordingly, we do not express an opinion on the effectiveness of the Service internal control.

*A deficiency in internal controls* 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 controls, 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 controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Service’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Service’s internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service’s internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunt Valley, Maryland  
September 28, 2018

A handwritten signature in black ink that reads "SB &amp; Company, LLC". The signature is written in a cursive, flowing style.