Maryland
ENVIRONMENTAL
SERVICE

259 Najoles Road
Millersville, MD 21108

(A Component Unit of the State of Maryland)

Financial Statements and Reports Required for Audits Performed in Accordance with *Government Auditing Standards*

Fiscal Years Ended June 30, 2023 and 2022

(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

Board of Directors
Maryland Environmental Service

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of each major fund and the fiduciary activities of the Maryland Environmental Service (the Service), a component unit of the State of Maryland, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Service's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the fiduciary activities of the Service, as of June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Service and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Notes 1 and 15 to the basic financial statements, the Service adopted the provisions of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, which resulted in the restatement of certain beginning balances as of July 1, 2021. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Service's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Service's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Service's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net OPEB liability and related ratios, schedule of employer contributions OPEB, schedule of proportionate share of net pension liability, and schedule of required employer pension plan contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 December 22, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Service's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service's internal control over financial reporting and compliance.

RSM US LLP

Gaithersburg, Maryland
December 22, 2023

As the management of the Maryland Environmental Service (MES or the Service) we offer the following narrative overview and analysis of the financial activities of the Service for the fiscal years ended June 30, 2023 and 2022. This unaudited management discussion and analysis should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

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 of 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 Service also accounts for operations of the Midshore Regional Landfills (Midshore).

Financial Highlights

The Service continues with another year of solid financial performance due to continuing and adding additional projects across the State of Maryland.

Environmental Dredging and Restoration

<u>Cox Creek DMCF Expansion</u>**.** The Service continues to provide environmental, engineering, survey and construction support services for the Cox Creek Dredged Material Containment Facility (DMCF) Expansion and Dike Raising to elevation +60 feet mean lower low water (MLLW) throughout FY23 on behalf of our client, Maryland Port Administration (MPA). During the early part of FY23, the Service's Contractor completed dike raising and stabilization to elevation +60 feet MLLW of the original waterside DMCF. 5,300 Linear Feet (LF) of a slurry wall was installed along the footprint of the Upland dikes from November through March 2023 and the Contractor placed approximately 325,000 Compacted Cubic Yards (CCY) of material to raise the Upland Dikes to an Elevation of +60, for a total of approximately 1.5 Million CY of material placed for the entire project. During the last part of FY23, the Contractor began performing final construction items like milling and paving the end of Kembo Road and converting sediment basins into permanent Storm Water Management (SWM) ponds.

<u>Masonville DMCF Expansion</u>. In June 2023, the Service on behalf of MPA completed construction of the Masonville DMCF Base Dike Widening project which started in January 2022. The project consisted of placing over 300,000 cubic yards of fill material, 177,000 placed within FY23, along the interior of the dike, decommissioning and demolition of the two existing spillway weir structures, and placement of 125,000 square yards of high strength geotextile material. The Base Dike Widening was necessary to lay the foundation for the next phase of dike raising.

In FY 23, the Service completed the design and received the necessary Dam Safety and Erosion and Sediment Control Permits for the Masonville DMCF Dike Raising to Elevation +30 feet MLLW. This design included improvements to the adjacent Masonville Marine Terminal (MMT) Upper Lot to prevent seepage from two sand filters and associated swales from impacting the future DMCF dikes, and the relocation of a storm drain. The project was advertised in June of 2023 with construction expected to start in FY24.

<u>Mid-Bay Island (Barren and James Islands).</u> The Service continues to provide project management, planning, engineering and design, geotechnical, construction management, outreach, and adaptive management and environmental support services to the MPA and the U.S. Army Corps of Engineers (USACE) for the Mid-Bay Island Ecosystem Restoration Project (Mid-Bay). Mid-Bay will accommodate an estimated 90-95 million cubic yards of dredged material, providing a minimum of 30 years of dredged material capacity. Barren Island restoration, construction started in March 2023, and will provide a minimum 72 acres of remote island habitat. James Island restoration will restore approximately 2,072 acres of remote island habitat, with construction planned to begin in 2025/2026.

Design, environmental and geotechnical field work continued for both James and Barren Islands in FY 23. The Service supported the Mid-Bay Project Development Team by coordinating the issuance of the Barren Island Tidal Wetlands License during the first quarter of FY23 which enabled Phase I Barren Island construction and associated permit required monitoring to commence. The Service continued to support the team in the design of James Island including coordination with agency stakeholders. Efforts to ensure continued community and stakeholder engagement included Mid-Bay Workgroup meetings, seasonal newsletters, the annual public meeting, and numerous one-on-one meetings, as needed, to keep the agencies and the public involved and up to date with the project.

Poplar Island**.** The Service continues to manage the Paul S. Sarbanes Ecosystem Restoration Project at Poplar Island (Poplar Island) on behalf of the project partners, the USACE and the MPA by managing daily operations of the site including construction, environmental monitoring, and surveying. Poplar Island has received 40.2 million cubic yards of dredged material through FY 23.

In FY 23, the Service continued efforts to prepare for future development by reclaiming approximate 160,000 cubic yards of construction sand material to increase capacity during dredged material inflow and began the early stages of upland dike raising.

In FY 23, habitat efforts on Poplar Island focused on incorporating over 20 years of monitoring results into future wetland design. Towards this effort, throughout the year, the Service facilitated meetings and discussions related to the design of Cell 5CD, the next wetland to be developed. These focused meetings were initiated to address construction limitations, design lessons learned, desired habitat features and future upland to wetland connection.

Environmental Operations

In FY23, the Service composted 34 million pounds of food waste; returned 74K tons of recyclables to the market; recycled 441K gallons of used oil, and 23K gallons of used antifreeze; processed 116K tons of organics into compost and mulch products; and generated carbon offsets equaling 15K metric tons of carbon emissions while generating 11,181 megawatts of electricity from biomass.

In FY23 the Service sold 155K cubic yards of organic compost along with 82K tons of residential recyclables. The sale of compost and recyclables generated $10.9 million in revenue. The revenue generated was used to offset operational costs for each facility. Facilities include Montgomery County Materials Recovery Facility, Montgomery County Yard Trim and Compost Facility, Prince George's County Materials Recovery Facility, Prince George's County Organics Compost Facility, and the Midshore Residential Recycling Program.

Following last year's completion of the underground natural gas pipeline, the Service began constructing boiler conversion improvements at the Eastern Correctional Institution co-generation plant in Princess Anne, Maryland. This project is scheduled to finish by mid-FY24. MES also assumed full maintenance responsibility this year for the steam plant at the Central Maryland Correctional Facility in Sykesville, MD.

The Service began our thirteenth year of operations at the Midshore II Regional Solid Waste Facility in Ridgely, MD. This program provides comprehensive solid waste and recycling services to Talbot, Caroline, Queen Anne and Kent Counties. MES also initiated permitting efforts for a future Midshore III facility in Queen Anne's County, thus commencing the third stage of an eighty-year regional agreement.

The Service purchased four GORE™ covers for the Prince George's County Organics Composting Facility. This $400,000 purchase replaces covers that were past their useful life. The Service also added six new full-time positions at the Prince George's County Materials Recovery Facility to improve the quality control for commodities.

In FY 23 with less than three years of operations, The Services operations of the Maryland Department of Aging's Durable Medical Equipment Facility has recycled more than 26,465 individual items, including 2,847 wheelchairs, 1,330 hospital beds, 655 power wheelchairs, and 394 patient lifts.

The Service purchased over $1.6 million in heavy equipment on behalf of Montgomery County. One wheel loader and one shredder were purchased to replace aging equipment at the County's yard trim composting facility and augment the Service's processing of natural wood waste at the County's transfer station, respectively.

Technical and Environmental Services

A new Memorandum of Understanding (MOU) for $5 million dollars was signed with Maryland Military Department (MMD) in FY 23 for a variety of environmental management services; over $1 million dollars in tasks were assigned under this agreement during the fiscal year. Additionally, the Service continued to provide another year of support to the Prince George's County Clean Water Partnership with a FY budget of $800 thousand dollars. The services support to the Maryland Energy Administration significantly ramped up even more in FY23 with the approval of multiple new tasks totally over $7 million dollars.

A new MOU was signed with State Highway Administration (SHA) for $60 million dollars for drainage emergency projects in Metropolitan Districts 3, 4, 5 and 7. MES is providing SHA with assistance in environmental services including drainage system inspections and assessments for remediation, operation and maintenance of storm water facilities, control of vegetation and enhancing the use of GIS technologies for data collection and documentation to maintain the highways in an environmentally sound manner.

Water and Wastewater

On March 27, 2022, the Secretary of the Maryland Department of the Environment issued a Directive to the Service to assist the City of Baltimore's Back River Wastewater Treatment Plant in bringing the facility back into compliance with its permit. As a result of the Service's efforts, the plant returned to compliance during the month of July 2022 and has remained in compliance. On December 31, 2022, operations and maintenance personnel assigned to the plant left the plant. The Service's project management personnel remained engaged with the plant to complete two projects initiated by the Service. Those projects were completed at the end of September 2023.

The Service continued the design work for the expansion of the Maryland Department of the Military's Camp Fretterd Water Main Replacement.

The Service started the construction of the Maryland Department of the Military's new Water Booster Pump Station at Camp Fretterd. Construction of the Wastewater Treatment Plant upgrade is expected to start in the calendar year 2023.

The Service anticipates starting the design services for the Maryland Department of Natural Resources' sewer collection system rehabilitation and water distribution system improvements at Greenbrier State Park in November 2023; water distribution system improvements at Fort Frederick in November 2023.

The Service continued the design work for the Maryland Department of Natural Resources' new Wastewater Treatment Plant and Water Treatment Plant at Swallow Falls State Park; its new Water Treatment Plant, water tower and sewer pump station improvements at Sandy Point State Park; its new Water Treatment Plant, Wastewater Treatment Plant, sewer collection system and water distribution system improvements at the New Germany State Park; its new Wastewater Treatment Plant at Point Lookout State Park; elevated water storage tank rehabilitation at Tuckahoe State Park; sewer collection system rehabilitation at Cunnigham Falls Rt. 77; water distribution system improvements at Elk Neck State Park.

The Service started the construction of the Maryland Department of Natural Resources' new Wastewater Treatment Plant Upgrade at Elk Neck State Park; its sewer collection system rehabilitation and water distribution system improvements at Point Lookout State Park; elevated water storage tank rehabilitation at Martinak State Park; its sewer collection system rehabilitation at Rocky Gap State Park.

The Service continued the design work for the Maryland Department of Veterans Affairs' new Water Treatment Plant at Charlotte Hall Veterans Home.

The Service continued the design work for the Maryland Department of Juvenile Services' new Wastewater Treatment Plant and Water Treatment Plant improvements at Cheltenham Youth Facility.

The Service has completed the construction of the Maryland Department of Juvenile Services' Victor Cullen Juvenile Center Wastewater Treatment Plant Upgrade. The project is substantially complete.

The Service has completed the construction of the Maryland Department of General Services' Woodstock Job Corps Center Wastewater Treatment Plant Upgrade. The project is substantially complete.

The Service continued the design work for the University of Maryland' sewer collection system upgrade at Horn Point Laboratory.

The Service started the construction of the Maryland Department of Public Safety and Correctional Services' advanced Wastewater Treatment Plant Class A and Dewatering Biosolids improvements at Dorsey Run, its Wastewater Treatment Plant Sludge Facility upgrade at Eastern Correctional Institution.

During the year, the Water and Wastewater Group added 17 new facilities to its Operations Division.

Overview of Financial Statements

The basic financial statement for the Service and Midshore is prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The Service's financial statements are reported as a special purpose business-type entity. This report includes three basic financial statements: the statement of net position; the statement of revenue, expenses and changes in net position; and the statement of cash flows for each major enterprise fund.

The condensed statements of net position present the financial position of the service as of June 30, 2023, 2022, and 2021. They provide information about the nature and the amount of resources (assets), plus deferred outflows (as applicable), obligations (liabilities), plus deferred inflows (as applicable) and net position.

The statements of revenue, expenses and changes in net position present the changes in net position over the course of the years ended June 30, 2023, 2022, and 2021. The change in net position may be useful in assessing whether the financial position improved or deteriorated for the year.

The statements of cash flows present the cash activities segregated by four major cash flow categories: operating activities, noncapital financing activities, capital and related financing activities, and investing activities. These statements may be useful in determining the changes in liquidity and in understanding how cash and cash equivalents were used during the years ended June 30, 2023, 2022, and 2021.

Fiduciary Fund

Fiduciary funds are used to account for resources held for the benefit of parties outside the Service. These activities are excluded from the business-type activities because the resources of these funds are restricted and cannot be used to finance the Service's operations. The Service's fiduciary funds include the OPEB Trust Fund.

The fiduciary activities are reported in the Other Postemployment Benefit Plan Statements of Plan Net Position and the Statements of Changes in Plan Net Position.

- The Statements of Plan Net Position present a point-in-time snapshot of the amounts the other postemployment benefit (OPEB) plan has accumulated in net position to pay for future benefits and any liabilities that are owed as of the date of the statements.

- The Statements of Changes in Plan Net Position present the additions and deductions for the fiscal years. Major sources of additions are contributions and net investment income. Major sources of deductions include benefit payments. These statements present how the net position changed from the prior fiscal year.

The fiduciary fund financial statements can be found on pages 27-28 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements can be found on pages 21-54 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the Service's defined benefit pension plan and OPEB plan for its employees.

The required supplementary information can be found on pages 55-57 of this report.

Financial Analysis

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 year ended June 30, 2023, with 2022 and 2021 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 tables present condensed financial information about the Service and Midshore's net position as of June 30.

Maryland Environmental Service:

Condensed Statement of Net Position
(Expressed in Thousands)

	2023	(Restated) 2022	2021
Current and other assets	$ 117,904	$ 93,263	$ 83,874
Capital assets and right to use leased assets	19,632	19,082	16,249
Total assets	137,536	112,345	100,123
Deferred Outflows related to Pensions and OPEB	1,155	2,186	1,190
Long-term debt	5,142	5,192	1,359
Other liabilities	101,894	76,741	67,356
Total liabilities	107,036	81,933	68,715
Deferred Inflows related to Pensions and OPEB	1,612	3,172	2,114
Net position:			
Net investment in capital assets	14,490	13,902	14,891
Restricted	124	124	122
Unrestricted	15,429	15,400	15,471
Total net position	$ 30,043	$ 29,426	$ 30,484

Midshore Regional Landfill:

Condensed Statement of Net Position
(Expressed in Thousands)

	2023	2022	2021
Current and other assets	$ 19,502	$ 16,892	$ 16,190
Capital assets	27,244	29,308	30,510
Total assets	46,746	46,200	46,700
Bonds payable	19,363	21,326	23,208
Other liabilities	13,123	10,099	8,493
Total liabilities	32,486	31,425	31,701
Deferred inflows related to debt refunding	169	192	215
Net position:			
Net investment in capital assets	7,898	8,603	7,866
Restricted	1,804	1,738	1,630
Unrestricted	4,389	4,242	5,288
Total net position	$ 14,091	$ 14,583	$ 14,784

The statements of net position present the financial position of the Service. Net position represents the difference between the amount of resources (assets), plus deferred outflows (as applicable), obligations (liabilities), plus deferred inflows (as applicable) and net position. Over time, increases and decreases in net position provide an indicator of improving or deteriorating financial position.

Total net position for the Service increased $617 in 2023. Net investment in capital assets increased $588 from the net of depreciation, acquisition of equipment, and payment of debt. The remaining components, restricted and unrestricted net position of $15,553, represent funds available for future expenditures.

Total net position for the Service decreased $1,058 in 2022. Net investment in capital assets decreased $989 from the net of depreciation, acquisition of equipment, and payment of debt. The remaining components, restricted and unrestricted net position of $15,524, represent funds available for future expenditures.

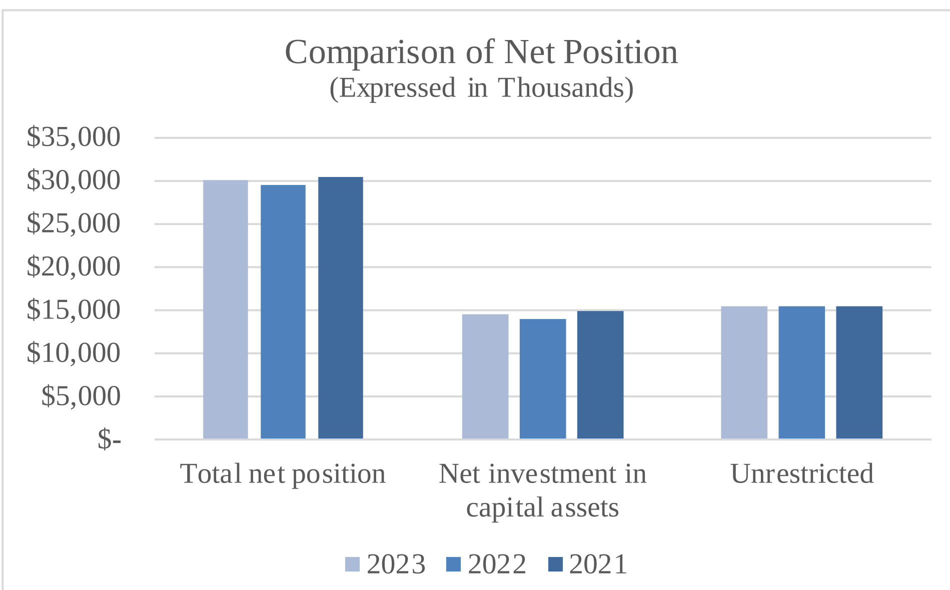
Over time, increases and decreases in net position provide an indicator of improving or deteriorating financial position.

Total net position for Midshore decreased $492 in 2023, which is related to the excess of expenses over revenues. Net investment in capital assets decreased $705 from the net of depreciation, acquisition of equipment, and payment of debt. The remaining components, restricted and unrestricted net position of $6,193 represent funds available for future expenditures.

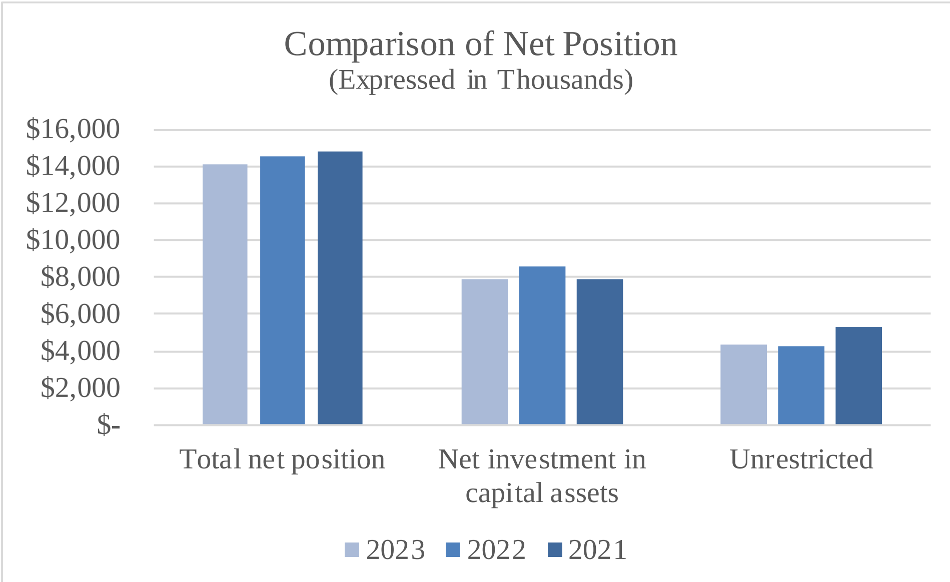
Total net position for Midshore decreased $201 in 2022, which is related to the excess of expenses over revenues. Net investment in capital assets increased $737 from the net of depreciation, acquisition of equipment, and payment of debt. The remaining components, restricted and unrestricted net position of $5,980 represent funds available for future expenditures.

A comparison of years ended June 30, 2023, 2022, and 2021 for the Service and for Midshore are presented graphically below:

Maryland Environmental Service:



Midshore Regional Landfill:



The following table presents condensed financial information about the Service and Midshore revenue, expenses and changes in net position for the years ended June 30, 2023, 2022, and 2021.

Maryland Environmental Service:

Condensed Changes in Net Position
(Expressed in Thousands)

	2023	(Restated) 2022	2021
Total operating revenue	$ 198,872	$ 166,474	$ 186,529
Operating expenses			
Salaries and benefits	65,675	58,645	56,018
Other	120,150	95,886	113,479
General and administrative	12,849	13,071	16,992
Total operating expenses	198,674	167,602	186,489
Operating income (loss)	198	(1,128)	40
Non-operating revenue (expense), net	419	70	(40)
Change in net position	617	(1,058)	-
Net position, beginning of year	29,426	30,484	30,484
Net position, end of year	$ 30,043	$ 29,426	$ 30,484

Midshore Regional Landfill:

Condensed Changes in Net Position
(Expressed in Thousands)

	2023	2022	2021
Total operating revenue	$ 9,781	$ 8,840	$ 8,653
Operating expenses			
Salaries and benefits	2,039	1,723	1,766
Other	7,684	6,242	4,956
General and administrative	583	515	561
Total operating expenses	10,306	8,480	7,283
Operating (loss) income	(525)	360	1,370
Non-operating revenue (expense), net	33	(561)	(805)
Change in net position	(492)	(201)	565
Net position, beginning of year	14,583	14,784	14,219
Net position, end of year	$ 14,091	$ 14,583	$ 14,784

Revenue by Activity

Maryland Environmental Service:

The following table presents operating revenue by activity for the years ended June 30, 2023, 2022, and 2021:

Operating Revenue by Activity
(Expressed in Thousands)

	2023	2022	2021
Environmental dredging & restoration	$44,636	$ 40,658	$ 63,005
Water/wastewater operations	36,647	32,987	27,313
Recycling	36,633	26,772	21,157
Solid waste management	19,525	18,775	30,037
Energy co-generation	23,109	16,763	8,618
Environmental engineering	6,075	5,309	4,239
Environmental monitoring	24,181	18,610	23,017
Hazardous waste treatment	5,533	3,959	4,471
Grants	2,425	2,613	4,055
Other	108	28	617
Total revenue	$ 198,872	$ 166,474	$ 186,529

The total increase in operating revenue for the year ended June 30, 2023 was $32,398 compared to the year ended June 30, 2022. The change represents an increase of 19.5% in operating revenue. There was an increase in Environmental Dredging & Restoration of $3,978, an increase in Energy Generation of $6,346, an increase in Environmental Monitoring of $5,571, an increase in Recycling of $9,861, and an increase in Water/Wastewater Operations of $3,660.

The increase in Environmental Dredging and Restoration Group's revenue is largely attributable to The Masonville Base Dike Widening Project that consisted of placing over 300,000 cubic yards of fill material, 177,000 placed within fiscal year June 30, 2023, along the interior of the dike, decommissioning and demolition of the two existing spillway weir structures, and placement of 125,000 square yards of high strength geotextile material. The Base Dike Widening was necessary to lay the foundation for the next phase of dike raising. The project started in January 2022 and was completed in June 2023 with most of the work occurring in fiscal year June 30, 2023.

The increase in Energy Generation is driven by utility costs. Billing for the natural gas pipeline began shortly after its completion in November 2021. Thus, the pipeline capacity costs for fiscal year June 30, 2022 only covered a portion of the fiscal year, whereas these pipeline capacity costs were borne for the entirety of fiscal year June 30, 2023. Another factor was that the unit costs of both primary (wood chips) and secondary fuel (#2 oil) increased. Most notably, the unit cost of wood chips increased by nearly double about halfway through fiscal year June 30, 2022.

The increase in Water/Wastewater was due to MES overseeing the operation, maintenance and improvements of the Baltimore City Back River plant, the largest in the state, to ensure that Baltimore City meets objectives that include protecting public and environmental health. On June 10, 2022, MDE and Baltimore City leadership reached an agreement that charts a course for continued progress at the Back River WWTP.

The total decrease in operating revenue for the year ended June 30, 2022 was $20,055 compared to the year ended June 30, 2021. The change represents a decrease of 10.8% in operating revenue. There was a decrease in Environmental Dredging & Restoration of $22,347.

The decrease in Environmental Dredging and Restoration Group's revenue is largely attributable to completion of a handful of very large dredging and construction projects. The largest decrease was due to the Seagirt Berth 3 Dredging Project which began and was substantially completed in fiscal year June 30, 2021 with final completion and close out in early FY 22. The Lake Linganore Dredging Project spanned over multiple FYs and was completed in early fiscal year June 30, 2022, so the revenue was significantly lower than fiscal year June 30, 2021. Additional reductions in revenue were attributed to the completion of the very large Cox Creek Expansion base dike widening construction project that was completed in fiscal year June 30, 2021. The next phase of the project, the +60 dike construction did not begin until late summer of fiscal year June 30, 2022 and started with lower revenues associated with contractor submittals and installation of sediment and erosion measures. Larger revenues associated with the larger earthmoving work did not occur until the third quarter of fiscal year June 30, 2022. Additionally, there was a reduction in fiscal year June 30, 2022 revenues with the completion of the geotechnical borings for the Mid-Bay Design Project in fiscal year June 30, 2021.

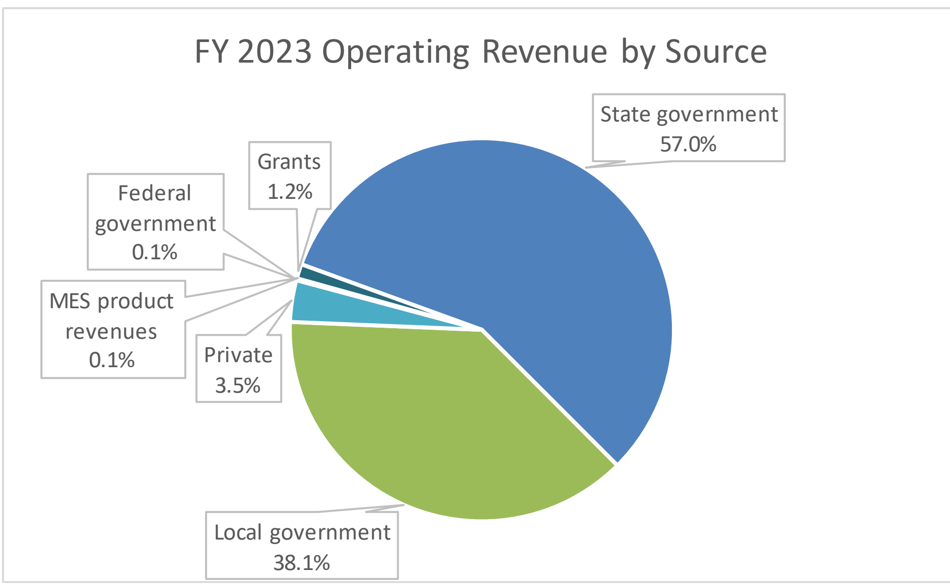
The increase in Recycling revenues was due to the initiation of several major capital projects at Brown Station, and Sandy Hill, increase in operations and MES labor to manage the increase of projects.

The following table presents revenue by source for the years ended June 30, 2023, 2022, and 2021:

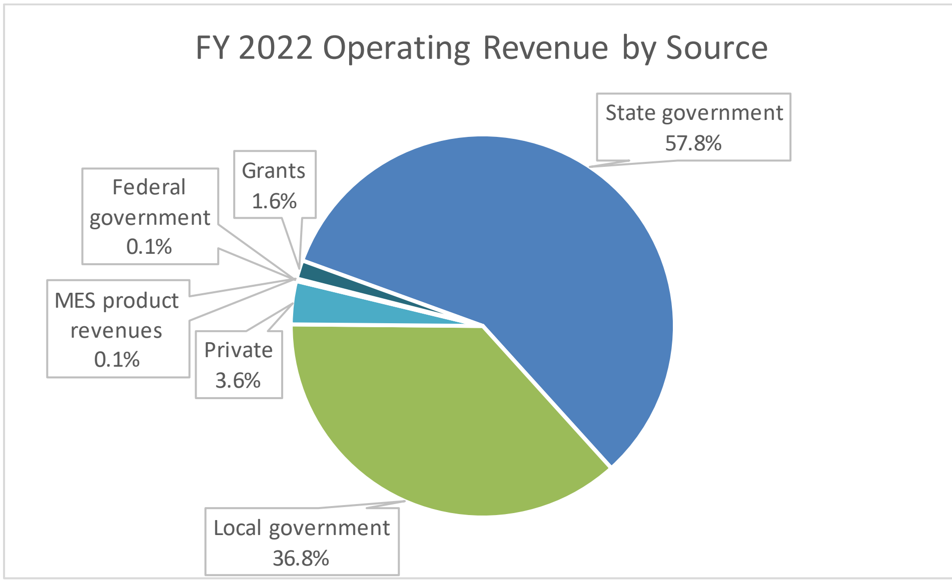
Revenue by Source
(Expressed in Thousands)

	2023	2022	2021
State government	$113,301	$ 96,162	$ 109,933
Local government	75,830	61,282	65,373
Private	6,988	6,061	6,884
Federal government	218	193	185
MES product revenues	110	163	99
Grants	2,425	2,613	4,055
Total Revenue	$ 198,872	$ 166,474	$ 186,529

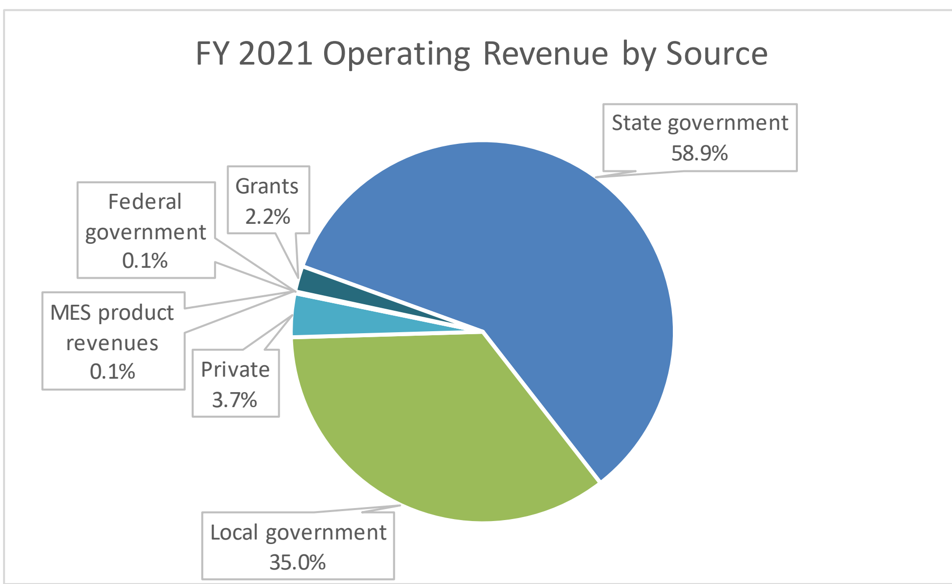
The following graph presents the Service's revenue by source for the year ended June 30, 2023:



The following graph presents revenue by source for the year ended June 30, 2022:



The following graph presents revenue by source for the year ended June 30, 2021:



State government and Local government revenues increased by $17,139 and $14,548, respectively in 2023.

The main factor for the increase in state revenues was due to The Masonville Base Dike Widening Project that consisted of placing over 300,000 cubic yards of fill material, 177,000 placed within FY2023, along the interior of the dike, decommissioning and demolition of the two existing spillway weir structures, and placement of 125,000 square yards of high strength geotextile material. The Base Dike Widening was necessary to lay the foundation for the next phase of dike raising. Also, the State Highway Administration has substantially increased the number of both stormwater construction and drainage remediation projects assigned to MES.

State government and local government revenues decreased by $13,771 and $4,091, respectively in 2022.

The main factor for the decrease in state revenues was due to the completion of several large projects, the Seagirt Berth 3 Dredging Project, the Lake Linganore Dredging Project, and Cox Creek Expansion base dike widening construction project. The main factor that contributed to the local government decrease attributable to the Prince George's MRF capital project's completion of a major equipment upgrade, and renovations that started in 2021 and were completed at the beginning of 2022.

Operating Expenses

For both the Service and Midshore, operating expenses are predominantly related to those classified as cost of goods and services, general and administrative and depreciation on capital assets.

Operating Income

Service operating income reported in 2023 was $198 compared to an operating loss of ($1,128) in 2022, an increase of $1,326. The increase was mainly due to the increase in Revenues.

Service operating income reported in 2022 was ($1,128) compared to $40 in 2021, a decrease of ($1,168). The decrease was mainly due to a decrease in Revenues, and land, structures and equipment expenses.

Midshore operating loss reported in 2023 was $(525) compared to operating income of $360 in 2022, a decrease of $885. This decrease was driven primarily by an updated closure-postclosure cost estimate.

Midshore operating income reported in 2022 was $360 compared to $1,370 in 2021, a decrease of $1,010. This decrease was driven primarily by an updated closure-postclosure cost estimate.

Non-Operating Revenue (Expenses), Net

Service non-operating revenue (expense), net increased $349 to $419 in 2023. Non-operating items primarily include interest income and interest expense. For 2023, investment income increased by $667.

Service non-operating revenue (expense), net increased $110 to $70 in 2022. Non-operating items primarily include interest income and interest expense. For 2022, investment income increased by $13.

Midshore non-operating revenue (expense), net increased $594 to $33 in 2023. Non-operating items primarily include interest income and interest expense. For 2023, interest income increased by $9, and interest expense decreased by $212.

Midshore non-operating expenses, net decreased $244 to $(561) in 2022. Non-operating items primarily include interest income and interest expense. For 2022, interest income increased by $538.

Grants

Service operating grants in 2023 totaled $2,425 compared to $2,613 in 2022, and $4,055 in 2021. The main reason for the $1,442 decrease in 2022 compared to 2021 was COVID negatively affecting business participants, their participation in the program, and significantly delayed equipment delivery.

Capital Assets and Right to Use Leased Assets

The following tables present the Service's capital assets and right to use leased assets, net of depreciation as of June 30, 2023, 2022, and 2021, and capital expenditures for the years ended June 30, 2023, 2022, and 2021:

Capital Assets, Net of Depreciation
(Expressed in Thousands)

	2023	2022	2021
Land and improvements	$ 4,262	$ 4,262	$ 4,262
Buildings and improvements	4,737	4,903	5,074
Machinery and equipment	5,845	5,682	6,913
Total	$ 14,844	$ 14,847	$ 16,249

Right to Use Leased Assets, Net of Amortization
(Expressed in Thousands)

	2023	(Restated) 2022	2021
Land	$ 584	$ 616	$ -
Subscription based software	4,204	3,619	-
Total	$ 4,788	$ 4,235	$ -

Capital Expenditures
(Expressed in Thousands)

	2023	2022	2021
Autos and trucks	$ 1,178	$ 210	$ 834
Land	349	-	-
Computer hardware/software	-	-	103
Total	$ 1,527	$ 210	$ 937

As of June 30, 2023, the carrying value of capital assets and right to use leased assets, net of depreciation and amortization was $19,632, an increase of $550 from 2022. The increase is comprised of capital additions of $1,527 and additional right of use leased assets of $1,285 that was offset by depreciation and amortization of $2,158. The capital additions for the year were fleet vehicle replacements, construction/farm equipment, and IT Equipment. Additional right of use leased assets were subscription-based information technology arrangements.

As of June 30, 2022, the carrying value of capital assets and right to use leased assets, net of depreciation and amortization was $19,082, an increase of $2,833 from 2021. The increase is comprised of capital additions of $210 and additional right of use leased assets of $4,965 that was offset by depreciation and amortization of $2,072. The capital additions for the year were fleet vehicle replacements, construction/farm equipment, and right to use leased office space.

The following tables present Midshore's capital assets, net of depreciation as of June 30, 2023, 2022, and 2021, and capital expenditures for the years ended June 30, 2023, 2022, and 2021:

Capital Assets, Net of Depreciation
(Expressed in Thousands)

	2023	2022	2021
Land and improvements	$1,690	$ 1,690	$ 1,690
Buildings and improvements	23,956	25,777	27,568
Construction in progress	85	66	57
Machinery and equipment	1,513	1,775	1,195
Total	$ 27,244	$ 29,308	$ 30,510

Capital Expenditures
(Expressed in Thousands)

	2023	2022	2021
Construction in progress	$ 19	$ 9	$ 92
Tools/machinery/equipment	181	969	-
Leasehold improvements		-	1,059
Total	$ 200	$ 978	$ 1,151

As of June 30, 2023, the carrying value of capital assets, net of depreciation was $27,244, a decrease of $2,064 from 2022. The decrease is comprised of capital additions of $200 and depreciation of $2,264.

As of June 30, 2022, the carrying value of capital assets, net of depreciation was $29,308, a decrease of $1,202 from 2021. The decrease is comprised of capital additions of $978, and depreciation of $2,180.

Additional information on the Service's capital assets can be found in Note 3 to the financial statements.

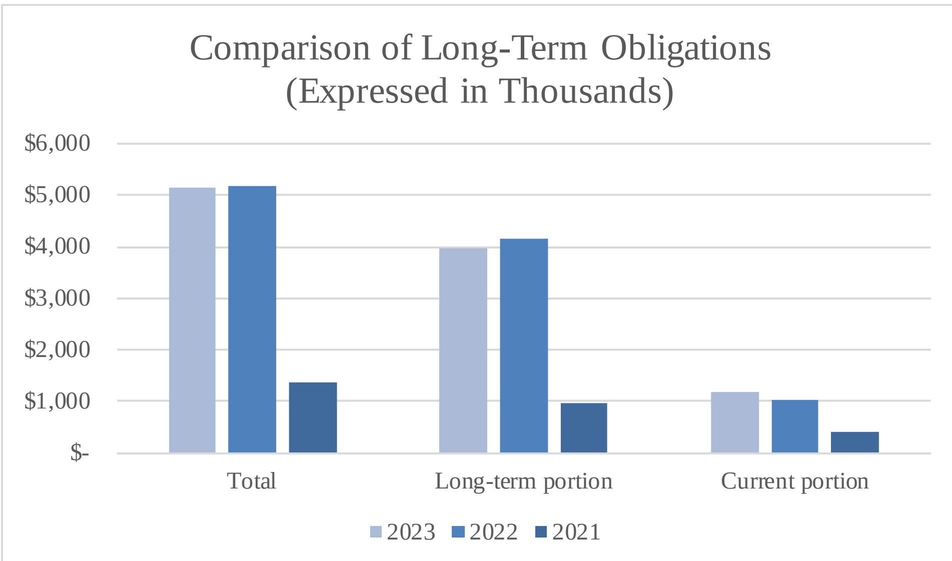
Long-Term Obligations

The following table and graph present outstanding long-term obligations as of June 30, 2023, 2022, and 2021:

Maryland Environmental Service:

Long-Term Obligations
(Expressed in Thousands)

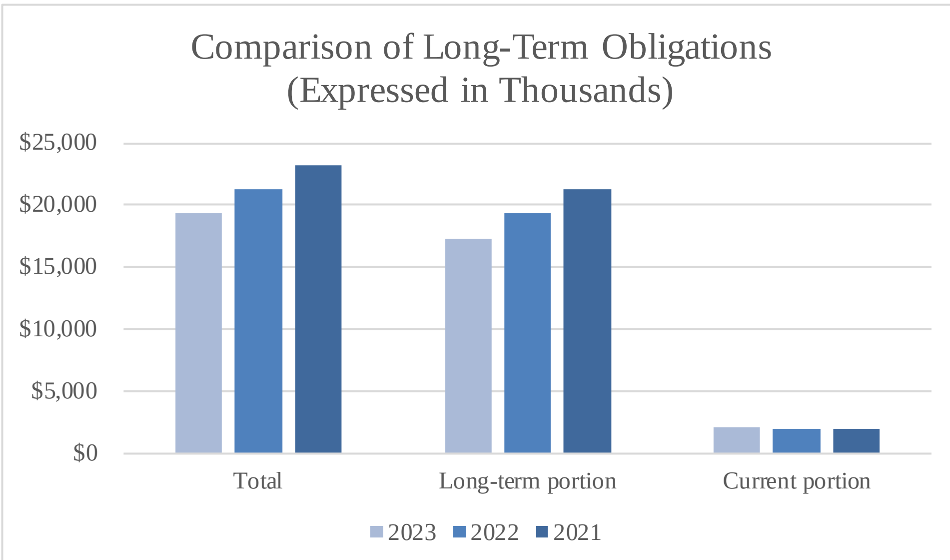
	2023	(Restated) 2022	2021
Lease liabilities	$ 4,611	$ 4,235	$ -
Bonds and note payable	531	957	1,359
Total	$ 5,142	$ 5,192	$ 1,359



Midshore Regional Landfill:

Bonds Outstanding
(Expressed in Thousands)

	2023	2022	2021
Bonds payable	$ 19,363	$ 21,326	$ 23,208
Total	$ 19,363	$ 21,326	$ 23,208



As of June 30, 2023, the Service's long-term obligations decreased $50 to $5,142 as a result of $1,285 new lease liabilities offset by $1,335 of principal payments.

As of June 30, 2022, the Service's long-term obligations increased $3,833 to $5,192 as a result of $4,695 new lease liabilities offset by $862 of principal payments.

As of June 30, 2023, Midshore long-term obligations was $19,363 representing a decrease in outstanding principal of $1,963.

As of June 30, 2022, Midshore long-term obligations was $21,326 representing a decrease in outstanding principal of $1,882.

Additional information on the Service's debt activity can be found in Note 7 to the financial statements.

Requests for information: To obtain further information regarding current and future programs, prior year financials and contact information for the Service's employees, please refer to our website at: www.menv.com.

MARYLAND ENVIRONMENTAL SERVICE
FINANCIAL STATEMENTS

Maryland Environmental Service
Statements of Net Position
As of June 30, 2023 and 2022
(Expressed in Thousands)

		2023		(As Restated) 2022
Assets				
Current assets:				
Cash and cash equivalents	$	12,641	$	23,585
Investments		59,688		19,062
Accounts receivable (net of allowance of $50)		34,698		38,402
Unbilled project costs accrued		3,674		3,186
Other		220		750
Total current assets		110,921		84,985
Non-current assets:				
Restricted cash		110		110
Due from project participants		6,873		8,168
Right to use leased assets, net of amortization		4,788		4,235
Capital assets, net of accumulated depreciation:				
Land		4,262		4,262
Buildings and improvements		4,737		4,903
Machinery and equipment		5,845		5,682
Total capital assets		14,844		14,847
Total non-current assets		26,615		27,360
Total assets		137,536		112,345
Deferred outflows:				
Deferred outflows related to OPEB		705		1,672
Deferred outflows related to pensions		450		514
Total deferred outflows		1,155		2,186
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses		27,709		29,361
Accrued annual leave		3,337		3,240
Due to Midshore and other projects		15,915		13,021
Advances from project participants		45,782		21,435
Lease liabilities, current portion		713		601
Note payable, current portion		453		426
Accrued workers' compensation costs		429		475
Total current liabilities		94,338		68,559
Non-current liabilities:				
Advances from project participants		1,106		1,151
Lease liabilities, less current portion		3,898		3,634
Note payable, less current portion		78		531
Accrued workers' compensation costs		2,428		2,693
Accrued annual leave		1,859		1,580
Net OPEB liability		1,253		2,234
Net pension liability		2,076		1,551
Total other liabilities		12,698		13,374
Total liabilities		107,036		81,933
Deferred inflows				
Deferred inflows related to OPEB		1,088		1,792
Deferred inflows related to pensions		524		1380
Total deferred inflows		1,612		3,172
Net Position				
Net investment in capital assets		14,490		13,902
Restricted net position		124		124
Unrestricted net position		15,429		15,400
Total net position	$	30,043	$	29,426

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, 2023 and 2022
(Expressed in Thousands)

	2023	(As Restated) 2022
Operating revenue:		
Charges for services	$ 196,447	$ 163,861
Operating grants	2,425	2,613
Total operating revenue	198,872	166,474
Operating expenses:		
Salaries and benefits	65,675	58,645
Contractual services	51,919	38,695
Technical fees	12,598	9,320
Utilities	15,370	11,689
Repairs and maintenance	5,728	4,698
Materials and supplies	12,009	8,788
Land, structures and equipment	19,776	19,785
Depreciation and amortization	2,158	2,072
General and administrative	12,849	13,071
Other	592	839
Total operating expenses	198,674	167,602
Operating income (loss)	198	(1,128)
Non-operating revenue (expenses):		
Investment income	671	4
Interest expense	(250)	(70)
Miscellaneous (expense) income	(2)	136
Non-operating revenue, net	419	70
Change in net position	617	(1,058)
Net position, beginning of year, restated	29,426	30,484
Net position, end of year	$ 30,043	$ 29,426

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

Maryland Environmental Service
Statements of Cash Flows
For the years ended June 30, 2023 and 2022
(Expressed in Thousands)

	2023	(As Restated) 2022
Cash Flows From Operating Activities		
Receipts from customers	$ 227,685	$ 176,007
Payments to suppliers	(129,071)	(108,030)
Payments to employees	(66,595)	(58,645)
Net cash provided by operating activities	32,019	9,332
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(1,527)	(210)
Principal maturities	(1,335)	(864)
Interest paid	(250)	(70)
Other receipts	27	135
Net cash used in capital and related financing activities	(3,085)	(1,009)
Cash Flows From Investing Activities		
Purchases of investments	(186,000)	(46,000)
Sales and maturities of investments	145,374	31,000
Interest and dividends	671	22
Net cash used in investing activities	(39,955)	(14,978)
Net changes in cash and cash equivalents	(11,021)	(6,655)
Cash and cash equivalents - beginning of the year	23,585	30,240
Cash and cash equivalents - end of the year	$ 12,564	$ 23,585
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 198	$ (1,128)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	2,158	1,612
Loss on disposal of capital assets	77	-
Change in non-cash operations:		
Receivables, net	3,216	(4,706)
Other assets	528	4,107
Accounts and other payables	(1,276)	(275)
Due from and advances from project participants	25,597	10,338
Net pension liability	(267)	(1,032)
Net OPEB liability	(718)	604
Net change due to/from Midshore	2,894	704
Accrued workers compensation	(311)	(892)
Net cash provided by operating activities	$ 32,096	$ 9,332
Noncash Capital and Financing Activities		
Lease obligations incurred for new right to use leased assets	$ 1,285	$ 4,695

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

Midshore Regional Landfill
Statements of Net Position
As of June 30, 2023 and 2022
(Expressed in Thousands)

	2023	2022
Assets		
Current assets:		
Due from MES	$ 15,915	$ 13,021
Accounts receivable	707	502
Total current assets	16,622	13,523
Non-current assets:		
Restricted investments	2,880	3,369
Capital assets not depreciated	1,775	1,756
Capital assets being depreciated, net	25,469	27,552
Total capital assets	27,244	29,308
Total other assets	30,124	32,677
Total assets	46,746	46,200
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	2,520	2,274
Advances from project participants	483	483
Bonds outstanding	2,056	2,003
Total current liabilities	5,059	4,760
Non-current liabilities:		
Bonds outstanding	17,307	19,323
Accrued landfill closure and postclosure care costs	10,120	7,342
Total non-current liabilities	27,427	26,665
Total liabilities	32,486	31,425
Deferred inflows:		
Deferred inflows related to debt refunding	169	192
Total deferred inflows	169	192
Net Position		
Net investments in capital assets	7,898	8,603
Restricted net position	1,804	1,738
Unrestricted net position	4,389	4,242
Total net position	$ 14,091	$ 14,583

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

Midshore Regional Landfill
Statements of Revenue, Expenses and Change in Net Position
For the years ended June 30, 2023 and 2022
(Expressed in Thousands)

	2023	2022
Operating revenue:		
Charges for services	$ 9,781	$ 8,840
Operating expenses:		
Salaries and benefits	2,039	1,723
Contractual services	415	458
Technical fees	78	780
Utilities	54	52
Operations and maintenance	722	675
Materials and supplies	151	149
Land, structures and equipment	311	302
Depreciation	2,264	2,180
Closure/post closure	3,611	1,579
General and administrative	583	515
Other, net	78	67
Total operating expenses	10,306	8,480
Operating (loss) income	(525)	360
Non-operating revenue (expenses):		
Interest income	553	15
Interest expense	(521)	(582)
Miscellaneous income	1	6
Non-operating revenue (expenses), net	33	(561)
Change in net position	(492)	(201)
Net position, beginning of year	14,583	14,784
Net position, end of year	$ 14,091	$ 14,583

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

Midshore Regional Landfill
Statements of Cash Flows
For the years ended June 30, 2023 and 2022
(Expressed in Thousands)

	2023	2022
Cash Flows From Operating Activities		
Receipts from customers	$ 9,577	$ 8,875
Payments to suppliers	(5,873)	(3,677)
Payments to employees	(2,039)	(1,723)
Net cash provided from operating activities	1,665	3,475
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(200)	(978)
Proceeds from sale of capital assets	-	6
Principal maturities	(1,797)	(1,733)
Interest paid	(710)	(755)
Net cash used in capital and related financing activities	(2,707)	(3,460)
Cash Flows From Investing Activities		
Purchases of investments	-	(30)
Proceeds from sale of investments	489	-
Interest and dividends	553	15
Net cash provided by (used in) from investing activities	1,042	(15)
Net changes in cash and cash equivalents	-	-
Cash and cash equivalents - beginning of the year	-	-
Cash and cash equivalents - end of the year	$ -	$ -
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (525)	$ 360
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation expense	2,264	2,180
Change in non-cash operations:		
Accounts receivables	(204)	34
Accounts and other payables	246	726
Due from MES	(2,894)	(704)
Accrued landfill closure	2,778	879
Net cash from operating activities	$ 1,665	$ 3,475

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

Maryland Environmental Service
Other Postemployment Benefit Plan
Statement of Fiduciary Net Position
As of June 30, 2023 and 2022
(Expressed in Thousands)

	2023	2022
Assets		
Cash and short-term investments	$ 760	$ 371
Investments:		
Equities	3,871	3,222
Other	2,057	1,734
Total investments	5,928	4,956
Total assets	6,688	5,327
Net position held in trust for other postemployment benefits	$ 6,688	$ 5,327

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

Maryland Environmental Service
Other Postemployment Benefit Plan
Statement of Changes in Fiduciary Net Position
For the years ended June 30, 2023 and 2022
(Expressed in Thousands)

	2023	2022
Additions		
Employer contributions	$ 1,136	$ 479
Investment Income:		
Net appreciation (depreciation) in fair value of investments	304	(793)
Interests and dividends	183	166
Total investment income	487	(627)
Less investment expense	21	16
Net investment income (loss)	466	(643)
Total additions	1,602	(164)
Deductions		
Benefits paid	241	180
Net change	1,361	(344)
Net position held in trust for other postemployment benefits		
Net position, beginning of year	5,327	5,671
Net position, end of year	$ 6,688	$ 5,327

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

(1) Organization and Summary of Significant Accounting Policies

(a) Reporting Entity

The General Assembly created Maryland Environmental Service (MES or 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 discrete 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®.

The Service also reports a second major enterprise fund for the purpose to account for 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.

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

(a) Reporting Entity *(continued)*

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 Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

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

The accompanying financial statements present the financial position and results of operations of all of the Service, Midshore and OPEB Plan activities. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under these standards, 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 GASB requires that resources be classified into three categories of net position. Net position represents the residual interest in the Service's assets plus deferred outflows (as applicable) of resources less liabilities plus deferred inflows (as applicable) of resources and consist of net investment in capital assets, restricted and unrestricted, as follows:

Net investment in capital assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, and right to use lease assets, net of amortization reduced by the outstanding balances of bonds, mortgages, notes, lease liabilities or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position.

Restricted: Restricted net position represents the portion of net position that is reported as restricted when there are external third-party limitations (statutory, contractual or bond covenant) on its use.

Unrestricted: Unrestricted net position represents the portion of net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by the Board or may be otherwise limited by contractual agreements with outside parties.

(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.

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

(d) Cash and Cash Equivalents

The Service's cash is considered to be cash on hand and demand deposits and highly liquid interest investments with maturities of three months or less from the date of acquisition.

(e) Investments

The Service's investments are reported at fair value using quoted market price or the best available estimate thereof. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(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 asset's life are not capitalized.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impaired assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used are measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage are measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. The Service did not record any impairment charges as of June 30, 2023 and 2022 as there were no indicators of impairment.

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) Receivables and Payables

During the course of its operations, the Service has numerous transactions with Midshore Regional Landfill to manage operations, provide services, construct assets, and service debt. To the extent that such transactions have not been paid or received as of June 30, the balances of interfund amounts receivable or payable have been reflected accordingly.

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

(h) Receivables and Payables (continued)

All receivables are shown net of an allowance for uncollectible accounts. Accounts receivable in excess of 90 days that are not deemed collectible are written off against the allowance for uncollectible accounts.

The Service payables include project related expenses and accruals, personnel related costs, and pass-through product revenues owed to some of its major clients.

(i) Right to use assets

The Service has recorded right to use lease assets as a result of implementing GASB 87, *Leases* and GASB 96 *Subscription-Based Information Technology Arrangements*. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

(j) 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.

(k) 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.

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

(j) 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. The Service's deferred outflows consistent of changes to pension and OPEB expenses. Deferred outflows of resources relating to pension and OPEB are described in Notes 9 and 10, respectively.

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. The Service's deferred inflows consisted of items relating to pension and OPEB, as described in Notes 9 and 10, respectively.

(l) 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.

(m) Long Term Obligations and Bond Discount

Long term debt and other long-term obligations, including long-term contractual lease payments are reported as liabilities in the applicable Statements of Net Position. Bond payable is reported net of bond discount, which is recognized during the current period. Bond discount is amortized to interest expense using the effective interest method over the contractual term of the bonds.

(n) 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, 2023, there was no arbitrage rebate liabilities.

(o) 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, deferred outflows, liabilities, and deferred inflows 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.

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

(p) Accounting Pronouncements Adopted

The Service adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* for the year ended June 30, 2023. This Statement required the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. The implementation of GASB 96 resulted in the Service recognizing right-to-use lease assets and lease liabilities. Standard was adopted as of July 1, 2021, see note 15 - Restatement which discusses the effects of the adoption of the new standard.

(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 $12,641 and $23,585 as of June 30, 2023 and 2022, respectively. Included, as cash equivalents for financial statement presentation, were certain overnight investments of $15,474 and $25,225, offset by $2,833 and $1,640 of outstanding checks as of June 30, 2023 and 2022, respectively. 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.

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, 2023:

- US Treasury investments of $59,688 are valued at quoted market price (Level 1 inputs)

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

The Service has the following recurring fair value measurements as of June 30, 2022:

- US Treasury investments of $19,062 are valued at quoted market price (Level 1 inputs)

As of June 30, 2023, 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
US Treasuries	Aaa	$ 59,688	$ 59,688				

As of June 30, 2022, 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
US Treasuries	Aaa	$ 19,062	$ 19,062	$ -	$ -	$ -	$ -

As of June 30, 2023, 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
US Treasuries		$ 864	$ 864	$ -	$ -	$ -	$ -
Money Market Funds		2,016	2,016	-	-	-	-
	Aaa	$ 2,880	$ 2,880	$ -	$ -	$ -	$ -

As of June 30, 2022, 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
US Treasuries		$ 836	$ 836	$ -	$ -	$ -	$ -
Money Market Funds		2,533	2,533	-	-	-	-
	Aaa	$ 3,369	$ 3,369	$ -	$ -	$ -	$ -

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.

(In thousands except where noted)

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

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:

Maryland Environmental Service:

	2023	2022
Service held:		
Project restricted	$ 110	$ 110

Midshore Regional Landfill:

	2023	2022
Trustee held:		
Closure Fund	$ 820	$ 795
Construction Funds	1,196	1,738
Service held:		
Liability Fund	864	836
	$ 2,880	$ 3,369

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. Cash and investments of $6,688 and $5,327 were uncollateralized and exposed to credit risk as of June 30, 2023 and 2022, respectively.

(In thousands except where noted)

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

The Service has the following recurring fair value measurements as of June 30, 2023 and 2022:

- All investments consist of equities and mutual funds and 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, 2023, the Plan had the following investments that represented 5% or more of total investments:

Issue	Fair Value	Percentage
iShares CORE S&P 500 ETF	$ 2,170	37%
Vanguard Total Bond Market Index Fund	1,240	21%
iShares CORE S&P MID-CAP ETF	503	8%
iShares CORE S&P SMALL-CAP ETF	436	7%
iShares MSCI USA EFT	313	5%
iShares MSCI EAFE EFT	299	5%
DODGE & COX Incle Fund	272	5%
Blackrock Srat Inc OPP-INST	241	4%

As of June 30, 2022, the Plan had the following investments that represented 5% or more of total investments:

Issue	Fair Value	Percentage
Vanguard Total Stock Market ETF	$ 1,210	24%
Vanguard Total Bond Market Index Fund	1,150	23%
Dodge & Cox International Stock Fund	630	13%
iShares MSCI EAFE EFT	548	11%
Fidelity Investment MM TSY	371	7%
Fidelity MSCI Real Estate Index ETF	348	7%
Blackrock High Yield Bond Portfolio	346	7%

(In thousands except where noted)

(3) Capital Assets

The tables below represent the changes in capital:

Maryland Environmental Service – Year Ending June 30, 2023:

	Balance 06/30/22	Additions	Deletions	Transfers In/Out	Balance 06/30/23
Capital assets, not depreciated					
Land and improvements	$ 4,262	$ -	$ -	$ -	$ 4,262
Total capital assets not depreciated	4,262	-	-	-	4,262
Capital assets, being depreciated					
Structures and improvements	11,561	-	(249)	-	11,312
Equipment	18,720	1,527	(1,806)	-	18,441
Total capital assets being depreciated	30,281	1,527	(2,055)	-	29,753
Less: accumulated depreciation for					
Structures and improvements	6,659	165	(249)	-	6,575
Equipment	13,037	1,261	(1,702)	-	12,596
Total accumulated depreciation	19,696	1,426	(1,951)	-	19,171
Total capital assets, net	$ 14,847	$ 101	$ (104)	$ -	$ 14,844

Maryland Environmental Service – Year Ending June 30, 2022:

	Balance 06/30/21	Additions	Deletions	Transfers In/Out	Balance 06/30/22
Capital assets, not depreciated					
Land and improvements	$ 4,262	$ -	$ -	$ -	$ 4,262
Construction in progress	-	-	-	-	-
Total capital assets not depreciated	4,262	-	-	-	4,262
Capital assets, being depreciated					
Structures and improvements	11,561	-	-	-	11,561
Equipment	20,060	210	(1,660)	110	18,720
Total capital assets being depreciated	31,621	210	(1,660)	110	30,281
Less: accumulated depreciation for					
Structures and improvements	6,487	172	-	-	6,659
Equipment	13,147	1,440	(1,550)	-	13,037
Total accumulated depreciation	19,634	1,612	(1,550)	-	19,696
Total capital assets, net	$ 16,249	$ (1,402)	$ (110)	$ 110	$ 14,847

(In thousands except where noted)

(3) Capital (continued)

Midshore Regional Landfill – Year Ending June 30, 2023:

	Balance 06/30/22	Additions	Deletions	Transfers In/Out	Balance 06/30/23
Capital assets, not depreciated					
Land and improvements	$ 1,690	$ -	$ -	$ -	$ 1,690
Construction in progress	66	19	-	-	85
Total capital assets, not depreciated	1,756	19	-	-	1,775
Capital assets, being depreciated					
Structures and improvements	49,579	-	-	-	49,579
Equipment	5,235	181	(513)		4,903
Total capital assets being depreciated	54,814	181	(513)	-	54,482
Less: accumulated depreciation for					
Structures and improvements	23,802	1,821	-	-	25,623
Equipment	3,460	443	(513)		3,390
Total accumulated depreciation	27,262	2,264	(513)	-	29,013
Total capital assets, net	$ 29,308	$ (2,064)	$ -	$ -	$ 27,244

Midshore Regional Landfill – Year Ending June 30, 2022:

	Balance 06/30/21	Additions	Deletions	Transfers In/Out	Balance 06/30/22
Capital assets, not depreciated					
Land and improvements	$ 1,690	$ -	$ -	$ -	$ 1,690
Construction in progress	57	9	-	-	66
Total capital assets, not depreciated	1,747	9	-	-	1,756
Capital assets, being depreciated					
Structures and improvements	49,579	-	-	-	49,579
Equipment	4,699	969	(433)	-	5,235
Total capital assets being depreciated	54,278	969	(433)	-	54,814
Less: accumulated depreciation for					
Structures and improvements	22,011	1,791	-	-	23,802
Equipment	3,504	389	(433)	-	3,460
Total accumulated depreciation	25,515	2,180	(433)	-	27,262
Total capital assets, net	$ 30,510	$ (1,202)	$ -	$ -	$ 29,308

(In thousands except where noted)

(4) Right to Use Leased Assets

The tables below represent the changes in right to use lease assets:

Maryland Environmental Service – Year Ending June 30, 2023:

	(Restated) Balance 06/30/22	Additions	Deletions	Transfers In/Out	Balance 06/30/23
Right to use leased assets, being depreciated					
Land	$ 616	$ -	$ -	$ -	$ 616
Subscription based software	4,079	1,285	-	-	5,364
Total capital assets being depreciated	4,695	1,285	-	-	5,980
Less: accumulated amortization for					
Land	-	32	-	-	32
Subscription based software	460	700	-	-	1,160
Total accumulated depreciation	460	732	-	-	1,192
Total right to use leased assets, net	$ 4,235	$ 553	$ -	$ -	$ 4,788

Maryland Environmental Service – Year Ending June 30, 2022:

	(Restated) Balance 06/30/21	Additions	Deletions	Transfers In/Out	(Restated) Balance 06/30/22
Right to use leased assets, being depreciated					
Land	$ -	$ 616	$ -	$ -	$ 616
Subscription based software	4,079	-	-	-	4,079
Total capital assets being depreciated	4,079	616	-	-	4,695
Less: accumulated amortization for					
Land	-	-	-	-	-
Subscription based software	-	460	-	-	460
Total accumulated depreciation	-	460	-	-	460
Total right to use leased assets, net	$ 4,079	$ 156	$ -	$ -	$ 4,235

(5) Construction Commitments

The Service entered into construction contracts with unrelated parties in the amount of $85 for the construction of Midshore Cell # 3. As of June 30, 2023, all commitments had been incurred.

(6) Concentrations of Credit

The Service derived approximately 57% and 58% of its revenue in the years ended June 30, 2023 and 2022, respectively, from providing services to the State of Maryland.

(In thousands except where noted)

(7) Lease Liabilities

The Service reports its leasing arrangements that qualify as other than short-term leases at the present value of their future minimum lease payments as of the date of its inception.

The Service leases office space under a non-cancellable agreement requiring monthly payments expected to range from $4 to $6 through August 2041. The Service also leases third-party technology requiring annual payments ranging from $603 to $968 through June 2030. The lease liabilities were measured at a discount rate of 5%. Associated with these leases, the Service has recorded right to use assets with net book values of $4,788 and $4,235 at June 30, 2023 and 2022, respectively.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2023, were as follows:

Years ending June 30:	**Principal**	**Interest**	**Total**
2024	$ 713	$ 235	$ 948
2025	783	198	981
2026	854	159	1,013
2027	596	115	711
2028	565	84	649
Thereafter	1,100	237	1,337
Total	$ 4,611	$ 1,028	$ 5,639

(8) Debt

Maryland Environmental Service:

The Service issued a General Obligation Bond in 2007 to finance the acquisition of property associated with a project in Talbot County. Costs associated with carrying and maintaining the property were charged to the project, however the debt was payable from the Service's resources. The Service paid off the General Obligation Bond remaining balance in April 2021.

On April 5, 2003, the Service received note proceeds of $5.5 million from a lending institution. The note agreement requires monthly payments of $39 through August 2024 including interest at 6.98%.

Future minimum payments for the note payable as of June 30, 2023, were due as follows:

Years ending June 30:	**Principal**	**Interest**	**Total**
2024	$ 453	$ 20	$ 473
2025	78	1	79
Total	$ 531	$ 21	$ 552

(In thousands except where noted)

(8) Debt (continued)

Midshore Regional Landfill:

Bonds outstanding (including current portion) consists of the following as of June 30:

	2023	2022
Midshore II Regional Landfill Project Revenue Bonds, Series 2020 $9,805 (plus bond premium of $1,700); interest at 3.0% to 4.0% paid semiannually on May 1 and November 1; due in annual installments beginning 2021 through 2030 in varying amounts from $815 to $1,160.	$ 9,678	$ 10,617
Midshore II Regional Landfill Project Revenue Bonds, Series 2018 $7,850 (plus bond premium of $793); interest at 3.0% to 5.0% paid semiannually on May 1 and November 1; due in annual installments beginning 2018 through 2030 in varying amounts from $500 to $1,260.	6,849	7,466
Midshore II Regional Landfill Project Revenue Bonds, Series 2014 $2,940 ; interest at 3.1% paid semiannually on May1 and November 1; due in annual installments beginning 2014 trough 2029 in varying amounts from $247 to $369	2,050	2,356
Hobbs Road Landfill Closure Project Water Quality Bond, Series 2011A; April 2011 $1,087; 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.	786	887
Total	19,363	21,326
Less: current portion	2,056	2,003
Long-term portion of debt	$ 17,307	$ 19,323

(In thousands except where noted)

(8) Debt (continued)

Future minimum payments for bonds payable as of June 30, 2023, were due as follows:

Years ending June 30:	Total	Principal	Interest
2024	$ 2,492	$ 1,868	$ 624
2025	2,493	1,945	548
2026	2,489	2,021	468
2027	2,487	2,102	385
2028	2,488	2,189	299
2029-2031	7,481	7,130	351
	19,930	17,255	2,675
Plus: Unamortized bond premium	2,108	2,108	-
Total	$ 22,038	$ 19,363	$ 2,675

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. These bonds were defeased in November 2020.

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.

(8) Debt (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.

MES issued $8.9 million in tax-exempt bonds in July of 2018, for the purpose of financing the cost of the planning, design, construction, equipping and operation of Midshore II Regional Landfill Project Cell #3, located in Caroline County, Maryland, to improve or increase the disposal capacity of the Midshore II Landfill. The Service entered into separate Waste Disposal Service Agreements in 2009 with County Commissioners of Caroline County, County Commissioners of Queen Anne's County, County Commissioners of Kent County and Talbot County, Maryland. Each of the Midshore Counties has agreed to deliver all its Acceptable Waste for disposal at the Regional Landfill, in each year throughout the term of the Series 2018 Bonds and to pay certain disposal fees. The Service Agreements executed by each Midshore County contain substantially similar terms and conditions. Each Midshore County will pay the Service a per-ton disposal fee (or Tipping Fee) for Acceptable Waste deliveries to the Regional Landfill by the Midshore County. The Service will also charge a Tipping Fee for disposal of Acceptable Waste deliveries to the Regional Landfill by persons other than the Midshore Counties. If in any year the Tipping Fees charged to all users of the Midshore II Landfill, other operating revenues of the Midshore II Landfill, including, but not limited to, charges for services or use of property or equipment, proceeds from the sale of recovered materials and revenues from gas, steam, or electricity, and interest earnings on money held by the Service in the Special Purpose Fund are insufficient to pay the total costs, defined in the Service Agreements and including but not limited to the costs of financing and operating the Regional Landfill, then each County will pay the Service a fee equal to its share based on its population compared to the population of all Midshore Counties of such deficiency.

Midshore issued $9.8 million in tax-exempt bonds in September 2020 with a premium of $1.7 million, for the purpose of refunding Midshore's outstanding revenue bond 2011 series. This funding, along with $1.1 million in debt service reserve fund sources, was used to defease the 2011 Series and the Service has removed the liability from its accounts. The advance refunding reduced total debt service payments over the next 10 years by nearly $2.25 million. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $2.5 million. A deferred gain on refunding of $0.2 million was recorded as a result of the refunding.

(In thousands except where noted)

(8) Debt (continued)

The Service entered into separate Waste Disposal Service Agreements in 2009 with County Commissioners of Caroline County, County Commissioners of Queen Anne's County, County Commissioners of Kent County and Talbot County, Maryland. Each of the Midshore Counties has agreed to deliver all its Acceptable Waste for disposal at the Regional Landfill, in each year throughout the term of the Series 2020 Bonds and to pay certain disposal fees. The Midshore counties have agree to pay a Tipping Fee for each ton of acceptable waste delivered to the Service by or for the account of the Midshore Counties. The Tipping Fee might be adjusted by the Service. The Midshore Counties have also agreed in each fiscal year to pay a supplemental fee equal to the amount by which total costs exceed revenues in such fiscal year.

The Bonds are not payable from the general funds of the Service and do not constitute a legal or equitable pledge, or lien or encumbrance upon, any of the assets or property of the Service or upon any liability of the State of Maryland, of any political subdivision thereof (including the Subdivisions) or of the Service.

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

Maryland Environmental Service:

2023	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advances from project participants	$ 22,586	$ 76,164	$ (51,862)	$ 46,888	$45,782
Lease liabilities	4,235	982	(606)	4,611	713
Note payable	957	-	(426)	531	453
Accrued annual leave	4,820	3,683	(3,307)	5,196	3,337
Workers' compensation	3,168	-	(311)	2,857	429
Net OPEB liability	2,234	-	(981)	1,253	-
Net pension liability	1,551	525	-	2,076	-
Long-term liabilities	$ 39,551	$ 81,354	$ (57,493)	$ 63,412	$ 50,714

(Restated) 2022	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advances from project participants	$ 12,310	$ 51,987	$ (41,711)	$ 22,586	$ 21,435
Lease liabilities	4,079	616	(460)	4,235	601
Note payable	1,359	-	(402)	957	426
Accrued annual leave	4,660	3,404	(3,244)	4,820	3,240
Workers' compensation	4,060	3,168	(4,060)	3,168	475
Net OPEB liability	1,630	604	-	2,234	-
Net pension liability	2,583	-	(1,032)	1,551	-
Long-term liabilities	$ 30,681	$ 59,779	$ (50,909)	$ 39,551	$ 26,177

(In thousands except where noted)

(8) Debt (continued)

Midshore Regional Landfill:

2023	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 21,326	$ -	$ (1,963)	$ 19,363	$ 2,056
Landfill closure and postclosure care	7,342	3,113	(335)	10,120	-
Long-term liabilities	$ 28,668	$ 3,113	$ (2,298)	$ 29,483	$ 2,056

2022	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 23,208	$ -	$ (1,882)	$ 21,326	$ 2,003
Landfill closure and postclosure care	6,462	1,125	(245)	7,342	-
Long-term liabilities	$ 29,670	$ 1,125	$ (2,127)	$ 28,668	$ 2,003

(9) Accrued Workers' Compensation Costs

The accrued workers' compensation costs, applicable to the Service's coverage discussed in Note 13, 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 5 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 Annual Comprehensive Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202 or at https://sra.maryland.gov/annual-financial-reports.

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 $40 and $288, respectively, for the years ended June 30, 2023 and 2022.

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, 2023 and 2022 was $2,913 and $3,001, respectively. Employees are fully vested when eligible for the plan.

(In thousands except where noted)

(10) Pension (continued)

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

As of June 30, 2023 and 2022, the Service reported a liability of $2,076 and $1,551, respectively, for its proportionate share of the ERS net pension liability. The ERS net pension liability was measured as of June 30, 2023 and 2022, 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. The Service's proportion for ERS was 0.0127% for both of the years ended June 30, 2023 and 2022.

For the years ended June 30, 2023 and 2022, the Service recognized pension expense for ERS of approximately $526 and $512, respectively. As of June 30, 2023, the Service reported deferred outflows of resources and deferred inflows of resources related to ERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 211	$ -
Net difference between projected and actual earnings on pension plan investment	10	-
Net difference between actual and expected experience	-	(159)
Net change in proportionate share	-	(365)
Contributions made subsequent to the measurement date	229	-
Total	$ 450	$ (524)

The $450 reported as deferred outflows of resources relates 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS will be recognized in pension expense as follows:

	Deferred Outflows	Deferred Inflows		
Years Ending June 30	Change in Assumptions	Net difference between projected and actual earnings on pension plan investments	Net change in proportionate share	Actual and Expected Experience
2024	$ 54	$ (18)	$ (117)	$ (53)
2025	56	(31)	(160)	(37)
2026	66	(79)	(66)	(32)
2027	35	138	(22)	(25)
2028	-	-	-	(12)
Total	$ 211	$ 10	$ (365)	$ (159)

(In thousands except where noted)

(10) Pension (continued)

Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position are available at https://sra.maryland.gov/actuarial-valuation-reports.

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 6.80% is $2,076. 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 (5.80%) is $3,186 or 1 percentage point higher (7.80%) is $1,156.

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 for coverage under the Service's plan, an employee must retire from the Service at age 60 or older and have at least 16 years of service with the Service. Through December 31, 2018, the Plan reimbursed retirees for eligible medical expenses incurred by the retiree or spouse up to $3,600 per calendar year per retiree. Effective January 1, 2019, the annual limit was increased to $4,000 for current retirees. For retirements on or after January 1, 2019, the annual limit is based on the number of years of service at retirement, as follows:

Service at Retirement	Annual Limit
15-19	$ 4,000
20-24	$ 4,500
25-29	$ 5,000
30+	$ 5,500

Retirees are not required to contribute to the Plan.

(11) Other Postemployment Benefits (OPEB)

The number of participants in the OPEB Plan as of the actuarial valuation date of July 1, 2022, was as follows:

Active	751
Retired	53
Total	804

General: Participation in the Plan is on a voluntary basis. In order to participate in the Plan, a retiree must complete annual enrollment forms. Participation is effective on the first of the month following the date the Service receives the completed enrollment forms.

Contributions: The Service makes contributions to the Plan on a quarterly basis based on an actuarially determined amount in accordance with the actuarial valuation. Participants do not contribute to the Plan.

Benefit Payment: The reimbursement account can be used to pay for any healthcare expense that would qualify as a deduction under IRS rules such as deductibles and copayments, dental expenses, prescription drug costs, vision care expenses. The expenses submitted for reimbursement must not be eligible for payment or reimbursement under any other health plan.

(11) Other Postemployment Benefits (OPEB) (continued)

Plan Termination: Although it has not expressed intent to do so, the Service has the right to discontinue its contributions or to terminate the Plan. Upon termination of the Plan, any unused benefits at the time of termination may be used up to the end of the Plan year in which termination occurs.

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, 2021, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 6.0% 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.

Funding Policy: The Service has 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. The Service contributed $1,135 and $478, respectively, in fiscal years 2023 and 2022. Total reimbursement of medical expenses was $241 and $156, respectively, in fiscal years 2023 and 2022.

As of the June 30, 2023, the Plan was 84.2% funded. The actuarial accrued liability for benefits was $7,941 resulting in a total net OPEB liability of $1,253.

Annual OPEB Cost and Net Obligation: The Service's annual 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 30 years. For the fiscal year ended June 30, 2023, the Service's annual OPEB cost was $169.

Plan Expenses: The Plan incurs investment expenses in proportion to its share of each investment for which it is involved. The Service absorbs all internal administration costs related to the Plan.

(In thousands except where noted)

(11) Other Postemployment Benefits (OPEB) (continued)

The components of the net OPEB liability of the Service as of June 30, 2023, were as follows:

Total OPEB liability	$	7,941
Plan fiduciary net position		6,688
MES's net OPEB Liability	$	1,253
Plan fiduciary net position as a percentage of total OPEB liability		84.2%

Year Ended June 30,		**2023**		**2022**
Total OPEB Liability				
Service cost	$	164	$	156
Interest		456		516
Changes of benefit terms		-		-
Difference between expected and actual experience		1		(756)
Changes in assumptions and other inputs		-		523
Benefit payments		(241)		(179)
Net Change in Total OPEB Liability		380		260
Total OPEB Liability - Beginning		7,561		7,301
Total OPEB Liability - Ending	$	7,941	$	7,561
Plan Fiduciary Net Position				
Contributions - employer	$	1,136	$	479
Net investment income		466		(643)
Benefit payments		(241)		(180)
Net Change in Plan Fiduciary Net Position		1,361		(344)
Plan Fiduciary Net Position - Beginning		5,327		5,671
Plan Fiduciary Net Position - Ending	$	6,688	$	5,327
Net OPEB Liability	$	1,253	$	2,234

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.

(In thousands except where noted)

(11) Other Postemployment Benefits (OPEB) (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, 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, 2021, the actuarial valuation date, the entry age normal cost method was used. The actuarial assumptions included a 6.0% 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.

As of July 1, 2021, the latest actuarial valuation date, the accrued liability for the Plan was $7,301.

Actuarial valuation date		July 1, 2021
Actuarial value of assets	$	6,688
Actuarial accrued liability	$	7,941
Unfunded actuarial liability	$	1,253
Funded ratio		84.2%
Annualized covered payroll	$	55,306
Inflation		2.00%
Ratio of unfunded actuarial liability to annual covered payroll		2.27%
Actuarial cost method		Entry age
Money-weighted return		-10.75%

Mortality rates were based on the PubG.H-2010 Employee and Healthy Retiree Mortality Tables, with generational projection using Scale MP-2020.

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

Asset Class	Target Allocation	Long-Term Expected Real Rates of Return
Cash & Equivalents	5.00%	-1.00%
Equity	70.00%	5.00%
Fixed Income	15.00%	1.50%
Real Estate	10.00%	4.00%
Other	0.00%	0.00%
Total	100.00%	9.50%

(In thousands except where noted)

(11) Other Postemployment Benefits (OPEB) (continued)

OPEB Deferred Outflows and Inflows of Resources

At June 30, 2023 and 2022, the Service reported deferred outflows of resources and deferred inflows of resources as follows:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference between actual and expected experience	$	65	$	689
Changes in assumptions		352		399
Difference between actual and expected investment earnings		288		-
Total	$	705	$	1,088

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

Years Ending June 30		
2024	$	92
2025		(124)
2026		91
2027		(107)
2028		(84)
Thereafter		(251)
Total	$	(383)

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate

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%) or 1 percentage point higher (8.0%) than the current discount rate:

	1% Decrease	No Change	1% Increase
Net OPEB liability	2,363	1,253	323

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 or 1 percentage-point higher than the current healthcare cost trend rates (7.0%):

	1% Decrease	No Change	1% Increase
Net OPEB liability	1,259	1,253	2,404

(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 become due and payable on demand. As of June 30, 2023, 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 postclosure monitoring and maintenance period. Total closure and postclosure care costs for the landfill is currently estimated to be $4,799, as determined through engineering studies and $3,057 has been recognized as a liability by the Service as of June 30, 2023.

Midshore II current cells are approximately 35% filled as of June 30, 2023, with a remaining life of 20 years. Total closure and postclosure care costs for the landfill is currently estimated to be $25,407, as determined through engineering studies, and $7,063 has been recognized as a liability by the Service as of June 30, 2023. 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, 2023. The Service expects to satisfy these requirements as of June 30, 2024, using the same criteria.

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

(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. As of June 30, 2023 and 2022, no additional assessments were made and the Service's premium for the years ended June 30, 2023 and 2022, was $4,970 and $4,528, respectively.

(15) Restatement of Prior Year

Right to use leased assets, net of amortization and lease liabilities were restated as a result of adopting GASB Statement No. 96 *Subscription-Based Information Technology Agreements*. This included the recording of a right of use lease asset and offsetting lease liability as of the July 1, 2021 implementation date. Also, there was a reclassification of lease expenses made in fiscal year 2022 from general and administrative expense to amortization of the right of use lease asset which is included in depreciation expense as shown below.

	Right to Use Lease Assets, net of Amortization	Lease Liabilities	Net Position
June 30, 2021			
Maryland Environmental Service			
Balance, as previously reported	$ -	$ -	$ 30,484
Adjustment due to implement of GASB 96	4,079	4,079	-
Balance, as restated	$ 4,079	$ 4,079	$ 30,484
June 30, 2022			
Maryland Environmental Service			
Balance, as previously reported	$ 616	$ 616	$ 29,426
Adjustment due to implement of GASB 96	3,619	3,619	-
Balance, as restated	$ 4,235	$ 4,235	$ 29,426

	Depreciation	General and Administrative	Change in Net Position
For the year ended June 30, 2022			
Maryland Environmental Service			
Balance, as previously reported	$ 1,612	$ 13,531	$ 617
Adjustment due to implement of GASB 96	460	(460)	-
Balance, as restated	$ 2,072	$ 13,071	$ 617

Maryland Environemental Service
Schedule of Changes in Net OPEB Liability and Related Ratios

Year Ended June 30,	2023	2022	2021	2020	2019	2018	2017
Total OPEB Liability							
Service cost	$ 164	$ 156	$ 150	$ 148	$ 111	$ 107	$ 152
Interest	456	516	490	410	285	343	319
Changes of benefit terms	-	-	-	-	1,312	-	-
Difference between expected and actual experience	1	(756)	(61)	321	6	(501)	-
Changes in assumptions and other inputs	-	523	(42)	450	173	(669)	-
Benefit payments	(241)	(179)	(180)	(175)	(120)	(89)	(84)
Net Change in Total OPEB Liability	380	260	357	1,154	1,767	(809)	387
Total OPEB Liability - Beginning	7,561	7,301	6,944	5,790	4,023	4,832	4,445
Total OPEB Liability - Ending	$ 7,941	$ 7,561	$ 7,301	$ 6,944	$ 5,790	$ 4,023	$ 4,832
Plan Fiduciary Net Position							
Contributions - employer	$ 1,136	$ 479	$ 541	$ 473	$ 263	$ 368	$ 335
Net investment income	466	(643)	999	(19)	176	154	349
Benefit payments	(241)	(180)	(180)	(175)	(120)	(89)	(84)
Net Change in Plan Fiduciary Net Position	1,361	(344)	1,360	279	319	433	600
Plan Fiduciary Net Position - Beginning	5,327	5,671	4,311	4,032	3,713	3,280	2,680
Plan Fiduciary Net Position - Ending	$ 6,688	$ 5,327	$ 5,671	$ 4,311	$ 4,032	$ 3,713	$ 3,280
Net OPEB Liability	$ 1,253	$ 2,234	$ 1,630	$ 2,633	$ 1,758	$ 310	$ 1,552
Plan fiduciary net position as a percentage of total OPEB Liability	84.2%	70.5%	77.7%	62.1%	69.6%	92.3%	67.9%
Covered Employee Payroll	55,306	53,178	$ 48,536	$ 46,669	$ 44,599	$ 42,883	$ 44,599
Net OPEB liability as a percentage of covered employee payroll	2.3%	4.2%	3.4%	5.6%	3.9%	0.7%	3.5%

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.

Changes of Benefit Terms: Effective January 1, 2019, the reimbursement limit for current retirees was increased to $4,000. For retirements on or after January 1, 2019, the reimbursement limit was changed to (a)
$4,000 for 15-19 years of service (b) $4,500 for 20-24 years of service, (c) $5,000 for 25-29 years of service, and (d) $5,500 for 30+ years of service at retirement.

Changes of Assumptions: Discount Rate 2017-2021 0.00%; 2022-2023 6.00%

Mortality Rates:

2017-2018	RPH-2014 Employee and Healthy Annuity, Generational with MP- 2018
2019	PubG.H-2010 Employee and Healthy Retiree, Generational with MP-2018
2020	PubG.H-2010 Employee and Healthy Retiree, Generational with MP-2019
2021	PubG.H-2010 Employee and Healthy Retiree, Generational with MP-2020
2022-2023	PubG.H-2010 Employee and Healthy Retiree, Generational with MP-2021

Maryland Environmental Service
Schedule of Employer Contributions OPEB

	2017	2018	2019	2020	2021	2022	2023
Actuarially Determined Contribution	$ 257	$ 266	$ 132	$ 287	$ 348	$ 283	$ 333
Employer Contribution	335	368	263	473	541	479	1,136
Contribution Deficiency/(Excess)	(78)	(102)	(131)	(186)	(193)	(196)	(803)
Covered Employee Payroll	39,956	42,883	44,599	46,669	48,536	53,178	55,306
Employer Contribution as a Percentage of Covered Employee Payroll	0.8%	0.9%	0.6%	1.0%	1.1%	0.9%	2.1%

Notes to Schedule

Methods and assumptions used to determine contributions rates:

Valuation Date:	Actuarially determined contributions are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percentage of payroll, closed
Amortization Period:	16 years
Asset Valuation Method:	Market Value
Inflation:	2.00%
Healthcare Cost Trend Rates:	6.50% initial, decreasing 0.50% per year to an ultimate rate of 5.00%
Salary Increases:	4.00% average, including inflation
Investment Rate of Return:	6.00%, net of plan investment expenses, including inflation
Retirement Rates:	In the actuarial valuation
Mortality Rates:	Mortality rates were based on the PubG.H-2010 Employee and Healthy Retiree mortality tables, Generational with Projection Scale MP-2021 for males or females, as appropriate.

Maryland Environmental Service
Schedule of Proportionate Share of Net Pension Liability

	2023	2022	2021	2020	2019	2018	2017	2016	2015
The Service's proportion of the ERS net pension liability	0.0127%	0.0127%	0.0122%	0.0127%	0.0155%	0.0131%	0.0159%	0.0143%	0.0125%
The Service's proportionate share of the ERS net pension liability	$ 2,076	$ 1,551	$ 2,583	$ 2,620	$ 3,260	$ 2,822	$ 3,761	$ 2,968	$ 2,102
The Service's covered employee payroll	997	1,062	1,085	1,119	1,365	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	208%	146%	238%	234%	239%	207%	147%	120%	97%
Plan net position as a percentage of the total pension liability	81.84%	81.84%	70.72%	72.34%	69.38%	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 Required Employer Pension Plan Contributions

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (ERS)	$ 229	$ 249	$ 228	$ 243	$ 262	$ 303	$ 318	$ 336	$ 301
Contributions in relation to the contractually required contribution	229	249	228	243	262	303	318	336	301
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
The Service's covered-employee payroll	$ 997	$ 1,062	$ 1,062	$ 1,085	$ 1,119	$ 1,365	$ 1,365	$ 2,557	$ 2,177
Contributions as a percentage of covered employee payroll	22.97%	23.45%	21.01%	21.72%	22.19%	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.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Maryland Environmental Service

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of each major fund and the fiduciary activities of Maryland Environmental Service (the Service), a component unit of the State of Maryland, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Service's basic financial statements, and have issued our report thereon dated December 22, 2023. Our report contained an emphasis of matter paragraph for the adoption of the provision of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*.

Report on Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Service's internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Service's internal control.

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

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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

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

RSM US LLP

Gaithersburg, Maryland
December 22, 2023