

MARYLAND ENVIRONMENTAL SERVICE

**Schedules of Indirect Costs Together with
Report of Independent Public Accountants**

For the Year Ended June 30, 2013



S B & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2013

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
SCHEDULES OF INDIRECT COSTS**

Board of Directors
Maryland Environmental Service

We have audited the financial statements of Maryland Environmental Service (the Service) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise of the Service's basic financial statements, and have issued our report thereon dated September 30, 2013, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Service's basic financial statements as a whole. The schedules of indirect costs are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing the reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hunt Valley, Maryland
September 30, 2013

SB & Company, LLC

MARYLAND ENVIRONMENTAL SERVICE

**Schedule of Indirect Cost Rate Calculation
For the Year Ended June 30, 2013 for FY 2015 Rate Setting**

	<u>General and Administrative Expense</u>	<u>Environmental Operations</u>	<u>Water/ Wastewater</u>	<u>Technical and Environmental Services</u>	<u>Total</u>
General and administrative expenses per financial statements excluding fringe variance	\$ 8,701,419	\$ 667,372	\$ 1,173,108	\$ 723,047	\$ 11,264,946
Cost adjustments	778,435	-	-	-	778,435
Total adjusted indirect overhead costs	<u>\$ 9,479,854</u>	<u>\$ 667,372</u>	<u>\$ 1,173,108</u>	<u>\$ 723,047</u>	<u>\$ 12,043,381</u>
Labor index					
Total direct salaries, including overtime premium	\$ 5,057,687	\$ 8,801,023	\$ 8,025,287	\$ 9,842,501	\$ 31,726,498
Plus total construction in progress and landfill closure cost salaries, including overtime premium	-	122,635	-	-	122,635
Total labor index	<u>\$ 5,057,687</u>	<u>\$ 8,923,658</u>	<u>\$ 8,025,287</u>	<u>\$ 9,842,501</u>	31,849,133
Less general and administrative salaries					<u>(5,414,987)</u>
Net labor index					<u>\$ 26,434,146</u>

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**Schedule of Indirect Cost Rate Calculation (continued)
For the Year Ended June 30, 2013 for FY 2015 Rate Setting**

Labor index:	Net Labor Index	Labor Rate Index	Adjusted Labor Index
(a) Labor index @ \$0-\$553,700	\$ 15,808,662	100%	\$ 15,808,662
(b) Labor index @ \$553,701-1,107,400	1,746,607	75%	1,309,955
(c) Labor index @ \$1,107,401 - \$1,582,400	950,000	50%	475,000
(d) Labor index @ \$1,582,401-1,898,900	478,537	25%	119,634
(e) Labor index @ over \$1,898,900	947,595	10%	94,760
(f) Labor Index @ 48 %	6,502,745	48%	3,121,318
Net labor index	\$ 26,434,146		\$ 20,929,329

General and administrative overhead cost rate:

G&A Overhead	Labor Rate Index	G&A Overhead Rate
\$ 9,479,854	\$ 20,929,329	45.29%

Group overhead rates:

	Group Overhead	Group Labor Index	Group Overhead Rate
Environmental Operations	\$ 667,372	\$ 8,923,658	7.48%
Water and Wastewater	1,173,108	8,025,287	14.62%
Technical and Environmental Service	723,047	9,842,501	7.35%

Cost adjustments:

Position changes			
66% retention of \$1,194,348 overhead variance			\$ 788,270
Cost transfers			(9,835)
Total cost adjustments			\$ 778,435

MARYLAND ENVIRONMENTAL SERVICE

**Schedule of Fringe Benefit Cost Rate Calculation
For the Year Ended June 30, 2013 for FY 2015 Rate Setting**

Labor index

Total direct salaries, including overtime premium	\$ 31,726,498
Plus total construction in progress and landfill closure cost salaries, including overtime premium	122,635

Total labor index	<u>\$ 31,849,133</u>
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Fringe costs

Salaries - holiday and personal leave	\$ 2,049,156
Salaries - sick leave	868,750
Salaries - vacation	2,114,615
Salaries - severance pay	40,280
Social security contribution	2,704,624
Health insurance	5,741,319
Retiree medical reimbursement plan	288,139
Employee retirement plan	2,214,190
Unemployment	361,509
Workers' compensation	190,746
State retirement - MES employees	24,089
State pension - MES employees	212,889
Group disability insurance	320,482
Contractual services	55,735
Apprentice training	38,281
Tuition reimbursement and training	115,323
Other	5,189
Subtotal	<u>17,345,316</u>

*Cost adjustments (99,356)

Total adjusted fringe costs	<u>\$ 17,245,960</u>
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Fringe benefit cost rate calculation:

$$\text{Fringe rate} = \frac{\text{Total fringe benefit costs}}{\text{total labor index}} = \frac{17,245,960}{31,849,133} = 54.15\%$$

*Cost adjustments

Health insurance inflation rate increase 3.0%	\$ 290,510
2013 Fringe Variance	(112,129)
Employee Retirement adjustment	(636,983)
Increase in State Retirement and Pension System from 13.98% to 17.17%	7,585
FY 2014 Workers' Compensation premium increase	559,458
FY 2015 Workers' Compensation premium decrease	<u>(207,797)</u>

Total cost adjustments	<u>\$ (99,356)</u>
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MARYLAND ENVIRONMENTAL SERVICE

Notes to the Schedules

For the Year Ended June 30, 2013

1. INDIRECT COST RECOVERY METHODOLOGY

The Board of Directors (the Board) of the Maryland Environmental Service (the Service or MES) authorized the Service to adopt and use the indirect cost recovery methodology described in Note 2. The methodology addresses the recovery of indirect overhead and fringe benefit costs.

2. INDIRECT OVERHEAD COSTS

The Maryland Environmental Service is organized into four basic groups: Administrative; Environmental Operations; Water/Wastewater; and Technical and Environmental Services. The indirect overhead costs to be allocated consist of the general and administrative expenses and group overhead costs included in the financial statements for the year ended June 30, 2013, adjusted for certain costs for rate setting purposes. These costs include fringe benefit and overhead variances, and certain cost transfers.

The labor index is used to recover indirect overhead costs, which consists of billable direct labor.

The calculated general and administrative recovery rate using the labor index is adjusted to meet the following criteria based upon direct labor incurred:

- a) For those projects where the labor index is less than or equal to \$553,700, the recovery rate is 100% of the base rate.
- b) For those projects where the labor index is over \$553,701 and under \$1,107,400, the recovery rate is 75% of the base rate.
- c) For those projects where the labor index equals or exceeds \$1,107,401, and under \$1,582,400 the recovery rate is 50% of the base rate.
- d) For those projects where the labor index equals or exceeds \$1,582,401 and under \$1,898,900, the recovery rate is 25% of the base rate.
- e) For those projects where the labor index equals or exceeds \$1,898,900, the recovery rate is 10% of the base rate.

The amounts in the labor index categories above reflect the amounts used in the previous year adjusted for a 1.0% inflation adjustment based on the Bureau of Labor Statistics 12-month Employment Cost Index.

MARYLAND ENVIRONMENTAL SERVICE

Notes to the Schedules

For the Year Ended June 30, 2013

2. INDIRECT OVERHEAD COSTS (continued)

The resulting recovery rates will then be used by the Service for the next full budget cycle (second fiscal year after the year for which the rates are calculated). As a result, the rates calculated for fiscal year 2013 will be used for setting the overhead rates for fiscal year 2015.

MES projects were segregated by master customer. Based on labor reports summarized by master customer, it was determined that the Baltimore County, the Montgomery County, the ECI CoGeneration Facility, and the Midshore projects had a labor index content at the levels reflected above, and therefore qualified for adjusted overhead rates. The amounts of labor index falling within each of the six rate categories were determined. Based on such amounts, the following standard rates were calculated as shown on schedule 1: General and Administrative 45.29%, Environmental Operations 7.48%, Water/Wastewater 14.62%, Technical and Environmental Services 7.35%. Certain projects that were determined technical in nature require extensive oversight and support are at a rate of 48%.

3. FRINGE BENEFIT COSTS

The labor index for recovering fringe benefit costs is total direct labor, including overtime premium costs. The fringe benefit costs have been adjusted to reflect projected changes in health insurance inflation rate increases and workers' compensation premiums based upon cost data provided by Maryland Department of Budget and Management, fringe benefit variance retention, and additional annual fringe benefits. This resulting recovery rate will then be used by the Service for the next full budget cycle (second fiscal year after the year for which the rate is calculated). As a result, the rate calculated for fiscal year 2013 will be used for setting the fringe benefit rate for fiscal year 2015. Based on such amounts, a standard rate of 54.15% was calculated as shown on schedule 2.