

**ST. MARY'S COUNTY LIBRARY**

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

**YEAR ENDED JUNE 30, 2016**

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**Murphy & Murphy, CPA, LLC**

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**Murphy & Murphy, CPA, LLC**  
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPONENT UNIT**  
**FINANCIAL STATEMENTS**

To the Board of Library Trustees  
for St. Mary's County Library

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of St. Mary's County Library, a component unit of St. Mary's County, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the St. Mary's County Library's basic financial statements, as listed in the table of contents.

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

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the St. Mary's County Library as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and OPEB funding progress information on pages 4-10 and 35-37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Mary's County Library's basic financial statements. The other supplemental information on pages 38-41 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule of expenditures, and schedule of expenditures - Gift and Grant Fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The budget information on pages 39 and 40 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the St. Mary's County Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the St. Mary's County Library's internal control over financial reporting and compliance.

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
September 30, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our Discussion and Analysis of the St. Mary's County Library's financial performance provides an overview of our financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Library's financial statements, which follow this section. The library's net position remained relatively stable and largely unchanged from the previous year, declining 2.78%. The library had slightly fewer assets and revenues, due in part to a difference in how "County funds for donated facilities" was factored. Growth in County and State funding by 3.6% did not quite offset a 2.5% step raise for salaries, increased accounting costs due to moving away from the county's finance system, and the need to replace outmoded computer equipment. This Management's Discussion and Analysis section includes the following parts:

- I. Overview of Our Financial Statements
- II. Condensed Comparative Financial Information
- III. Analysis of Library's Overall Financial Position
- IV. The Library's Funds
- V. Operating Fund Budgetary Highlights
- VI. Capital Assets and Debt Administration
- VII. The Future: Currently Known Facts, Decisions or Conditions

### I. Overview of Our Financial Statements

- *Condensed Comparative Financial Information: Summary Statements of Net Position and Summary Statements of Activities*

The *Summary Statements of Net Position and Summary Statements of Activities* include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account with regard for when funds are received or paid.

These two statements report the Library's net position in FY 2016 and also any changes in its net position since FY 2015. In our *Net Position*, increases or decreases in the Library's assets and liabilities are one indicator of its financial health. Other factors, however, such as changes in the St Mary's County's population, tax base, and capital assets and the State of Maryland's finances, are important for assessing the overall financial health of the Library, as these entities provide nearly all of our funding.

In our *Activities*, all of the Library's basic funds, revenues, salaries and benefits, depreciation, and expenses are included. The revenues fund all of our activities: general administration, our library collection, and public services, which include services in our branches and outreach services to special populations. County and State funding, federal grants and nominal user fees finance most of these activities. In FY 2016, the library had no business revenue: activities in which fees from customers cover all of the cost of services provided.

- *Analysis of Library's Overall Financial Position*

The *Analysis of Library's Overall Financial Position* provides a comparison of our FY 2016 total costs in comparison to FY 2015 and a breakdown of the percentages of those costs by funding and by expenditures.

- *Library Funds*

*The Library's Funds* financial statement provides details about the most significant external funding sources and the library's unexpended fund balance. Some funds are required to be established by State law. However, the Board of Library Trustees establishes other funds to help it manage and control assets for particular purposes or to show that it is meeting legal responsibilities for using certain grants and other money. All of the Library's funds are considered governmental funds. The focus is on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the library's general government operations. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance the Library's programs and to meet operating costs.

The Library has no proprietary funds wherein customers are charged for the cost of services provided.

- *Operating Fund Budgetary Highlights*

This section lists some notable events in our FY 2016 funding.

- *Capital Assets and Debt Administration*

This section details our capital assets and debt administration

- *The Future: Currently Known Facts, Decisions or Conditions*

Contains information and possible contingencies that might affect library operations in FY 2017 or the long-term.

## II. CONDENSED COMPARATIVE FINANCIAL INFORMATION

For the years ended June 30, 2016 and 2015, net position consisted of the following:

### Summary Statements of Net Position

	<u>2016</u>	<u>2015</u>	<u>% Change</u> <u>2015-2016</u>
Current and other assets	\$ 1,380,614	\$ 1,390,056	(.68)%
Capital assets, net	<u>1,374,475</u>	<u>1,394,574</u>	(1.46)%
<b>Total assets</b>	<b><u>2,755,089</u></b>	<b><u>2,784,630</u></b>	<b>(1.07)%</b>
Current liabilities	351,676	307,245	14.46%
Other liabilities	<u>97,607</u>	<u>107,380</u>	(10.01)%
<b>Total liabilities</b>	<b><u>449,283</u></b>	<b><u>414,625</u></b>	<b>9.23%</b>
Net position			
Net invested in capital assets	1,374,475	1,394,574	(1.46)%
Restricted	204,570	206,246	(.82)%
Unrestricted	<u>726,761</u>	<u>769,185</u>	(5.84)%
<b>Total net position</b>	<b><u>\$ 2,305,806</u></b>	<b><u>\$ 2,370,005</u></b>	<b>(2.78)%</b>

The Library's net position decreased 2.78% during the fiscal year ended June 30, 2016.

The following summary statements show how the changes in net position occurred.

### Summary Statements of Activities

	<u>2016</u>	<u>2015</u>	<u>% Change</u> <u>2015-2016</u>
County funds	\$ 2,588,064	\$ 2,498,064	3.60%
County funds – donated facilities	879,402	975,792	(10.96)%
State aid	635,737	612,413	3.80%
Grant revenues	13,149	14,474	(10.07)%
Other revenues	<u>671,673</u>	<u>733,312</u>	(9.17)%
<b>Total revenues</b>	<b><u>4,788,025</u></b>	<b><u>4,834,055</u></b>	<b>(9.60)%</b>
Salaries and employee benefits	2,588,251	2,405,652	7.59%
Rent Expense	879,402	975,792	(10.96)%
Depreciation	441,314	464,761	(5.31)%
Gift and grant expenses	23,018	40,561	(76.21)%
Other expenses	<u>920,239</u>	<u>930,039</u>	(1.06)%
<b>Total expenses</b>	<b><u>4,852,224</u></b>	<b><u>4,816,805</u></b>	<b>7.35%</b>
<b>(Decrease) Increase in net position</b>	<b><u>\$ (64,199)</u></b>	<b><u>\$ 17,250</u></b>	<b>(372.17)%</b>



### III. ANALYSIS OF LIBRARY'S OVERALL FINANCIAL POSITION

- In FY 2016, the total cost of the Library's programs was approximately \$4.85 million. In FY 2015, it was approximately \$4.82 million.
- The percentage of funding sources of total revenues is as follows:

	<u>FY 2016</u>	<u>FY 2015</u>
County funding	72%	72%
State funding	13%	13%
Fees, contributions, grants	15%	15%

- All of the expenditures of the Library are related to providing Library services to the residents of St. Mary's County. Of the total expenditures, the percentages spent on certain categories are as follows:

	<u>FY 2016</u>	<u>FY 2015</u>
Salaries and benefits	53%	50%
Rent	18%	20%
Depreciation of capital assets	10%	10%
Materials for circulation	9%	8%
Other costs (including technology)	10%	12%

### IV. THE LIBRARY'S FUNDS

In FY 2016 the Library received the following amounts:

- \$3,467,466, an amount which includes \$879,402 in donated facilities from St. Mary's County.
- \$635,737 from the State.

As the Library completed the 2016 fiscal year, its governmental funds reported a total operating fund balance of \$446,134. The Board's gift fund balance was \$220,280.

## V. OPERATING FUND BUDGETARY HIGHLIGHTS

- In FY 2016, the County allocation for the annual operating expenses was \$2,588,064, which was a 3.6% increase of \$90,000.
- In FY 2016, the Library received \$635,737 from the State, up \$23,324, or an increase of 3.7%.
- Revenue raised through overdue fines, printing fees and book sales amounted to \$256,452 compared to \$256,978 in FY 2015.
- Eligible staff received a step increase of 2.5% in the pay period of the anniversary of their hiring date.
- At the start of the Fiscal Year, the library was separated from St Mary's County finance system. We moved to ADP for payroll and maintain our own finances in QuickBooks. This move allows us to be more nimble in paying invoices but does require more bookkeeping time.
- Funding for materials for customers to check out was \$410,000. Funding for Information Technology equipment was \$35,500.
- Actual operating expenditures were \$10,214 over budgeted amount.

## VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital assets

At June 30, 2016, the Library had \$1,374,475 invested in vehicles, furniture and equipment and books, net of accumulated depreciation.

	<b><u>Library capital assets, net of depreciation</u></b>		<b><u>% Change</u></b>
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2015-2016</u></b>
Furnishings and equipment	\$ 51,376	\$ 70,580	(37.37)%
Leasehold improvements	77,205	78,960	(2.27)%
Vehicles	8,074	9,902	(2.26)%
Books	<u>1,237,820</u>	<u>1,235,132</u>	2.10%
<b>Total</b>	<b><u>\$ 1,374,475</u></b>	<b><u>\$ 1,394,574</u></b>	<b>(1.46)%</b>

Book additions, prior to depreciation, amounted to \$415,635 in 2016.

### Debt administration

The Library has no long-term debt, except for accrued leave of \$97,607.

## **VII. THE FUTURE: CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS**

- In FY 2016, the County allocation for the annual operating expenses was \$2,588,064. This provided funds for the staff to receive a merit increase, on the first day of their month of hire. County funding is expected to grow no more than 3.5% annually over the next few years.
- Passed by the legislature and signed into the law by the governor, effective July 1, 2016, MD SB337 accelerated library funding that had been intended to occur over 8 years to a 4 year period:

“Each county public library system that participates in the minimum library program shall be provided for each resident of the county, to be used for operating and capital expenses:

- (i) For each of fiscal years 2011 through 2015 – \$14.00;
- (ii) For fiscal year 2016 – \$14.27;
- (iii) For fiscal year 2017 – \$14.54;
- (iv) For fiscal year 2018 – [\$14.81] \$15.00;
- (v) For fiscal year 2019 – [\$15.08] \$15.50;
- (vi) For fiscal year 2020 – [\$15.35] \$16.00;
- (vii) For fiscal year 2021 – [\$15.62] \$16.43;

State support will increase more than had been anticipated in FY 2018 and beyond. The FY 2018 total will be about 1% higher than it was projected to be, up from \$14.81 per resident to \$15.00. Changes in population make the exact amount impossible to determine at this time, but St. Mary’s growing population makes some funding increases likely.

- New Leonardtown Library: In December 2015, Grimm & Parker was hired to design the new Leonardtown Library. An interior concept was approved by the Library Board of Trustees and County Commissioners in April 2016. An exterior concept was approved by those entities in July 2016 and by Leonardtown Council and by Planning and Zoning in September 2016. The building plans will be completed by June of 2017. Bidding will commence in August 2017, with bids awarded by January of 2018. Construction will last from March 2018 to September 2019. The County has approved \$10,194,250 in bonds for FY 2018 for this project. The library has applied for and is awaiting the results of a Library Capital Grant Fund from the State of Maryland for an additional \$1,500,000. For FY 2019, the County anticipates an additional 3 FTEs costing \$258,000 to be added to the library’s budget.
- Staffing Changes: In FY 2016, the library director and a manager with 43 years of service retired from the library system. A new director, Michael Blackwell, formerly manager of the Dublin Branch of the Columbus Metropolitan Library, was hired; A.M. Dillon was hired as a new manager. Savings in salaries from these changes allowed a small restructuring, adding a Youth Services Coordinator position to meet our system’s demand for increasing young minds’ programming. Salary costs remain flat while the library overall FTEs increase by 1.

## **VII. THE FUTURE: CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS (CONTINUED)**

- Changes in FLSA. The Fair Labor Standard Act will change substantially for the first time since 2004, effective December 1, 2016. The minimum annual salary for “Exempt” employees will increase to \$47,476. Five positions in the library are effected. In September 2016, upon the recommendation of the Library Director, the Library Board of Trustees raised the salaries of these positions to meet the new minimum. The cost, including FICA, will be \$18,380 annually at the current salary scale (\$10,781 for FY 2017), to be taken from the library’s unexpended fund balance in FY 2017. We will ask for a county funding increase to cover the additional amount in FY 2018.
- For FY 2017, St Mary’s County Library’s new Director has mandated amended fiscal processes to be more in line with GAAP. Previously, budget lines that went “into the red” were not adjusted until the end of a fiscal year, when the director would have the Board of Trustees approve one large budget amendment to move money between budget lines. In FY 2017, the Administrative Assistant and new Director are reviewing the budget weekly. Any budget line that approaches zero will be frozen. No more spending will be allowed in the budget line until the Board of Trustees approves a budget amendment upon the Director’s recommendation. Spending in some budget lines will be halted for the year; transfers will be approved only in cases of great necessity. The library has also approved increased work by the accounting firm of Askey and Askey to check its numbers on a quarterly basis. There will be an increase in accounting costs but also greater certainty about the budget numbers.

### **CONTACTING THE LIBRARY’S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Library’s finances and to show the Library’s accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Library Director’s office at 23250 Hollywood Road, Leonardtown, Maryland 20650.

ST. MARY'S COUNTY LIBRARY

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS  
BALANCE SHEET

JUNE 30, 2016

ASSETS

	<u>Governmental Funds</u>			<u>Adjustments</u>	<u>Statement</u>
	<u>Operating</u>	<u>Gift &amp; Grant</u>	<u>Total</u>	<u>(Note 3)</u>	<u>of net position</u>
	<u>Fund</u>	<u>Fund</u>			
Cash	\$ 409,327	\$ 638	\$ 409,965	\$ -	\$ 409,965
Investments	380,749	-	380,749	-	380,749
Restricted cash and investments	-	139,743	139,743	-	139,743
Due from operating fund	-	71,891	71,891	-	71,891
Due from fiduciary fund	6,773	-	6,773	-	6,773
Prepaid expenses	-	-	-	182,732	182,732
Other receivables	961	8,008	8,969	179,792	188,761
Capital assets, net	-	-	-	1,374,475	1,374,475
Total assets	<u>\$ 797,810</u>	<u>\$ 220,280</u>	<u>\$ 1,018,090</u>	<u>\$ 1,736,999</u>	<u>\$ 2,755,089</u>

LIABILITIES AND FUND BALANCE/NET POSITION

Liabilities:

Accounts payable and accrued expenses	\$ 151,342	\$ -	\$ 151,342	\$ -	\$ 151,342
Accrued salaries and benefits	128,443	-	128,443	-	128,443
Due to gift & grant funds	71,891	-	71,891	-	71,891
Accrued leave – expected to be paid after one year	-	-	-	97,607	97,607
Total liabilities	<u>351,676</u>	<u>-</u>	<u>351,676</u>	<u>97,607</u>	<u>449,283</u>

Fund balances/Net position:

Fund balances:

Nonspendable	-	70,452	70,452	(70,452)	-
Restricted	-	41,369	41,369	(41,369)	-
Committed	92,749	-	92,749	(92,749)	-
Assigned	-	108,459	108,459	(108,459)	-
Unassigned	<u>353,385</u>	<u>-</u>	<u>353,385</u>	<u>(353,385)</u>	<u>-</u>

Total fund balance	<u>446,134</u>	<u>220,280</u>	<u>666,414</u>	<u>(666,414)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 797,810</u>	<u>\$ 220,280</u>	<u>\$ 1,018,090</u>		

Net position:

Net investment in capital assets				1,374,475	1,374,475
Restricted				204,570	204,570
Unrestricted				<u>726,761</u>	<u>726,761</u>
Total net position				<u>\$ 2,305,806</u>	<u>\$ 2,305,806</u>

See accompanying notes.

# ST. MARY'S COUNTY LIBRARY

## STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2016

	Governmental Funds			Adjustments (Note 3)	Statement of activities
	Operating Fund	Gift & Grant Fund	Total		
Revenues:					
County appropriations	\$ 3,467,466	\$ -	\$ 3,467,466	\$ -	\$ 3,467,466
State aid	635,737	-	635,737	-	635,737
Grants	-	13,149	13,149	-	13,149
State of Maryland - retirement benefits	323,711	-	323,711	-	323,711
Services income	67,400	-	67,400	-	67,400
Fines and damages	189,052	-	189,052	29,995	219,047
Contributions and donations	-	53,400	53,400	-	53,400
Miscellaneous	230	-	230	-	230
Investment income	693	7,192	7,885	-	7,885
Total revenues	<u>4,684,289</u>	<u>73,741</u>	<u>4,758,030</u>	<u>29,995</u>	<u>4,788,025</u>
Expenditures/expenses:					
Lexington Park Branch	1,243,767	-	1,243,767	(10,554)	1,233,213
Leonardtwn Branch	1,129,984	-	1,129,984	47	1,130,031
Charlotte Hall Branch	694,410	-	694,410	3,231	697,641
General operating	1,302,631	8,773	1,311,404	(342,011)	969,393
Investment expense	-	1,097	1,097	-	1,097
Other grants	-	13,149	13,149	-	13,149
Friends of Library	-	57,144	57,144	(14,469)	42,675
Depreciation	-	-	-	441,314	441,314
State of Maryland - retirement benefits	<u>323,711</u>	<u>-</u>	<u>323,711</u>	<u>-</u>	<u>323,711</u>
Total expenditures/expenses	<u>4,694,503</u>	<u>80,163</u>	<u>4,774,666</u>	<u>77,558</u>	<u>4,852,224</u>
Excess of revenues over (under) expenditures/expenses	(10,214)	(6,422)	(16,636)	16,636	
Change in net position	-	-	-	(64,199)	(64,199)
Fund balances/net position:					
Beginning of year	<u>456,348</u>	<u>226,702</u>	<u>683,050</u>	<u>1,686,955</u>	<u>2,370,005</u>
End of year	<u>\$ 446,134</u>	<u>\$ 220,280</u>	<u>\$ 666,414</u>	<u>\$ 1,639,392</u>	<u>\$ 2,305,806</u>

See accompanying notes.

ST. MARY'S COUNTY LIBRARY  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016

ASSETS

Restricted cash and investments	<u>\$ 792,598</u>
Total assets	<u><u>\$ 792,598</u></u>

LIABILITIES AND NET POSITION

Due to operating fund	<u>\$ 6,773</u>
Total liabilities	<u>6,773</u>
Net position held in trust for other post-employment benefits	<u><u>\$ 785,825</u></u>

See accompanying notes.

ST. MARY'S COUNTY LIBRARY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2016

ADDITIONS:

Contributions	\$ 44,768
Interest and dividends	17,418
Net appreciation in the fair value of plan investments	<u>(6,418)</u>
Total additions	<u>55,768</u>

DEDUCTIONS:

Benefits paid	44,768
Administrative expenses	<u>900</u>
Total deductions	<u>45,668</u>

Change in net position	10,100
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NET POSITION:

Beginning of year	<u>775,725</u>
End of year	<u><u>\$ 785,825</u></u>

See accompanying notes.



ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

1. Summary of significant accounting policies

The St. Mary's County Library (the "Library") operates a main library in Leonardtown and branch libraries in Lexington Park and Charlotte Hall. The two branch libraries began operations during 1951 and 1983, respectively. For financial statement reporting, the financial activities of the main library and two branches are combined. The St. Mary's County Library is a component unit of the St. Mary's County Government.

The Library's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Library are discussed below.

A. Reporting entity

The Library, for financial statement purposes, is treated as a component unit of the St. Mary's County, Maryland Government, the primary government, in accordance with GASB Statement No. 61.

GASB Statement No. 61 defines a component unit as a unit for which the primary government is financially accountable and has a financial benefit. The Library meets this criterion because the County Commissioners appoint members to the Library's Board of Trustees and provide financial support to the Library.

The financial statements presented herein include only the funds relevant to the operations of the Library.

B. Basis of presentation

The Library's basic financial statements include both government-wide and fund financial statements. The Library is engaged in one governmental activity. Consequently, the government-wide financial statements and the fund financial statements are presented as a combined statement.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

1. Summary of significant accounting policies (continued)

B. Basis of presentation (continued)

Government-wide financial statements:

The Statement of Net Position and the Statement of Activities present information on all of the non-fiduciary activities of the Library. They include all funds of the reporting entity. The Library has one governmental activity. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Fund financial statements:

The financial transactions of the Library are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The governmental funds are grouped, in the financial statements, by the Library as follows:

Operating Fund - This fund is the Library's primary operating fund. It is used to account for and report all financial resources except those required to be accounted for in another fund.

Gift and Grant Fund - This fund is used to account for various gifts and donations received from civic groups, individuals and charitable organizations. Occasionally, the donor places restrictions on the use of these funds. This fund is also used to account for all federal grants received and expended by the Library.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

1. Summary of significant accounting policies (continued)

C. Measurement focus and basis of accounting

The focus of the governmental funds' measurement is based upon determination of financial position and changes in financial position rather than upon net income.

Measurement focus:

The government-wide financial statements are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

The fund financial statements are presented using the current financial resources measurement focus. Under this focus, only current financial assets and liabilities are included on the Statement of Net Position. The Statement of Activities presents sources and uses of available spendable financial resources during a given period.

Basis of accounting:

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

The government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, non-exchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

1. Summary of significant accounting policies (continued)

C. Measurement focus and basis of accounting (continued)

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or within 60 days after year end. Intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. Expenditures are recognized when the related liability is incurred. Exceptions to this general rule include principle and interest on general obligation long-term debt and employee vacation and sick leave, which are recognized when due and payable.

D. Assets, liabilities and equity

Cash and investments:

For purposes of the government-wide financial statements, cash includes all cash on hand, demand deposits, savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price.

Receivables:

In the government-wide financial statements, receivables consist of all revenues earned at year end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and periodic aging of accounts receivable. Major receivables, in addition to those in the fund financial statements, include fines and fees receivable.

In the fund financial statements, material receivables include grants and other intergovernmental revenues since they are usually both measurable and available.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

1. Summary of significant accounting policies (continued)

D. Assets, liabilities and equity (continued)

Fixed assets:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual cost is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Depreciation of all exhaustible fixed assets is recorded in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

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

The Library only records assets with an individual cost in excess of \$1,000.

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Compensated absences:

The Library accrues accumulated unpaid vacation when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is reported only as a general long-term obligation in the government-wide statement of net position and represents a reconciling item between the fund and government-wide presentations.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

1. Summary of significant accounting policies (continued)

D. Assets, liabilities and equity (continued)

Equity classifications:

In the government-wide financial statements, equity is classified as net position and displayed in three components:

- 1) Net investment in capital assets – Consists of capital assets net of accumulated depreciation.
- 2) Restricted – Consists of funds with constraints placed on their use by grantors and contributors.
- 3) Unrestricted – All other net position that does not meet the definition of “restricted” or “net invested in capital assets.”

In the governmental fund financial statements, fund balances are classified as follows:

- 1) Nonspendable – Amounts that cannot be spent either because they are a nonspendable form or because they are legally or contractually required to be maintained intact.
- 2) Restricted – Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.
- 3) Committed – Amounts that can be used only for specific purposes determined by a formal action by the Board of Library Trustees. This includes the budget reserve account.
- 4) Assigned – Amounts that are designated by the Board of Library Trustees for a particular purpose but are not spendable until a budget ordinance is passed.
- 5) Unassigned – All amounts not included in other spendable classifications.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

1. Summary of significant accounting policies (continued)

E. Revenues, expenditures, and expenses

Revenues:

In the fund financial statements, federal grants are accrued as revenue at the time the related expenditures are made.

In the government-wide financial statements, fines and fees receivable are accrued. They are not accrued in the fund financial statements because they are not considered available. All of the revenues are related to provision of Library services.

Expenditures/expenses:

In the government-wide and fund financial statements, expenses/expenditures are classified by function.

F. Fund balances

The Library adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions for the year ended June 30, 2011. The categories of fund balance presented in the Library's financial statements have changed as a result of implementing this Statement; see Note 13 for further details. The Board of Library Trustees must approve a motion in order to establish a fund balance commitment or assignment. The Library first considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. When unrestricted amounts are considered to have been spent, the Library considers committed amounts first, then assigned, and finally unassigned when an expenditure is incurred for which amounts in any of those unrestricted fund balance classifications could be used.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

2. Compliance and accountability

Budget requirements, accounting and reporting

The Library follows these procedures in establishing the budgetary data for the Operating Fund:

- A. The Director submits to the Board of Trustees a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- B. Prior to July 1, the budget is approved by the Board of Trustees and the County Commissioners.
- C. Any revisions that alter the total revenues or expenditures of the Operating Fund must be approved by the Board of Trustees.
- D. For management control, expenditures plus encumbrances may not exceed the budget. The Director may transfer unencumbered appropriations within the Operating Fund.
- E. Budgets for the Operating Fund are adopted on a basis consistent with GAAP except for exclusion of on-behalf payments by the State.
- F. Budgetary comparison schedules are presented in the Supplemental Section as Required Supplemental Information. The budgetary basis is the modified accrual basis of accounting with encumbrances included as actual.

3. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

"Total fund balances" of the governmental fund differs from "net position" of governmental activities in the Statement of Net Position and Governmental Funds Balance Sheet on page 11 because:

Capital assets that are used in governmental activities are not financial resources and are therefore not reported in the funds, net of accumulated depreciation of \$4,754,259                      \$ 1,374,475



ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

3. Reconciliation of government-wide and fund financial statements (continued)

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position (continued)

Other long-term assets that are not available to pay for current period expenditures and therefore are deferred in the funds:

Fines and fees receivable, net of allowance for doubtful accounts of \$77,054	\$ 179,792
---	------------

OPEB obligation prepaid	182,732
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Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:

Accrued compensated absences	<u>(97,607)</u>
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Total of differences	1,639,392
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Total fund balances	<u>666,414</u>
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Total net position	<u><u>\$ 2,305,806</u></u>
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B. Explanation of differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances differs from the change in net position in the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances on page 12 because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	\$ 421,215
Depreciation expense	(441,314)

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

3. Reconciliation of government-wide and fund financial statements (continued)

B. Explanation of differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)

Some expenditures reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued compensated absences	\$ 9,773
OPEB expenses prepaid	(67,232)

Some revenues reported in the Statement of Activities will not be collected for several months and are not considered "available" revenues in the governmental funds:

Fines	<u>29,995</u>
Total differences	(47,563)
Changes in fund balances	<u>(16,636)</u>
Change in net position	<u><u>\$ (64,199)</u></u>

4. Cash deposits and investments

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

At June 30, 2016, the carrying amount of the Library's cash was \$409,965, and the bank balances totaled \$391,345. The Library's bank balance is insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2016, the uninsured and uncollateralized bank balance totaled \$141,345.

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

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

4. Cash deposits and investments (continued)

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government Investment Pool	<u>\$ 380,749</u>	<u>\$ 380,749</u>
Restricted:		
The Vanguard Group	<u>\$ 139,743</u>	<u>\$ 139,743</u>

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

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

5. Retirement and pension plan

Description

All qualified career employees of the Library are required to join the Maryland State Teachers' Pension Plan or the Maryland State Employees' Pension Plan. Some employees hired before January 1, 1980 have retained membership in the Maryland State Teachers' or Employees' Retirement Systems. The Plans have provisions for early retirement, death and disability benefits and are agent multiple-employer plans administered by the Board of Trustees of the Maryland State Retirement and Pension System. The System was established and benefits are provided by the State Personnel and Pensions Article of the Annotated Code of Maryland. The separately issued financial statements of the System may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202-1600 or calling (800) 492-5909.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

5. Retirement and pension plan (continued)

Maryland State Pension Systems

The Maryland State Pension System is a retirement program for employees hired after January 1, 1980, and prior employees who elected to transfer from the Retirement System. The System provides retirement, death and disability benefits in accordance with State statutes. A member terminating employment before attaining retirement age, but after five years of service becomes eligible for a vested retirement allowance provided the member does not withdraw his or her accumulated contributions. Members of the Pension Systems may retire with full benefits after attaining the age of 62 with five years of service, or after completing 30 years of service, regardless of age.

A member of the Pension System enrolled prior to July 1, 2011, will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive year average final salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.8% of the highest three-consecutive year average final salary multiplied by the number of years of service credit after June 30, 1998. The annual benefit for a Pension System member who is employed by a participating governmental unit that does not provide enhanced pension benefits is equal to 0.8% of the member's highest three-consecutive year average final salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security Integration Level base. A member of either type of pension system enrolled prior to July 1, 2011, may retire with reduced benefits after attaining age 55 and completing 15 years of service.

For new Pension System members hired on or after July 1, 2011, benefit reforms enacted during the 2011 Legislative Session establish the pension benefit multiplier at 1.5% rather than 1.8%, calculate average final compensation based on the five highest consecutive years of service rather than the three highest, and allow vesting after ten years of eligible service rather than five years.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

5. Retirement and pension plan (continued)

Maryland State Retirement Systems

The Maryland State Retirement System is a retirement program for substantially all state employees who are not members of the State Pension System. 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. The annual benefit for Retirement System members is equal to  $1/55$  (1.8%) of the member's highest three-year average final salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. A member enrolled prior to July 1, 2011, may retire with reduced benefits after attaining age 55 and completing 15 years of service.

Funding policy

The State Personnel and Pensions Article require both active members and their employers to make contributions to the System. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute 7% or 5% of earnable compensation, depending upon the retirement option selected. Members of the Pension Systems were required to contribute 7% of earnable compensation for the year ended June 30, 2016.

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

The unfunded actuarial accrued liability (UAAL) was being amortized in distinct layers. The UAAL which existed as of the June 30, 2000, actuarial valuation was being amortized over a 40-year period (as provided by law) from July 1, 1980. Also, as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, was being amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the system. The unfunded liability as of June 30, 2014 for each System is being amortized over a single closed 25-year period.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

5. Retirement and pension plan (continued)

Funding policy (continued)

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

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2016, the Library's total payroll and payroll for covered employees were \$2,197,646 and \$1,806,916, respectively. No contributions were made by the Library for the year ended June 30, 2016.

For fiscal year 2016, the State contributed \$323,711 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement No. 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 17.91% of covered payroll.

Actuarial assumptions

Significant actuarial assumptions used in the valuation include: (a) 7.55% rate of return on investments, compounded annually, (b) projected salary increases of 3.40% to 11.90%, compounded annually, attributable to inflation, (c) inflation at 2.7% general and 3.4% wage, (d) post-employment benefit increases are capped at 3% per year for service prior to July 1, 2011, with certain exceptions, and the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate, for service after June 30, 2011 per year, depending on the system.

Assets are valued for funding purposes by recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% nor less than 80% of the market value of assets.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

6. Capital assets and depreciation

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Balance July 01, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Capital assets:				
Furnishings and equipment	\$ 1,021,566	\$ 5,580	\$ 74,611	\$ 952,535
Leasehold Improvements	87,735	-	-	87,735
Vehicles	34,944	-	-	34,944
Books	<u>5,060,786</u>	<u>415,635</u>	<u>422,901</u>	<u>5,053,520</u>
	<u>6,205,031</u>	<u>421,215</u>	<u>497,512</u>	<u>6,128,734</u>
Accumulated depreciation:				
Furnishings and equipment	\$ 950,986	\$ 24,784	\$ 74,611	\$ 901,159
Leasehold improvements	8,775	1,755	-	10,530
Vehicles	25,042	1,828	-	26,870
Books	<u>3,825,654</u>	<u>412,947</u>	<u>422,901</u>	<u>3,815,700</u>
	<u>4,810,457</u>	<u>441,314</u>	<u>497,512</u>	<u>4,754,259</u>
Net capital assets	<u>\$ 1,394,574</u>	<u>\$ (20,099)</u>	<u>\$ -</u>	<u>\$ 1,374,475</u>

Governmental activities depreciation expense of \$441,314 was charged to Library services.

7. Long-term debt

Long-term debt consists of accrued compensated absences. The following is a summary of the changes in long-term debt for the year ended June 30, 2016:

<u>Balance July 1, 2015</u>	<u>Decrease</u>	<u>Balance June 30, 2016</u>	<u>Amounts due within one year</u>
\$ 107,380	\$ 9,773	\$ 97,607	\$ -

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

8. Commitments and contingencies

Grant audit

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

Support

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

9. Risk management

The Library 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; and it also provides certain employee health benefits. Since the County Commissioners for St. Mary's County own the Library's buildings, the County insures the buildings and their contents under its policy. The Library is insured for workers compensation, public liability and employee dishonesty coverage with State Auto Insurance Company. Settled claims resulting from these risks have not exceeded the insurance coverage in the past three fiscal years.

10. Operating lease

The Library leases a copier under an operating lease. Monthly payments are \$1,193.50. Future minimum payments on this operating lease are as follows:

June 30, 2017	\$ 14,322
June 30, 2018	<u>7,161</u>
	<u>\$ 21,483</u>



ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

11. Contributed Facilities

On September 16, 2014, the St. Mary's County Commissioners signed lease agreements with the Library for use of the facilities (branches) located in Leonardtown, Lexington Park, and Charlotte Hall. The amount of revenue and expenditure is recognized annually for the estimated value of leasing the facilities. For the year ended June 30, 2016, the estimated fair value of these facilities is \$879,402, which is included in County appropriations and reported as rent expense in the statement of revenues, expenditures, and changes in fund balance.

12. Other post-employment benefits

The Library adopted GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, the Library recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the Library's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability. The Library paid for these benefits on a pay-as-you-go basis prior to the adoption of GASB Statement No. 45 on July 1, 2007. For the year ended June 30, 2016, the cost of these post-employment benefits was \$44,768.

Plan Description

The Library provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of ten years of eligible Library service entering an immediate retirement, family members of retirees and family members of deceased employees. The Library pays a percentage of premiums based on the date of hire and number of years of service. For employees retiring prior to July 1, 2010, or hired before July 1, 1991 regardless of retirement date, the percentage ranges from 26.6% with five years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after July 1, 2010 range from 21.25% with 10 years service to 85% with 25 years service. There is no statutory or contractual requirement to provide these benefits and they may be changed or modified by The Library Board of Trustees.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

12. Other post-employment benefits (continued)

Membership

At June 30 membership consisted of:

	<u>2016</u>	<u>2015</u>
Retirees and Beneficiaries Currently Receiving Benefits	11	9
Active Employees	<u>21</u>	<u>20</u>
Total	<u><u>32</u></u>	<u><u>29</u></u>

Funding Policy

During FY 2008 the Library established a trust fund, the Retiree Health Benefit Trust of St. Mary's County Library, to fund certain retiree health benefits. The Library's funding policy is to contribute at least the funded expense. Net OPEB Obligation is overpaid by \$182,732 as of June 30, 2016.

Annual OPEB Costs and Net OPEB Obligation

The Library's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation as of June 30, 2016 and 2015, were calculated as follows:

	<u>2016</u>	<u>2015</u>
Annual Required Contribution	\$ 94,000	\$ 112,000
Interest on Net OPEB	(14,000)	(8,000)
Adjustment to ARC	<u>14,000</u>	<u>8,000</u>
Annual OPEB Cost	94,000	112,000
Contributions Made	(44,768)	(91,361)
Net OPEB Obligation, Beginning of Year	<u>(231,964)</u>	<u>(252,603)</u>
Net OPEB Obligation, End of Year	<u><u>\$ (182,732)</u></u>	<u><u>\$ (231,964)</u></u>

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

12. Other post-employment benefits (continued)

Actuarial Methods and Assumptions

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

In the July 1, 2015 actuarial valuation, the liabilities were computed using the projected unit credit method, with linear proration to assumed benefit commencement. The actuarial assumptions included a 6% annual rate of return and 3.5% annual payroll increase. The initial annual healthcare cost trend rate was 6.5%, decreasing gradually each year to a rate of 4.20% in 2099. The UAAL is being amortized as a level percentage of projected payroll over a closed 22 year period for the year ended June 30, 2016.

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

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits. The actuarial value of assets was based on the estimated July 1, 2015 asset figure of \$800,000.

ST. MARY'S COUNTY LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

13. Governmental Fund Balances

Governmental fund balances at June 30, 2016, are summarized as follows:

	Operating Fund	Gift & Grant Funds	Total
Non Spendable:			
Endowments required to maintain intact	\$ -	\$ 70,452	\$ 70,452
Restricted for:			
Information technology	-	30,089	30,089
Staff development		2,908	2,908
Library family councils		5,100	5,100
Summer intern	-	3,272	3,272
	-	41,369	41,369
Committed:			
Budget reserve	92,749	-	92,749
	92,749	-	92,749
Assigned to:			
Fund balance usage	-	108,459	108,459
	-	108,459	108,459
Unassigned	353,385	-	353,385
Total fund balances	\$ 446,134	\$ 220,280	\$ 666,414

14. Subsequent events

In preparing these financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through September 30, 2016, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL INFORMATION**

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
OPERATING FUND

YEAR ENDED JUNE 30, 2016

	Budgeted amounts <u>original and final</u>	<u>Variance</u>	Actual <u>budget basis</u>	Budget to <u>GAAP</u>	Actual <u>GAAP basis</u>
Revenues:					
County appropriations	\$ 2,588,064	\$ -	\$ 2,588,064	\$ 879,402	\$ 3,467,466
State aid	635,737	-	635,737	-	635,737
State of Maryland – retirement benefits	-	-	-	323,711	323,711
Services income	55,000	12,400	67,400	-	67,400
Fines and damages	185,000	4,052	189,052	-	189,052
Miscellaneous	-	230	230	-	230
Investment income	-	693	693	-	693
Total revenues	<u>3,463,801</u>	<u>17,375</u>	<u>3,481,176</u>	<u>1,203,113</u>	<u>4,684,289</u>
Expenditures:					
Lexington Park Branch	959,081	9,286	968,367	275,400	1,243,767
Leonardtown Branch	770,246	(55,054)	715,192	414,792	1,129,984
Charlotte Hall Branch	495,828	9,372	505,200	189,210	694,410
General operating	1,331,363	(28,732)	1,302,631	-	1,302,631
State of Maryland – retirement benefits	-	-	-	323,711	323,711
Total expenditures	<u>3,556,518</u>	<u>(65,128)</u>	<u>3,491,390</u>	<u>1,203,113</u>	<u>4,694,503</u>
Net change in fund balance	(92,717)	82,503	(10,214)	-	(10,214)
Fund balance, beginning	<u>437,555</u>	-	<u>456,348</u>	-	<u>456,348</u>
Fund balance, ending	<u>\$ 344,838</u>	<u>\$ 82,503</u>	<u>\$ 446,134</u>	<u>\$ -</u>	<u>\$ 446,134</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
OPERATING FUND (CONTINUED)

YEAR ENDED JUNE 30, 2016

Budgetary basis of accounting

While the Library reports financial position, changes in financial position, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a non-GAAP basis. The Statement of Revenues and Expenditures – Budget and Actual presented as Required Supplementary Information for the operating fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

Actual revenues (non-GAAP budgetary basis)	\$ 3,481,176
Pension contribution by the State on behalf of the Library	323,711
Contributed facilities	<u>879,402</u>
Total revenue as reported on the statement of revenues, expenditures, and changes in fund balance	<u>\$ 4,684,289</u>
Actual expenditures (non-GAAP budgetary basis)	\$ 3,491,390
Pension contribution by the State on behalf of the Library	323,711
Rent expense for contributed facilities	<u>879,402</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance	<u>\$ 4,694,503</u>

See independent auditor's report.

# ST. MARY'S COUNTY LIBRARY

## OTHER POST-EMPLOYMENT BENEFIT PLAN - FUNDING PROGRESS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEAR ENDED JUNE 30, 2016

The Library's Other Post-employment Benefit Plan (OPEB Plan) is administered through the Retiree Health Benefit Trust of St. Mary's County Library as an irrevocable trust. Assets of the trust are dedicated to providing post-retirement health, prescription and vision coverage to current and eligible future retirees. Employees, former employees, or beneficiaries of St. Mary's County Library who are receiving pensions are currently eligible for benefits under the plan. Participants must have 5 years of service and meet the retirement eligibility requirements of the Maryland State Retirement and Pension System.

The following schedules present the Library's actuarially determined funding progress and required contributions for the Retiree Health Benefit Trust of St. Mary's County Library.

### Schedule of Funding Progress for the Library Retiree Health Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/13	\$ 558,000	\$ 1,620,000	\$ 1,062,000	34.44%	\$ 1,875,641	56.62%
07/01/14	\$ 646,000	\$ 1,712,000	\$ 1,066,000	37.73%	\$ 1,951,389	54.63%
07/01/15	\$ 800,000	\$ 1,540,000	\$ 740,000	51.95%	\$ 1,806,916	40.95%

### Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Annual Required Contribution	Percentage Contributed
06/30/14	\$ 123,444	\$ 108,000	114%
06/30/15	\$ 91,361	\$ 112,000	82%
06/30/16	\$ 44,768	\$ 94,000	48%

See independent auditor's report.



## **OTHER SUPPLEMENTAL INFORMATION**

ST. MARY'S COUNTY LIBRARY  
COMBINING SCHEDULE OF EXPENDITURES  
YEAR ENDED JUNE 30, 2016

	Lexington Park Branch	Leonardtown Branch	Charlotte Hall Branch	General Operating	Grants	Friends of Library	State of Maryland Retirement	Totals
Salaries	\$ 719,529	\$ 603,994	\$ 388,907	\$ 496,462	\$ -	\$ -	\$ -	\$ 2,208,892
Employee benefits	142,200	81,894	84,522	70,743	-	-	-	379,359
Rent	275,400	414,792	189,210	-	-	-	-	879,402
Electric	75,870	19,275	24,425	-	-	-	-	119,570
Fuel and oil	15,757	-	-	973	-	-	-	16,730
Water and sewer	9,785	2,878	4,171	-	-	-	-	16,834
Telephone	5,226	7,151	3,175	-	-	-	-	15,552
Books and publications	-	-	-	406,746	-	8,889	-	415,635
Office supplies	-	-	-	41,313	-	1,173	-	42,486
Advertising	-	-	-	7,038	-	-	-	7,038
Maintenance	-	-	-	26,912	-	1,628	-	28,540
Insurance	-	-	-	11,125	-	-	-	11,125
Staff development	-	-	-	22,366	3,484	5,365	-	31,215
Accounting	-	-	-	32,063	-	-	-	32,063
Bank service fees	-	-	-	4,597	-	-	-	4,597
Investment expense	-	-	-	1,097	-	-	-	1,097
Memberships	-	-	-	1,900	-	-	-	1,900
Other costs	-	-	-	8,049	-	-	-	8,049
Other contract services	-	-	-	32,597	-	13,000	-	45,597
Payroll fees	-	-	-	1,445	-	-	-	1,445
Postage	-	-	-	771	-	-	-	771
Photocopy	-	-	-	18,442	-	-	-	18,442
Program services	-	-	-	17,714	9,665	11,583	-	38,962
Processing supplies	-	-	-	8,065	-	-	-	8,065
Mileage reimbursement	-	-	-	343	-	-	-	343
Retirees' health insurance	-	-	-	44,768	-	-	-	44,768
Retirement benefits	-	-	-	-	-	-	323,711	323,711
Capital assets	-	-	-	56,972	-	15,506	-	72,478
	<u>\$ 1,243,767</u>	<u>\$ 1,129,984</u>	<u>\$ 694,410</u>	<u>\$ 1,312,501</u>	<u>\$ 13,149</u>	<u>\$ 57,144</u>	<u>\$ 323,711</u>	<u>\$ 4,774,666</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF EXPENDITURES (ACTUAL AND BUDGET)

OPERATING FUND

YEAR ENDED JUNE 30, 2016

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Favorable (Unfavorable)</u>
Lexington Park Branch:			
Salaries	\$ 719,529	\$ 712,869	\$ (6,660)
Employee benefits	142,200	120,112	(22,088)
Electric	75,870	100,000	24,130
Fuel and oil	15,757	13,000	(2,757)
Water and sewer	9,785	7,800	(1,985)
Telephone	<u>5,226</u>	<u>5,300</u>	<u>74</u>
	<u>968,367</u>	<u>959,081</u>	<u>(9,286)</u>
Leonardtown Branch:			
Salaries	603,994	615,246	11,252
Employee benefits	81,894	104,400	22,506
Electric	19,275	29,500	10,225
Fuel and oil	-	9,100	9,100
Water and sewer	2,878	3,000	122
Telephone	<u>7,151</u>	<u>9,000</u>	<u>1,849</u>
	<u>715,192</u>	<u>770,246</u>	<u>55,054</u>
Charlotte Hall Branch:			
Salaries	388,907	382,255	(6,652)
Employee benefits	84,522	75,573	(8,949)
Electric	24,425	31,500	7,075
Water and sewer	4,171	3,500	(671)
Telephone	<u>3,175</u>	<u>3,000</u>	<u>(175)</u>
	<u>505,200</u>	<u>495,828</u>	<u>(9,372)</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF EXPENDITURES (ACTUAL AND BUDGET)

OPERATING FUND (CONTINUED)

YEAR ENDED JUNE 30, 2016

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Favorable (Unfavorable)</u>
General operating:			
Salaries	\$ 496,462	\$ 469,266	\$ (27,196)
Employee benefits	70,743	87,697	16,954
Fuel and oil	973	4,500	3,527
Books and publications	406,746	410,000	3,254
Office supplies	41,313	39,200	(2,113)
Advertising	7,038	7,000	(38)
Maintenance	26,912	25,500	(1,412)
Insurance	11,125	20,000	8,875
Staff development	19,300	20,000	700
Accounting	32,063	14,300	(17,763)
Legal	-	5,000	5,000
Bank service fees	4,597	10,000	5,403
Memberships	1,900	2,500	600
Mileage Reimbursements	343	500	157
Equipment and furniture	56,972	45,500	(11,472)
Other costs	2,342	500	(1,842)
Other contract services	32,597	26,500	(6,097)
Payroll fees	1,445	-	(1,445)
Photocopy	18,442	20,000	1,558
Postage	771	2,400	1,629
Processing supplies	8,065	11,000	2,935
Program services	17,714	16,000	(1,714)
Retirees' health costs	44,768	94,000	49,232
	<u>1,302,631</u>	<u>1,331,363</u>	<u>28,732</u>
Total Operating Fund	<u>\$ 3,491,390</u>	<u>\$ 3,556,518</u>	<u>\$ 65,128</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF EXPENDITURES  
GIFT AND GRANT FUND

YEAR ENDED JUNE 30, 2016

General operating:	
Staff development	\$ 3,065
Other costs	<u>5,708</u>
	<u>8,773</u>
Friends of Library:	
Books and publications	8,889
Office supplies	1,173
Maintenance	1,628
Staff development	5,365
Other contract services	13,000
Program services	11,583
Capital assets	<u>15,506</u>
	<u>57,144</u>
Grants:	
Program services	9,665
Staff development grant	<u>3,484</u>
	<u>13,149</u>
Investment expense	<u>1,097</u>
Total Gift and Grant Fund	<u>\$ 80,163</u>

See independent auditor's report.



**Murphy & Murphy, CPA, LLC**  
Certified Public Accountants

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

To the Board of Library Trustees  
for St. Mary's County Library

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the St. Mary's County Library, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the St. Mary's County Library's basic financial statements, and have issued our report thereon dated September 30, 2016.

**Internal Control Over Financial Reporting**

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

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

*significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland  
September 30, 2016