

ST. MARY'S COUNTY LIBRARY

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

YEAR ENDED JUNE 30, 2018



Murphy & Murphy, CPA, LLC

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Murphy & Murphy, CPA, LLC
Certified Public Accountants

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, 2018, 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, 2018, 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.

Emphasis of Matters

As discussed in Note 14 to the financial statements, during the year ended June 30, 2018, the County Commissioners of St. Mary's County adopted new accounting guidance from Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and OPEB funding progress information on pages 4-10 and 37-40, 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 41-44 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, on pages 41 and 44 respectively, 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 42-43 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 January 22, 2019, 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
January 22, 2019

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, 2018. Please read it in conjunction with the Library's financial statements, which follow this section.

The Library's net position declined significantly during this fiscal year when compared to the previous year, by 58.39%. This is due to a prior period adjustment recorded to implement GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - and not to a decline in revenue or unexpected increase in expenses.

Overall, our revenues increased, with a 4.32% increase in county funding, an 8.05% increase in state funding, and a 43.21% increase in grants. Total revenues increased 4.52%, enough to offset a 1.80% increase in expenses, mostly due to a step raise for salaries. Some of our change in net position is due simply to depreciation. It will be noted that under capital assets, our "Books" have gone from a listing of \$4,577,686 to \$4,295,042. This decrease is due to an intentional change in collection philosophy: we have eliminated many titles that no longer circulate while continuing to buy new and high-interest materials with the same amount of funding. Note that the line for "Books" does not include our digital resources, of which have many more hundreds of thousands of electronic titles, offering a far richer collection of materials overall than ever before. The Library remains in a sound position as a wise steward of public funds. In FY 2018, every resident of our county on average checked out 14 items and visited the library five times, showing how we remain a valued community resource.

In FY 2018, actual expenses were \$147,245 less than the projected budget.

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.

I. Overview of Our Financial Statements (continued)

These two statements report the Library's net position in FY 2018 and also any changes in its net position since FY 2017. 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 2018, 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 2018 total costs in comparison to FY 2017 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 2018 funding.

I. Overview of Our Financial Statements (continued)

- *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 2019 or the long-term.

II. CONDENSED COMPARATIVE FINANCIAL INFORMATION

For the years ended June 30, 2018 and 2017, net position consisted of the following:

Summary Statements of Net Position

	<u>FY 2018</u>	<u>FY 2017</u>	<u>% Change FY17-FY18</u>
Current and other assets	\$ 1,014,376	\$ 1,185,953	-14.47%
Capital assets, net	<u>1,361,567</u>	<u>1,344,957</u>	1.23%
Total assets	<u>2,375,943</u>	<u>2,530,910</u>	-6.12%
Current liabilities	248,014	257,460	-3.67%
Other liabilities	<u>1,224,728</u>	<u>103,017</u>	1088.86%
Total liabilities	<u>1,472,742</u>	<u>360,477</u>	308.55%
Net position			
Net invested in capital assets	1,361,567	1,344,957	1.23%
Restricted	213,628	181,283	17.84%
Unrestricted	<u>(671,994)</u>	<u>644,193</u>	-204.32%
Total net position	<u>\$ 903,201</u>	<u>\$ 2,170,433</u>	-58.39%

The Library's net position decreased 58.39% during the fiscal year ended June 30, 2018.

II. CONDENSED COMPARATIVE FINANCIAL INFORMATION (continued)

The following Summary Statements of Activities show how the changes in net position occurred.

Summary Statements of Activities

	<u>FY 2018</u>	<u>FY 2017</u>	<u>% Change FY17-FY18</u>
County funds	\$ 2,800,572	\$ 2,684,573	4.32%
County funds – donated facilities	847,272	847,272	0.00%
State aid	719,221	665,666	8.05%
Grant revenues	164,270	114,709	43.21%
Other revenues	<u>588,823</u>	<u>586,657</u>	0.37%
Total revenues	<u>5,120,158</u>	<u>4,898,877</u>	4.52%
Salaries and employee benefits	2,756,265	2,660,521	3.60%
Rent expense	847,272	847,272	0.00%
Depreciation	444,586	442,127	0.56%
Gift and grant expenses	210,185	229,678	-8.49%
Other expenses	<u>866,553</u>	<u>854,652</u>	1.39%
Total expenses	<u>5,124,861</u>	<u>5,034,250</u>	1.80%
Decrease in net position	<u>\$ (4,703)</u>	<u>\$ (135,373)</u>	-96.53%

III. ANALYSIS OF LIBRARY'S OVERALL FINANCIAL POSITION

- In FY 2018, the total cost of the Library's programs was approximately \$5.12 million. In FY 2017, it was approximately \$5.03 million.
- The percentage of funding sources of total revenues is as follows:

	<u>FY 2018</u>	<u>FY 2017</u>
County funding	71%	72%
State funding	14%	14%
Fees, contributions, grants	15%	14%
Other costs (including technology)	15%	17%

III. ANALYSIS OF LIBRARY'S OVERALL FINANCIAL POSITION (continued)

- 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 2018</u>	<u>FY 2017</u>
Salaries and benefits	54%	53%
Rent	17%	17%
Depreciation of capital assets	9%	9%
Non-capitalized books & publications	3%	3%
Retirees' health	2%	1%

IV. THE LIBRARY'S FUNDS

In FY 2018 the Library received the following amounts:

- \$3,647,844, an amount which includes \$847,272 in donated facilities from St. Mary's County.
- \$719,221 from the State of Maryland.

As the Library completed the 2018 fiscal year, its governmental funds reported a total operating fund balance of \$414,253. The Board's gift fund balance was \$195,009.

V. OPERATING FUND BUDGETARY HIGHLIGHTS

- In FY 2018, the County allocation for the annual operating expenses was \$2,800,572, which was a 4.32% increase of \$115,999.
- In FY 2018, the Library received \$719,221 from the State of Maryland, up \$53,533, for an increase of 8%.
- Eligible staff received a step increase of 2.5% in the pay period of the anniversary of their hiring date.
- Funding for materials for customers to check out increased to \$427,000, with most of the increase dedicated to digital content. Funding for Information Technology equipment remained at \$35,500.
- The Library can be justly proud of its success in getting grants. In FY18, we received \$139,602 in grants from the state. These grants require no matching funds from us. Our Library and our customers certainly benefit from the results, but most of the funding benefits does not go to us directly. The money funds state-wide or regional projects and staff development training. We draw upon it as we complete projects or training rather than having it as operating funds to spend at our discretion.
- Actual operating expenditures were \$147,245 under the budgeted amount.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At June 30, 2018, the Library had \$1,361,567 invested in vehicles, furniture and equipment and books, net of accumulated depreciation.

	<u>Library capital assets, net of depreciation</u>		<u>% Change FY17-FY18</u>
	<u>FY 2018</u>	<u>FY 2017</u>	
Furnishings and equipment	\$ 62,313	\$ 39,055	59.55)%
Leasehold improvements	73,696	75,450	(2.32)%
Vehicles	458	4,266	(89.26)%
Books	<u>1,225,100</u>	<u>1,226,186</u>	(.09)%
Total	<u>\$ 1,361,567</u>	<u>\$ 1,344,957</u>	1.24%

Book additions, prior to depreciation, amounted to \$407,866 in 2018.

Debt administration

The Library has no long-term debt, except for accrued leave of \$108,901.

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

- In FY 2018, the County allocation for the annual operating expenses was \$2,800,572. This provided funds for the employees to receive a step increase on the first day of their anniversary month of hire. County revenues are not necessarily expected to grow over the next few years, and we may face a deficit by 2021. While we received an increase for FY 2018, many other agencies were flat-funded as the county sought to expend no more money than in FY 2017. We may find ourselves flat-funded in FY 2020 and will need to budget appropriately.

VII. THE FUTURE: CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS (continued)

- 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;

Under this formula, state support would increase through FY 2021. Not all news is good: while the state appears to have a small surplus for FY 2020, library funding growth is currently not extended past FY 2021, and there are reports of looming deficits at that time. Future state funding increases could be rolled back, and increases in the state budget may not occur after 2021. Again, we shall have to budget appropriately and plan for future flat or even decreased funding.

- 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. Initial building plans were completed as of September 2017. A cost analysis suggested that the building might be over budget due to higher than expected construction costs. The library was reduced by some 1,500 square feet to ensure it came in on budget. A contract was offered to the firm of Tuchman-Barbee and signed in March 2018. The ground breaking was held on May 15, 2018, and the project is now underway. The County has approved \$10,194,250 in bonds for FY 2018 for this project. The Library has received a \$1,091,000 capital grant for FY 2018 from the State of Maryland and an additional \$500,000 for FY 2019. These funds will be expended on the project by June of 2019.

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, 2018

ASSETS

	<u>Governmental Funds</u>			<u>Adjustments</u>	<u>Statement</u>
	<u>Operating</u>	<u>Gift & Grant</u>	<u>Total</u>	<u>(Note 3)</u>	<u>of Net Position</u>
	<u>Fund</u>	<u>Fund</u>			
Cash	\$ 269,177	\$ 710	\$ 269,887	\$ -	\$ 269,887
Investments	372,514	-	372,514	-	372,514
Restricted cash and investments	-	95,829	95,829	-	95,829
Due from operating fund	-	73,343	73,343	-	73,343
Due from fiduciary fund	20,576	-	20,576	-	20,576
Other receivables	-	25,127	25,127	157,100	182,227
Capital assets, net	-	-	-	1,361,567	1,361,567
Total assets	<u>\$ 662,267</u>	<u>\$ 195,009</u>	<u>\$ 857,276</u>	<u>\$ 1,518,667</u>	<u>\$ 2,375,943</u>

LIABILITIES AND FUND BALANCE/NET POSITION

Liabilities:

Accounts payable and accrued expenses	\$ 126,633	\$ -	\$ 126,633	\$ -	\$ 126,633
Accrued salaries and benefits	48,038	-	48,038	-	48,038
Due to gift & grant funds	73,343	-	73,343	-	73,343
Net OPEB liabilities	-	-	-	1,115,827	1,115,827
Accrued leave – expected to be paid after one year	-	-	-	108,901	108,901
Total liabilities	<u>248,014</u>	<u>-</u>	<u>248,014</u>	<u>1,224,728</u>	<u>1,472,742</u>

Fund balances/Net position:

Fund balances:

Nonspendable	-	70,452	70,452	(70,452)	-
Restricted	-	48,353	48,353	(48,353)	-
Committed	94,823	-	94,823	(94,823)	-
Assigned	-	76,204	76,204	(76,204)	-
Unassigned	<u>319,430</u>	<u>-</u>	<u>319,430</u>	<u>(319,430)</u>	<u>-</u>

Total fund balance	<u>414,253</u>	<u>195,009</u>	<u>609,262</u>	<u>(609,262)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 662,267</u>	<u>\$ 195,009</u>	<u>\$ 857,276</u>		

Net position:

Net investment in capital assets			1,361,567	1,361,567
Restricted			213,628	213,628
Unrestricted			<u>(671,994)</u>	<u>(671,994)</u>
Total net position			<u>\$ 903,201</u>	<u>\$ 903,201</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, 2018

	Governmental Funds			Adjustments (Note 3)	Statement of Activities
	Operating Fund	Gift & Grant Fund	Total		
Revenues:					
County appropriations	\$ 3,647,844	\$ -	\$ 3,647,844	\$ -	\$ 3,647,844
State aid	719,221	-	719,221	-	719,221
Grants	-	164,270	164,270	-	164,270
State of Maryland - retirement benefits	363,642	-	363,642	-	363,642
Services income	70,892	-	70,892	-	70,892
Fines and damages	76,185	-	76,185	(428)	75,757
Contributions and donations	-	70,339	70,339	-	70,339
Miscellaneous	2,585	-	2,585	-	2,585
Investment income	4,892	716	5,608	-	5,608
Total revenues	<u>4,885,261</u>	<u>235,325</u>	<u>5,120,586</u>	<u>(428)</u>	<u>5,120,158</u>
Expenditures/expenses:					
Lexington Park Branch	1,209,764	-	1,209,764	5,708	1,215,472
Leonardtwn Branch	1,170,855	-	1,170,855	(251)	1,170,604
Charlotte Hall Branch	754,538	-	754,538	2,336	756,874
General operating	1,426,604	4,203	1,430,807	(454,773)	976,034
Investment expense	-	616	616	-	616
Other grants	-	164,270	164,270	(8,333)	155,937
Friends of Library	-	41,096	41,096	-	41,096
Depreciation	-	-	-	444,586	444,586
State of Maryland - retirement benefits	<u>363,642</u>	<u>-</u>	<u>363,642</u>	<u>-</u>	<u>363,642</u>
Total expenditures/expenses	<u>4,925,403</u>	<u>210,185</u>	<u>5,135,588</u>	<u>(10,727)</u>	<u>5,124,861</u>
Excess of revenues over (under) expenditures/expenses	(40,142)	25,140	(15,002)	15,002	
Change in net position	-	-	-	(4,703)	(4,703)
Fund balances/net position:					
Beginning of year, as restated	<u>454,395</u>	<u>169,869</u>	<u>624,264</u>	<u>1,546,169</u>	<u>907,904</u>
End of year	<u>\$ 414,253</u>	<u>\$ 195,009</u>	<u>\$ 609,262</u>	<u>\$ 1,556,468</u>	<u>\$ 903,201</u>

See accompanying notes.

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

ASSETS

Restricted cash and investments	<u>\$ 966,602</u>
Total assets	<u><u>\$ 966,602</u></u>

LIABILITIES AND NET POSITION

Due to operating fund	<u>\$ 20,576</u>
Total liabilities	<u>20,576</u>
Net position held in trust for other postemployment benefits	<u>946,026</u>
Total liabilities and net position	<u><u>\$ 966,602</u></u>

See accompanying notes.

ST. MARY'S COUNTY LIBRARY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2018

ADDITIONS:

Contributions	\$ 142,968
Interest and dividends	20,645
Net appreciation in the fair value of plan investments	<u>39,560</u>
Total additions	<u>203,173</u>

DEDUCTIONS:

Benefits paid	106,939
Administrative expenses	<u>2,899</u>
Total deductions	<u>109,837</u>

Change in net position	93,336
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NET POSITION:

Beginning of year, as restated	<u>852,690</u>
End of year	<u><u>\$ 946,026</u></u>

See accompanying notes.

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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 \$4,075,819 \$ 1,361,567

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 \$27,723	\$ 157,100
---	------------

Net OPEB liabilities	(1,115,827)
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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>(108,901)</u>
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Total of differences	293,939
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Total fund balances	<u>609,262</u>
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Total net position	<u><u>\$ 903,201</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	\$ 461,196
Depreciation expense	(444,586)

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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	\$ (5,883)
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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>(428)</u>
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Total differences	10,299
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Changes in fund balances	<u>(15,002)</u>
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Change in net position	<u>\$ (4,703)</u>
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4. Cash deposits and investments

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

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

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

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4. Cash deposits and investments (continued)

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government Investment Pool	<u>\$ 372,514</u>	<u>\$ 372,514</u>
Restricted:		
The Vanguard Group	<u>\$ 95,829</u>	<u>\$ 95,829</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

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 State Retirement Agency (the "Agency") is the administrator of the Maryland State Retirement and Pension System (the "System"). The System was established to provide provisions for retirement, death and disability benefits. The Plan is a cost-sharing multiple-employer public employee retirement system. The Plan issues a stand-alone financial report that may be obtained at the following website:
www.sra.state.md.us/Agency/Downloads/CAFR/Default.aspx.

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

5. Retirement and pension plan (continued)

Maryland State Pension Systems description

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 System 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, 2018

5. Retirement and pension plan (continued)

Maryland State Retirement Systems description

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 requires both active members and their respective employers to make contributions to the System. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% or 5% of compensation depending upon the retirement option selected.

Contribution rates for employer and other "non-employer" 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 liability was being amortized in distinct layers. The unfunded actuarial accrued liability (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 and as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, was being amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. However, in the 2014 legislative session, the Legislature changed the method used to fund the system. The unfunded liability for each System is being amortized over a single closed 25-year period.

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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

The State makes 100% of the Library's annual required contributions on behalf of the Library. The State contribution on behalf of the Library for the year ended June 30, 2018 was \$363,642. In accordance with GASB Statement Number 24, the State's contribution amount has been included as both a revenue and expenditure in the general fund. The State's contribution amounted to approximately 15.67% of covered payroll.

Actuarial assumptions

Significant actuarial assumptions used in the valuation include: (a) 7.50% rate of return on investments, compounded annually, (b) projected salary increases of 3.15% to 9.15%, compounded annually, attributable to inflation, (c) inflation at 2.65% general and 3.15% wage, (d) RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience (e) 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 smoothed 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, 2018

6. Capital assets and depreciation

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

	<u>Balance July 01, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
Capital assets:				
Furnishings and equipment	\$ 966,335	\$ 53,330	\$ -	\$ 1,019,665
Leasehold improvements	87,735	-	-	87,735
Vehicles	34,944	-	-	34,944
Books	<u>4,577,686</u>	<u>407,866</u>	<u>690,510</u>	<u>4,295,042</u>
	<u>5,666,700</u>	<u>461,196</u>	<u>690,510</u>	<u>5,437,386</u>
Accumulated depreciation:				
Furnishings and equipment	\$ 927,280	\$ 30,072	\$ -	\$ 957,352
Leasehold improvements	12,285	1,754	-	14,039
Vehicles	30,678	3,808	-	34,486
Books	<u>3,351,500</u>	<u>408,952</u>	<u>690,510</u>	<u>3,069,942</u>
	<u>4,321,743</u>	<u>444,586</u>	<u>690,510</u>	<u>4,075,819</u>
Net capital assets	<u>\$ 1,344,957</u>	<u>\$ 16,610</u>	<u>\$ -</u>	<u>\$ 1,361,567</u>

Governmental activities depreciation expense of \$444,586 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, 2018:

<u>Balance July 1, 2017</u>	<u>Increase</u>	<u>Balance June 30, 2018</u>	<u>Amounts due within one year</u>
\$ 103,017	\$ 5,884	\$ 108,901	\$ -

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 of 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 \$1,286.31. Future minimum payments on this operating lease are as follows:

June 30, 2019	\$ 15,436
June 30, 2020	15,436
June 30, 2021	15,436
June 30, 2022	15,436
June 30, 2023	<u>5,144</u>
	<u>\$ 66,888</u>

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, the estimated fair value of these facilities is \$847,272, 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

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 of service to 85% with 25 years service. There is no statutory or contractual requirement to provide these benefits and they may be changed or modified by The Library Board of Trustees.

The Library's OPEB Plan is administered through the single-employer Retiree 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, dental and vision coverage to current and eligible future retirees. The Trust's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable. The Trust does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or of another entity.

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

12. Other post-employment benefits (continued)

Plan description (continued)

Membership of the OPEB Plan enrolled in coverage at June 30 consisted of:

	<u>2018</u>	<u>2017</u>
Retirees and beneficiaries currently receiving benefits	8	8
Active employees	<u>20</u>	<u>22</u>
Total	<u><u>28</u></u>	<u><u>30</u></u>

The Library's Board of Trustees determines how much is contributed to the OPEB Trust as part of the budget process. It is the Library's intention to contribute at least the funded expense each year. The FY 2018 Operating Budget included fully funding the OPEB cost. The Library's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual determined contribution of the employer (ADC), an amount actuarially determined in accordance with the parameters of the GASB Codification. The ADC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ADC is \$115,000. The ADC consists of the normal cost of \$59,000, and the amortization of unfunded accrued liability of \$56,000. The Library contributed \$142,968 to the Trust in FY 2018.

Investments

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

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

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

12. Other post-employment benefits (continued)

Net OPEB liability

The components of the net OPEB liability of the Library at June 30 was;

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 2,079,546	\$ 2,207,374
Plan fiduciary net position	<u>(963,719)</u>	<u>(867,519)</u>
Net OPEB liability	<u>\$ 1,115,827</u>	<u>\$ 1,339,855</u>
Plan fiduciary net position as a percentage of the total OPEB liability	46.34%	39.30%

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017 with data rolled forward to June 30, 2018. In the actuarial valuation dated September 18, 2017 the liabilities were computed using the Entry Age Normal (EAN) cost method as required by GASB 74. The EAN actuarial cost method requires a salary scale assumption; we used the State of Maryland salary scale assumption for general employees. The actuarial assumptions included a 6.0% annual rate of return. The medical cost trend varied between 5.9% and 3.9% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model 2017 baseline assumptions adjusted for the impact of the Cadillac tax. The rates include a 2.3% rate of inflation and 3.5% annual payroll increase assumption.

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

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

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

12. Other post-employment benefits (continued)

Net OPEB liability (continued)

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

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

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

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

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

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

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

12. Other post-employment benefits (continued)

Net OPEB liability (continued)

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

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

13. Subsequent events

In preparing these financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through January 22, 2019, the date the financial statements were available to be issued.

14. Restated net position

The Library adopted Governmental Accounting Standard Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ending June 30, 2018. The implementation of the statement required the Library to restate the beginning net OPEB liability. As a result, the Library restated beginning net position at July 1, 2017 by \$(1,262,529).

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

15. Governmental Fund Balances

Governmental fund balances at June 30, 2018, 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	-	20,769	20,769
Library services and technology	-	25,129	25,129
Summer intern	-	2,455	2,455
	-	48,353	48,353
Committed:			
Budget reserve	94,823	-	94,823
	94,823	-	94,823
Assigned to:			
Fund balance usage	-	76,204	76,204
	-	76,204	76,204
Unassigned	319,430	-	319,430
Total fund balances	\$ 414,253	\$ 195,009	\$ 609,262

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, 2018

	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	\$ 2,800,572	\$ -	\$ 2,800,572	\$ 847,272	\$ 3,647,844
State aid	719,000	221	719,221	-	719,221
State of Maryland – retirement benefits	-	-	-	363,642	363,642
Services income	55,000	15,892	70,892	-	70,892
Fines and damages	88,000	(11,815)	76,185	-	76,185
Miscellaneous	-	2,585	2,585	-	2,585
Investment income	-	4,892	4,892	-	4,892
Total revenues	<u>3,662,572</u>	<u>11,775</u>	<u>3,674,347</u>	<u>1,210,914</u>	<u>4,885,261</u>
Expenditures:					
Lexington Park Branch	966,905	(32,541)	934,364	275,400	1,209,764
Leonardtown Branch	770,439	(14,376)	756,063	414,792	1,170,855
Charlotte Hall Branch	607,424	(9,966)	597,458	157,080	754,538
General operating	1,516,966	(90,362)	1,426,604	-	1,426,604
State of Maryland – retirement benefits	-	-	-	363,642	363,642
Total expenditures	<u>3,861,734</u>	<u>(147,245)</u>	<u>3,714,489</u>	<u>1,210,914</u>	<u>4,925,403</u>
Net change in fund balance	(199,162)	159,020	(40,142)	-	(40,142)
Fund balance, beginning	<u>241,469</u>	-	<u>454,395</u>	-	<u>454,395</u>
Fund balance, ending	<u>\$ 42,307</u>	<u>\$ 159,020</u>	<u>\$ 414,253</u>	<u>\$ -</u>	<u>\$ 414,253</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, 2018

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)	\$ 3,674,347
Pension contribution by the State on behalf of the Library	363,642
Contributed facilities	<u>847,272</u>
Total revenue as reported on the schedule of revenues, expenditures, and changes in fund balances	<u>\$ 4,885,261</u>
Actual expenditures (non-GAAP budgetary basis)	\$ 3,714,489
Pension contribution by the State on behalf of the Library	363,642
Rent expense for contributed facilities	<u>847,272</u>
Total expenditures as reported on the schedule of revenues, expenditures, and changes in fund balances	<u>\$ 4,925,403</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY
INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN
YEAR ENDED JUNE 30, 2018

Schedule of Changes in the Library's Net OPEB Liability and Related ratios

	2018	2017
Total OPEB liability		
Service Cost	\$ 74,081	\$ 70,348
Interest Cost	114,548	108,111
Changes in Benefit Terms	-	-
Differences Between Expected and Actual Experience	(172,902)	-
Changes of Assumptions	(87,133)	-
Benefit Payments	(56,422)	(60,666)
Net Change in Total OPEB Liability	(127,828)	117,793
Total OPEB Liability - Beginning of Year	2,207,374	2,089,581
Total OPEB Liability - End of Year	<u>\$ 2,079,546</u>	<u>\$ 2,207,374</u>

Plan Fiduciary Net Position

Last 10 Fiscal Years

	2018	2017
Contributions - Employer	\$ 92,451	\$ 66,592
Net Investment Income	60,171	77,754
Benefit Payments	(56,422)	(60,666)
Administrative Expense	-	(5,926)
Net Change in Fiduciary Net Position	96,200	77,754
Fiduciary Net Position - Beginning of Year	867,519	789,765
Fiduciary Net Position - End of Year	<u>963,719</u>	<u>867,519</u>
Net OPEB Liability	<u>1,115,827</u>	<u>1,339,855</u>
Fiduciary Net Position as a % of Total OPEB Liability	<u>46.34%</u>	<u>39.30%</u>
Covered-Employee Payroll	\$ 2,320,443	\$ 2,081,447
Net OPEB Liability as a % of Payroll	<u>41.53%</u>	<u>41.68%</u>
Expected Average Remaining Service Years of All Participants	8	9

Notes to Schedule:

Benefit changes: None.

Changes of assumptions: The discount rate was changed as follows:

<u>Discount rate:</u>	
06/30/17	5.25%
06/30/18	5.25%

The long-term medical trend was updated to the medical trend table released by the SOA in August 2017. These rates were adjusted to reflect the effects of the Cadillac tax set to take effect in 2022.

ST. MARY'S COUNTY LIBRARY

INFORMATION ABOUT OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

YEAR ENDED JUNE 30, 2018

Schedule of Contributions and Related ratios

Date	Contributions in Relation to the			Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
	Actuarial Determined Contributions (a)	Actuarially Determined Contribution (b)	Contribution Deficiency (Excess) (c)		
07/01/14	\$ 112,000	\$ 91,361	\$ (20,639)	\$ 1,951,389	4.68%
07/01/15	\$ 94,000	\$ 44,768	\$ (49,232)	\$ 1,806,916	2.48%
07/01/16	\$ 99,000	\$ 62,970	\$ (36,030)	\$ 2,081,447	3.03%
07/01/17	\$ 115,000	\$ 92,451	\$ (22,549)	\$ 2,320,443	3.98%

Schedule of Investment Returns

	2018	2017
Annual money-weighted rate of return, net of investment expense	5.25%	5.25%

Notes to Schedule

Benefit changes	None.
Valuation date	The FYE 2018 actuarially determined contribution (ADC) is calculated as of 6/30/2017. The liability is based on 7/1/2016 data rolled forward to 6/30/2017. The Trust assets as of 6/30/2016 were rolled forward to 6/30/2017 using 6.0% assumed rate of return. Actuarial valuations are done every other year.
Changes of assumptions	Decrement assumptions (including mortality) were updated to remain consistent with the State of Maryland Retirement and Pension System Assumptions. The long-term medical trend was updated to the medical trend table released by the SOA in September 2016. These rates were adjusted to reflect the effects of the Cadillac tax set to take effect in 2020.
Methods and assumptions used to determine contribution rates:	
Valuation Date	7/1/2016
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Remaining amortization period	20 years for FYE 2018
Asset valuation method	Market value of assets
Investment rate of return	6.00%
Payroll growth rate	3.50%
Inflation	2.30%
Healthcare cost trend rate	The trend for 2018 is 6.9%(pre-Medicare) and 5.8% (post-Medicare). The ultimate trend is 4.0% (pre-Medicare) and 3.9% (post-Medicare).

OTHER SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY LIBRARY
COMBINING SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2018

	Lexington Park Branch	Leonardtown Branch	Charlotte Hall Branch	General Operating	Grants	Friends of Library	State of Maryland Retirement	Totals
Salaries	\$ 718,395	\$ 618,745	\$ 433,089	\$ 544,952	\$ -	\$ -	\$ -	\$ 2,315,181
Employee benefits	114,677	106,057	128,600	91,750	-	-	-	441,084
Rent	275,400	414,792	157,080	-	-	-	-	847,272
Electric	62,508	18,640	26,103	-	-	-	-	107,251
Fuel and oil	18,681	3,256	-	390	-	-	-	22,327
Water and sewer	12,234	3,518	5,348	-	-	-	-	21,100
Telephone	5,230	5,847	3,952	-	-	-	-	15,029
Books and publications	-	-	-	409,632	117,908	25,762	-	553,302
Office supplies	-	-	-	38,528	-	8,365	-	46,893
Advertising	-	-	-	5,645	-	-	-	5,645
Maintenance	-	-	-	22,016	-	-	-	22,016
Insurance	-	-	-	15,430	-	-	-	15,430
Staff development	-	-	-	17,073	17,587	97	-	34,757
Accounting	-	-	-	16,550	-	-	-	16,550
Bank service fees	-	-	-	4,335	-	-	-	4,335
Investment expense	-	-	-	616	-	-	-	616
Legal	-	-	-	1,720	-	-	-	1,720
Memberships	-	-	-	2,099	-	-	-	2,099
Other costs	2,639	-	366	5,321	-	-	-	8,326
Other contract services	-	-	-	50,386	-	-	-	50,386
Payroll fees	-	-	-	-	-	-	-	-
Postage	-	-	-	667	-	-	-	667
Periodicals	-	-	-	-	-	-	-	-
Photocopy	-	-	-	19,983	-	-	-	19,983
Program services	-	-	-	18,034	28,775	6,872	-	53,681
Processing supplies	-	-	-	3,128	-	-	-	3,128
Mileage reimbursement	-	-	-	165	-	-	-	165
Retirees' health insurance	-	-	-	106,939	-	-	-	106,939
Retirement benefits	-	-	-	-	-	-	363,642	363,642
Capital assets	-	-	-	56,064	-	-	-	56,064
	<u>\$ 1,209,764</u>	<u>\$ 1,170,855</u>	<u>\$ 754,538</u>	<u>\$ 1,431,423</u>	<u>\$ 164,270</u>	<u>\$ 41,096</u>	<u>\$ 363,642</u>	<u>\$ 5,135,588</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF EXPENDITURES (ACTUAL AND BUDGET)

OPERATING FUND

YEAR ENDED JUNE 30, 2018

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Favorable (Unfavorable)</u>
Lexington Park Branch:			
Salaries	\$ 718,395	\$ 719,926	\$ 1,531
Employee benefits	114,677	118,604	3,927
Other costs	2,639	-	(2,639)
Electric	62,508	90,890	28,382
Fuel and oil	18,681	18,685	4
Water and sewer	12,234	13,500	1,266
Telephone	<u>5,230</u>	<u>5,300</u>	<u>70</u>
	<u>934,364</u>	<u>966,905</u>	<u>32,541</u>
Leonardtown Branch:			
Salaries	618,745	619,344	599
Employee benefits	106,057	109,605	3,548
Electric	18,640	19,590	950
Fuel and oil	3,256	9,100	5,844
Water and sewer	3,518	3,800	282
Telephone	<u>5,847</u>	<u>9,000</u>	<u>3,153</u>
	<u>756,063</u>	<u>770,439</u>	<u>14,376</u>
Charlotte Hall Branch:			
Salaries	433,089	433,719	630
Employee benefits	128,600	132,900	4,300
Other costs	366	-	(366)
Electric	26,103	31,500	5,397
Water and sewer	5,348	5,350	2
Telephone	<u>3,952</u>	<u>3,955</u>	<u>3</u>
	<u>597,458</u>	<u>607,424</u>	<u>9,966</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF EXPENDITURES (ACTUAL AND BUDGET)

OPERATING FUND (CONTINUED)

YEAR ENDED JUNE 30, 2018

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Favorable (Unfavorable)</u>
General operating:			
Salaries	\$ 544,952	\$ 544,603	\$ (349)
Employee benefits	91,750	94,548	2,798
Fuel and oil	390	2,000	1,610
Books and publications	409,632	450,000	40,368
Office supplies	38,528	41,020	2,492
Advertising	5,645	7,000	1,355
Maintenance	22,016	26,500	4,484
Insurance	15,430	20,000	4,570
Staff development	12,840	20,000	7,160
Accounting and audit	16,550	24,000	7,450
Legal	1,720	5,000	3,280
Bank service fees	4,335	4,500	165
Memberships	2,099	2,500	401
Mileage reimbursements	165	500	335
Equipment and furniture	56,064	56,070	6
Other costs	5,351	475	(4,876)
Other contract services	50,386	74,600	24,214
Photocopy	19,983	20,000	17
Postage	667	1,250	583
Processing supplies	3,128	7,000	3,872
Program services	18,034	16,400	(1,634)
Retirees' health costs	<u>106,939</u>	<u>99,000</u>	<u>(7,939)</u>
	<u>1,426,604</u>	<u>1,516,966</u>	<u>90,362</u>
Total Operating Fund	<u>\$ 3,714,489</u>	<u>\$ 3,861,734</u>	<u>\$ 147,245</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY
SCHEDULE OF EXPENDITURES
GIFT AND GRANT FUND
YEAR ENDED JUNE 30, 2018

General operating:	
Staff development	\$ 4,203
	<u>4,203</u>
Friends of Library:	
Books and publications	25,762
Supplies and materials	8,365
Staff development	97
Program services	<u>6,872</u>
	<u>41,096</u>
Grants:	
EBook grant	117,908
Family engagement grant	1,217
Hotspot grant	25,000
Longest table grant	2,558
Staff development grant	<u>17,587</u>
	<u>164,270</u>
Investment expense	<u>616</u>
Total Gift and Grant Fund	<u>\$ 210,185</u>

See independent auditor's report.



Murphy & Murphy, CPA, LLC
Certified Public Accountants

**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, 2018, 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 January 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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
January 22, 2019