

ST. MARY'S COUNTY LIBRARY

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

YEAR ENDED JUNE 30, 2015



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, 2015, and the related notes to the financial statements, which collectively comprise the St. Mary's County Library's basic financial statement, 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, 2015, 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 information is the responsibility of management and was derived from and relates 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 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 October 6, 2015, 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
October 6, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) of the St. Mary's County Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the Library's financial statements which follow this section. This MD&A section includes the following parts:

- I. Overview of 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. Currently Known Facts, Decisions or Conditions Bearing on the Future

I. OVERVIEW OF FINANCIAL STATEMENTS

The Library as a whole

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Library's finances is, "Is the Library as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Library as a whole and about its activities in a way that helps answer this question. These statements 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 regardless of when cash is received or paid.

These two statements report the Library's net position and changes in the net position. You can think of the Library's net position, the difference between assets and liabilities, as one way to measure the Library's financial health or financial position. Over time, increases or decreases in the Library's net position are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other non-financial factors, such as changes in the County's population, tax base and capital assets, to assess the overall health of the Library.

In the Statement of Net Position and the Statement of Activities, the entire Library has been grouped into one governmental activity:

- **Governmental activities:** all of the Library's basic services are reported here, including general administration, library services, and public services, which include branch services, services to special populations and customer relations. County, State, federal grants and nominal user fees finance most of these activities.

The Library does not have any business-type activities wherein fees to customers would cover all of the cost of services provided.

The Library's most significant funds

Fund Financial Statements

The fund financial statements provide details about the most significant funds – not the Library as a whole. 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 funds 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.

- **Governmental funds:** all of the Library's services are reported in governmental funds, which focus 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 and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental *activities* and governmental *funds* in a reconciliation contained in Note 3 to the financial statements.

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

II. CONDENSED COMPARATIVE FINANCIAL INFORMATION

For the years ended June 30, 2015 and 2014, net position consisted of the following:

Summary Statements of Net Position

	<u>2015</u>	<u>2014</u>	<u>% Change</u> <u>2014-2015</u>
Current and other assets	\$ 1,390,056	\$ 1,220,970	13.85%
Capital assets, net	<u>1,394,574</u>	<u>1,444,793</u>	(3.60)%
Total assets	<u>2,784,630</u>	<u>2,665,763</u>	4.46%
Current liabilities	307,245	222,049	38.37%
Other liabilities	<u>107,380</u>	<u>90,959</u>	18.05%
Total liabilities	<u>414,625</u>	<u>313,008</u>	32.47%
Net position			
Net invested in capital assets	1,394,574	1,444,793	(3.60)%
Restricted	206,246	179,707	14.76%
Unrestricted	<u>769,185</u>	<u>728,255</u>	5.62%
Total net position	<u>\$ 2,370,005</u>	<u>\$ 2,352,755</u>	.73%

The Library's net position increased .73% during the fiscal year ended June 30, 2015.

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

Summary Statements of Activities

	<u>2015</u>	<u>2014</u>	<u>% Change</u> <u>2014-2015</u>
County funds	\$ 2,498,064	\$ 2,476,561	8.68%
County funds – donated facilities	975,792	-	100.00%
State aid	612,413	600,853	1.92%
Grant revenues	14,474	5,255	175.43%
Other revenues	<u>733,312</u>	<u>564,502</u>	29.90%
Total revenues	<u>4,834,055</u>	<u>3,647,171</u>	32.54%
Salaries and employee benefits	2,405,652	2,383,992	9.09%
Rent Expense	975,792	-	100.00%
Depreciation	464,761	445,373	4.35%
Gift and grant expenses	40,561	6,694	505.93%
Other expenses	<u>930,039</u>	<u>757,152</u>	22.83%
Total expenses	<u>4,816,805</u>	<u>3,593,211</u>	34.05%
Increase in net position	<u>\$ 17,250</u>	<u>\$ 53,960</u>	(212.81)%

III. ANALYSIS OF LIBRARY'S OVERALL FINANCIAL POSITION

- In FY 2015, the cost of all the Library's programs was approximately \$4.82 million. In FY 2014, it was approximately \$3.59 million.
- The percentage of funding sources of total revenues is as follows:

	<u>FY 2015</u>	<u>FY 2014</u>
County funding	72%	68%
State funding	13%	17%
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 2015</u>	<u>FY 2014</u>
Salaries and benefits	50%	67%
Rent	20%	
Depreciation of capital assets	10%	12%
Materials for circulation	8%	12%
Other costs (including technology)	12%	8%

IV. THE LIBRARY'S FUNDS

In FY 2015 the Library received:

- \$3,473,856, including donated facilities of \$975,792 from St. Mary's County.
- \$612,413 from the State.

As the Library completed the 2015 fiscal year, its operating fund reported a total fund balance of \$456,348. Of this fund balance, the Board of Library Trustees has committed \$91,952 to be used towards the FY 2016 budget. This will leave an unassigned fund balance of \$364,396. The ending grant and gift fund balance was \$226,702.

V. OPERATING FUND BUDGETARY HIGHLIGHTS

- A. In FY 2015, the County allocation for the annual operating expenses was \$2,498,064, which was a 1% increase of \$21,503 from FY 2014.
- B. In FY 2015, the Library received \$612,413 from the State, a less than 2% increase from FY 2014.
- C. Revenue raised through overdue fines, printing fees and book sales amounted to \$256,978 compared to \$269,701 in FY 2014.
- D. Eligible staff received a one step increase effective on the 1st day of their month of hire. A step is approximately a 2% increase.
- E. Bi-monthly payments by the County and State into the Library's checking account proceeded smoothly.
- F. Funding for materials for customers to check out was \$407,323. Funding for new Information Technology equipment was \$35,030.
- G. Actual operating expenditures were \$39,045 over budgeted amounts.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At June 30, 2015, the Library had \$1,394,574 invested in vehicles, furniture and equipment and books, net of accumulated depreciation.

	<u>Library capital assets, net of depreciation</u>		<u>% Change</u>
	<u>2015</u>	<u>2014</u>	<u>2014-2015</u>
Furnishings and equipment	\$ 70,580	\$ 88,602	(22)%
Leasehold improvements	78,960	80,715	(3)%
Vehicles	9,902	11,425	
Books	<u>1,235,132</u>	<u>1,264,051</u>	2%
Total	<u>\$ 1,394,574</u>	<u>\$ 1,444,793</u>	2%

Book additions, prior to depreciation, amounted to \$407,323 in 2015.

Debt administration

The Library has no long-term debt, except for accrued leave of \$107,380.

VII. CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS BEARING ON THE FUTURE

- In FY 2015, County funding to cover the Library's annual operating expenses was \$2,498,064. This provided funds for the staff to receive a merit increase, on the first day of their month of hire.
- Funds from the State of Maryland are based on a per capita formula adjusted for the wealth of the County. During the State's 2014 General Assembly session, a Library funding bill was passed which provided the following increases to per capita: \$15 in FY 2016; \$16 in FY 2017; \$16.30 in FY 2018; \$16.70 in FY 2019. In 2015, the newly elected Governor (Hogan) reduced that increase to \$14.27 for FY 2016. He stated that the increase to \$16.70 would occur over a 10 year period. The increase from \$14 to \$14.27 resulted in an additional \$23,000 in State funding for FY 2016.
- Renovation of Leonardtown Library: In the November 2014 elections, four new County Commissioners were elected. They agreed to stop the renovation and to build a new library on Leonard's Grant Parkway. The Capital Improvement Project Sheet includes \$1,114,000 for FY 2016 and \$10,194,250 for FY 2018. The projected schedule is: A/E solicitation issued in September 2014; design award January 2016; construction bid/award January-July 2017. The A/E Request for Qualifications (RFQ) was released August 18, 2015 with proposals due September 24, 2015.
- A compensation study was conducted in 2014 by Frank & Wheeler Group, LLC who also was conducting a classification and compensation study for the county. The following recommendations were approved by the Library Board at their April 21, 2015 meeting:
 - Do not change hours worked, leave, holidays and health benefits.
 - Salaries:
 - i. Maintain the 12 grades.
 - ii. Maintain 20 steps for each grade.
 - iii. Create a salary scale with a 2.5% increase between each step, to align with the County. The current scale has a 2% increase between each step.
 - iv. Grades 1 through 10: drop the first 2 steps and add 2 steps at the end. This would increase the starting salary by approximately 4% for each of these grades and provide a 4% increase to the top-of-grade salary.
 - v. Grade 11 and 12 (Deputy Director and Director): drop the first 6 steps and add 6 steps at the end. This would increase the starting salary by approximately 12% for both of these grades and would provide a 12% increase to the top-of-grade salary.
 - vi. Move Administrative Assistant from Grade 4 to Grade 5.
 - vii. Move Publicity & Outreach Coordinator from Grade 6 to Grade 8.

- Retiree Health Benefit Trust Fund: In October 2014, \$52,389 was deposited into the Charles Schwab account which is being managed by Joe Chadwick of Asset Strategy Consultants. Ending value on 8/31/2015 was \$752,281.56. The 2014 Financial Statements reported that “Net OPEB Obligation is overpaid by \$252,603 as of June 30, 2014.” (p. 31) At the January 20, 2015 Library Board meeting, it was unanimously decided to approve the following policy for the OPEB Retiree Health Benefit investment fund:
 - The OPEB obligation should not be overpaid.
 - The Board will continue to allocate, in its annual operating fund, the ARC (Annual Required Contribution) as determined by the bi-annual actuarial study. These funds will pay for current retirees.
 - Funds that remain in this account, at the end of the year, will be invested in the Retiree Health Benefit Trust fund only if the OPEB obligation is not overpaid. If the OPEB obligation is overpaid, the Board will make one of two decisions: 1) leave the money in the library’s MLGIP account, to increase the library’s “unassigned fund balance”, or 2) use the funds for a one-time-only purchase.
 - This decision will be made, and recorded in the Board minutes, at the Library Board’s November meeting.
- In May, 2015, the Library Director announced her retirement effective September 4, 2015. The Library Board hired the search firm Bradbury Associates/Gossage Sager Associates to help them find and select the next Director. Deputy Director Mary Anne Bowman was appointed Acting Director until the new Director arrived.

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, 2015

ASSETS

	<u>Governmental Funds</u>			Adjustments (Note 3)	Statement of net position
	<u>Operating Fund</u>	<u>Gift & Grant Funds</u>	<u>Total</u>		
Cash	\$ 425,233	\$ 658	\$ 425,891	\$ -	\$ 425,891
Investments	332,487	-	332,487	-	332,487
Restricted cash and investments	-	142,401	142,401	-	142,401
Due from operating fund	-	73,643	73,643	-	73,643
Due from fiduciary fund	5,873	-	5,873	-	5,873
Prepaid expenses	-	-	-	249,964	249,964
Other receivables	-	10,000	10,000	149,797	159,797
Capital assets, net	-	-	-	1,394,574	1,394,574
Total assets	<u>\$ 763,593</u>	<u>\$ 226,702</u>	<u>\$ 990,295</u>	<u>\$ 1,794,335</u>	<u>\$ 2,784,630</u>

LIABILITIES AND FUND BALANCE/NET POSITION

Liabilities:

Accounts payable and accrued expenses	\$ 122,376	\$ -	\$ 122,376	\$ -	\$ 122,376
Accrued salaries and benefits	111,226	-	111,226	-	111,226
Due to gift & grant funds	73,643	-	73,643	-	73,643
Accrued leave – expected to be paid after one year	-	-	-	107,380	107,380
Total liabilities	<u>307,245</u>	<u>-</u>	<u>307,245</u>	<u>107,380</u>	<u>414,625</u>

Fund balances/Net position:

Fund balances:

Nonspendable	-	70,452	70,452	(70,452)	-
Restricted	-	43,077	43,077	(43,077)	-
Committed	92,717	-	92,717	(92,717)	-
Assigned	-	113,173	113,173	(113,173)	-
Unassigned	<u>363,631</u>	<u>-</u>	<u>363,631</u>	<u>(363,631)</u>	<u>-</u>
Total fund balance	<u>456,348</u>	<u>226,702</u>	<u>683,050</u>	<u>(683,050)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 763,593</u>	<u>\$ 226,702</u>	<u>\$ 990,295</u>		

Net position:

Net investment in capital assets				1,394,574	1,394,574
Restricted				206,246	206,246
Unrestricted				<u>769,185</u>	<u>769,185</u>
Total net position				<u>\$ 2,370,005</u>	<u>\$ 2,370,005</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, 2015

	Governmental Funds			Adjustments (Note 3)	Statement of activities
	Operating Fund	Gift & Grant Funds	Total		
Revenues:					
County appropriations	\$ 3,473,856	\$ -	\$ 3,473,856	\$ -	\$ 3,473,856
State aid	612,413	-	612,413	-	612,413
Grants	-	14,474	14,474	-	14,474
State of Maryland - retirement benefits	318,235	-	318,235	-	318,235
Services income	63,165	-	63,165	-	63,165
Fines and damages	193,813	-	193,813	62,287	256,100
Contributions and donations	-	83,400	83,400	-	83,400
Miscellaneous	6,286	-	6,286	-	6,286
Investment income	151	5,975	6,126	-	6,126
Total revenues	<u>4,667,919</u>	<u>103,849</u>	<u>4,771,768</u>	<u>62,287</u>	<u>4,834,055</u>
Expenditures/expenses:					
Lexington Park Branch	1,183,420	-	1,183,420	8,902	1,192,322
Leonardtwn Branch	1,092,599	-	1,092,599	570	1,093,169
Charlotte Hall Branch	754,754	-	754,754	2,078	756,832
General operating	1,357,956	23,554	1,381,510	(407,031)	974,479
Depreciation	-	-	-	464,761	464,761
Staff development grants	-	10,000	10,000	-	10,000
Other grants	-	4,474	4,474	-	4,474
Investment expense	-	2,533	2,533	-	2,533
State of Maryland - retirement benefits	<u>318,235</u>	<u>-</u>	<u>318,235</u>	<u>-</u>	<u>318,235</u>
Total expenditures/expenses	<u>4,706,964</u>	<u>40,561</u>	<u>4,747,525</u>	<u>69,280</u>	<u>4,816,805</u>
Excess of revenues over (under) expenditures/expenses	(39,045)	63,288	24,243	(24,243)	
Change in net position	-	-	-	17,250	17,250
Fund balances/net position:					
Beginning of year	<u>495,393</u>	<u>163,414</u>	<u>658,807</u>	<u>1,693,948</u>	<u>2,352,755</u>
End of year	<u>\$ 456,348</u>	<u>\$ 226,702</u>	<u>\$ 683,050</u>	<u>\$ 1,686,955</u>	<u>\$ 2,370,005</u>

See accompanying notes.

ST. MARY'S COUNTY LIBRARY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015

ASSETS

Restricted cash and investments	\$ <u>781,598</u>
Total assets	\$ <u><u>781,598</u></u>

LIABILITIES AND NET POSITION

Due to operating fund	\$ <u>5,873</u>
Total liabilities	<u>5,873</u>
Net position held in trust for other post-employment benefits	\$ <u><u>775,725</u></u>

See accompanying notes.

ST. MARY'S COUNTY LIBRARY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2015

ADDITIONS:	
Contributions	\$ 91,361
Interest and dividends	12,932
Net appreciation in the fair value of plan investments	<u>5,860</u>
Total additions	<u>110,153</u>
DEDUCTIONS:	
Benefits paid	38,972
Administrative expenses	<u>5,873</u>
Total deductions	<u>44,845</u>
Change in net position	65,308
NET POSITION:	
Beginning of year	<u>710,417</u>
End of year	<u><u>\$ 775,725</u></u>

See accompanying notes.

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 Standard 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, 2015

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, 2015

1. Summary of significant accounting policies (continued)

C. Measurement focus and basis of accounting

The focus of the governmental funds' measurement is 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, nonexchange 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, 2015

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, 2015

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 cost of books has been estimated, based upon actual book purchases and sales over the last five years. The Library only records assets with a 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, 2015

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, 2015

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 12 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, 2015

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 \$4,810,457 \$ 1,394,574

ST. MARY'S COUNTY LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

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 \$64,199	\$ 149,797
OPEB obligation prepaid	249,964
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds: Accrued compensated absences	(107,380)
Total of differences	1,686,955
Total fund balances	683,050
Total net position	\$ 2,370,005

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	\$ 414,545
Depreciation expense	(464,761)

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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	\$ (16,425)
OPEB expenses prepaid	(2,639)

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>62,287</u>
Total differences	(6,993)
Changes in fund balances	<u>24,243</u>
Change in net position	<u>\$ 17,250</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, 2015, the carrying amount of the Library's cash was \$425,891, and the bank balances totaled \$545,309. All of the bank balances in financial institutions were covered by federal depository insurance or collateral at June 30, 2015.

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, 2015

4.	<u>Cash deposits and investments</u> (continued)	<u>Carrying Amount</u>	<u>Market Value</u>
	Unrestricted:		
	Investment in Maryland Local Government Investment Pool	<u>\$ 332,487</u>	<u>\$ 332,487</u>
	Restricted:		
	The Vanguard Group	<u>\$ 142,401</u>	<u>\$ 142,401</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, 2015

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, 2015

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 requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute from 5% to 7% of earnable compensation. Members of the Pension Systems were required to contribute 7% of their regular salaries and wages for the year ended June 30, 2015.

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, as a level percentage of payroll, in two 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, will be 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, 2015

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, 2015, the Library's total payroll and payroll for covered employees were \$2,079,356 and \$1,951,389, respectively. No contributions were made by the Library for the year ended June 30, 2015.

For fiscal year 2015, the State contributed \$318,235 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 16.31% of covered payroll.

Actuarial assumptions

Significant actuarial assumptions used in the valuation include: (a) 7.65% rate of return on investments, compounded annually, (b) projected salary increases of 3.40% to 11.90%, compounded annually, attributable to inflation, (c) 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, 2015

6. Capital assets and depreciation

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance</u> <u>July 01, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets:				
Furnishings and equipment	\$ 1,014,347	\$ 7,219	\$ -	\$ 1,021,566
Leasehold Improvements	87,735	-	-	87,735
Vehicles	34,944	-	-	34,944
Books	<u>4,653,463</u>	<u>407,323</u>	<u>-</u>	<u>5,060,786</u>
	<u>5,790,489</u>	<u>414,542</u>	<u>-</u>	<u>6,205,031</u>
Accumulated depreciation:				
Furnishings and equipment	\$ 925,745	\$ 25,241	\$ -	\$ 950,986
Leasehold improvements	7,020	1,755	-	8,775
Vehicles	23,519	1,523	-	25,042
Books	<u>3,389,412</u>	<u>436,242</u>	<u>-</u>	<u>3,825,654</u>
	<u>4,345,696</u>	<u>464,761</u>	<u>-</u>	<u>4,810,457</u>
Net capital assets	<u>\$ 1,444,793</u>	<u>\$ (50,219)</u>	<u>\$ -</u>	<u>\$ 1,394,574</u>

Governmental activities depreciation expense of \$464,761 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, 2015:

<u>Balance</u> <u>July 1, 2014</u>	<u>Increase</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Amounts due</u> <u>within one year</u>
\$ 90,959	\$ 16,421	\$ 107,380	\$ -

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2016	\$	14,322
June 30, 2017		14,322
June 30, 2018		<u>7,161</u>
	\$	<u><u>35,805</u></u>

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

11. Contributed Facilities

On September 16, 2014, the St. Mary's County Commissioners signed three 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, 2015, the estimated fair value of these facilities is \$975,792, 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, 2015, the cost of these post-employment benefits was \$38,972.

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 five 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, 2015

12. Other post-employment benefits (continued)

Membership

At June 30 membership consisted of:

	<u>2015</u>	<u>2014</u>
Retirees and Beneficiaries Currently Receiving Benefits	9	8
Active Employees	<u>20</u>	<u>17</u>
Total	<u><u>29</u></u>	<u><u>25</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 \$249,964 as of June 30, 2015.

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, 2015 and 2014, were calculated as follows:

	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 94,000	\$ 108,000
Interest on Net OPEB	(14,000)	(8,000)
Adjustment to ARC	<u>14,000</u>	<u>7,000</u>
Annual OPEB Cost	94,000	107,000
Contributions Made	(91,361)	(123,444)
Net OPEB Obligation, Beginning of Year	<u>(252,603)</u>	<u>(236,159)</u>
Net OPEB Obligation, End of Year	<u><u>\$ (249,964)</u></u>	<u><u>\$ (252,603)</u></u>

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2014 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 8%, 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 30 year closed amortization period, which started July 1, 2007.

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, 2014 asset figure of \$800,000.

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

13. Governmental Fund Balances

Governmental fund balances at June 30, 2015, 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	-	10,000	10,000
Summer intern	-	2,988	2,988
	-	43,077	43,077
Committed:			
Budget reserve	92,717	-	92,717
	92,717	-	92,717
Assigned to:			
Fund balance usage	-	113,173	113,173
	-	113,173	113,173
Unassigned	363,631	-	363,631
Total fund balances	\$ 456,348	\$ 226,702	\$ 683,050

14. Subsequent events

In preparing these financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through October 6, 2015, 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, 2015

	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	\$ 2,498,064	\$ -	\$ 2,498,064	\$ 975,792	\$ 3,473,856
State aid	612,413	-	612,413	-	612,413
State of Maryland – retirement benefits	-	-	-	318,235	318,235
Services income	55,000	8,165	63,165	-	63,165
Fines and damages	185,000	8,813	193,813	-	193,813
Miscellaneous	-	6,286	6,286	-	6,286
Investment income	-	151	151	-	151
Total revenues	<u>3,350,477</u>	<u>23,415</u>	<u>3,373,892</u>	<u>1,294,027</u>	<u>4,667,919</u>
Expenditures:					
Lexington Park Branch	905,883	2,137	908,020	275,400	1,183,420
Leonardtwn Branch	675,605	2,202	677,807	414,792	1,092,599
Charlotte Hall Branch	468,646	508	469,154	285,600	754,754
General operating	1,285,700	72,256	1,357,956	-	1,357,956
State of Maryland – retirement benefits	-	-	-	318,235	318,235
Total expenditures	<u>3,335,834</u>	<u>77,103</u>	<u>3,412,937</u>	<u>1,294,027</u>	<u>4,706,964</u>
Net change in fund balance	14,643	(53,688)	(39,045)	-	(39,045)
Fund balance, beginning	<u>422,912</u>	-	<u>495,393</u>	-	<u>495,393</u>
Fund balance, ending	<u>\$ 437,555</u>	<u>\$ (53,688)</u>	<u>\$ 456,348</u>	<u>\$ -</u>	<u>\$ 456,348</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, 2015

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)	\$ 3,373,892
Pension contribution by the State on behalf of the Library	318,235
Contributed facilities	<u>975,792</u>
Total revenue as reported on the statement of revenues, expenditures, and changes in fund balance	<u>\$ 4,667,919</u>
Actual expenditures (non-GAAP budgetary basis)	\$ 3,412,937
Pension contribution by the State on behalf of the Library	318,235
Rent expense for contributed facilities	<u>975,792</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance	<u>\$ 4,706,964</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, 2015

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)
07/01/12	\$ 404,744	\$ 1,710,000	\$ 1,305,256	23.67%	\$ 1,861,366	70.12%
07/01/13	\$ 558,000	\$ 1,620,000	\$ 1,062,000	34.44%	\$ 1,875,641	56.62%
07/01/14	\$ 800,000	\$ 1,540,000	\$ 740,000	51.95%	\$ 1,951,389	37.92%

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Annual Required Contribution	Percentage Contributed
06/30/13	\$ 219,717	\$ 121,000	182%
06/30/14	\$ 123,444	\$ 108,000	114%
06/30/15	\$ 91,361	\$ 94,000	97%

See independent auditor's report.

OTHER SUPPLEMENTAL INFORMATION

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF EXPENDITURES

YEAR ENDED JUNE 30, 2015

	Lexington Park Branch	Leonardtown Branch	Charlotte Hall Branch	General Operating	Staff Development	State of Maryland Retirement	Totals
Salaries	\$ 676,594	\$ 560,893	\$ 371,765	\$ 470,104	\$ -	\$ -	\$ 2,079,356
Employee benefits	122,900	77,238	59,494	66,664	-	-	326,296
Rent	275,400	414,792	285,600	-	-	-	975,792
Electric	79,642	20,907	31,400	-	-	-	131,949
Fuel and oil	16,104	8,436	-	1,627	-	-	26,167
Water and sewer	7,553	2,905	3,443	-	-	-	13,901
Telephone	5,227	7,428	3,052	-	-	-	15,707
Books and publications	-	-	-	407,323	-	-	407,323
Office supplies	-	-	-	55,333	-	-	55,333
Advertising	-	-	-	6,398	-	-	6,398
Maintenance	-	-	-	27,657	-	-	27,657
Insurance	-	-	-	24,478	-	-	24,478
Staff development	-	-	-	21,722	10,000	-	31,722
Accounting	-	-	-	12,484	-	-	12,484
Legal	-	-	-	2,116	-	-	2,116
Bank service fees	-	-	-	9,770	-	-	9,770
Investment expense	-	-	-	2,533	-	-	2,533
Memberships	-	-	-	2,060	-	-	2,060
Other costs	-	-	-	45,466	-	-	45,466
Other contract services	-	-	-	78,857	-	-	78,857
Postage	-	-	-	469	-	-	469
Photocopy	-	-	-	17,723	-	-	17,723
Mileage reimbursement	-	-	-	82	-	-	82
Retirees' health insurance	-	-	-	91,361	-	-	91,361
Retirement benefits	-	-	-	-	-	318,235	318,235
Capital assets	-	-	-	44,290	-	-	44,290
	<u>\$ 1,183,420</u>	<u>\$ 1,092,599</u>	<u>\$ 754,754</u>	<u>\$ 1,388,517</u>	<u>\$ 10,000</u>	<u>\$ 318,235</u>	<u>\$ 4,747,525</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF EXPENDITURES (ACTUAL AND BUDGET)

OPERATING FUND

YEAR ENDED JUNE 30, 2015

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Favorable (Unfavorable)</u>
Lexington Park Branch:			
Salaries	\$ 676,594	\$ 674,138	\$ (2,456)
Employee benefits	122,900	122,765	(135)
Electric	79,642	80,000	358
Fuel and oil	16,104	16,500	396
Water and sewer	7,553	7,250	(303)
Telephone	<u>5,227</u>	<u>5,230</u>	<u>3</u>
	<u>908,020</u>	<u>905,883</u>	<u>(2,137)</u>
Leonardtowntown Branch:			
Salaries	560,893	557,419	(3,474)
Employee benefits	77,238	77,086	(152)
Electric	20,907	21,500	593
Fuel and oil	8,436	9,100	664
Water and sewer	2,905	3,000	95
Telephone	<u>7,428</u>	<u>7,500</u>	<u>72</u>
	<u>677,807</u>	<u>675,605</u>	<u>(2,202)</u>
Charlotte Hall Branch:			
Salaries	371,765	369,512	(2,253)
Employee benefits	59,494	61,074	1,580
Electric	31,400	31,500	100
Water and sewer	3,443	3,500	57
Telephone	<u>3,052</u>	<u>3,060</u>	<u>8</u>
	<u>469,154</u>	<u>468,646</u>	<u>(508)</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY
SCHEDULE OF EXPENDITURES (ACTUAL AND BUDGET)
OPERATING FUND (CONTINUED)
YEAR ENDED JUNE 30, 2015

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Favorable (Unfavorable)</u>
General operating:			
Salaries	\$ 470,104	\$ 465,273	\$ (4,831)
Employee benefits	66,664	68,586	1,922
Fuel and oil	1,627	2,500	873
Books and publications	407,323	411,000	3,677
Office supplies	55,333	47,350	(7,983)
Advertising	6,398	6,800	402
Maintenance	27,657	26,400	(1,257)
Insurance	24,478	20,000	(4,478)
Staff development	21,722	20,777	(945)
Accounting	12,484	13,600	1,116
Legal	2,116	2,200	84
Bank service fees	9,770	10,500	730
Memberships	2,060	2,500	440
Mileage Reimbursements	82	272	190
Equipment and furniture	44,290	47,300	3,010
Other costs	17,438	21,500	4,062
Other contract services	78,857	77,475	(1,382)
Photocopy	17,723	20,000	2,277
Postage	469	500	31
Retirees' health costs	<u>91,361</u>	<u>21,167</u>	<u>(70,194)</u>
	<u>1,357,956</u>	<u>1,285,700</u>	<u>(72,256)</u>
Total Operating Fund	<u>\$ 3,412,937</u>	<u>\$ 3,335,834</u>	<u>\$ (77,103)</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY
 SCHEDULE OF EXPENDITURES
 GIFT AND GRANT FUNDS
 YEAR ENDED JUNE 30, 2015

General operating:	
Salaries	\$ -
Benefits	-
Office and communication	-
Supplies	-
Staff development	-
Other grants	4,474
Other costs	23,554
Books and publications	<u>-</u>
	28,028
Investment expense	2,533
Staff development	<u>10,000</u>
Total Gift and Grant Funds	<u>\$ 40,561</u>

See independent auditor's report.



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, 2015, 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 October 6, 2015.

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 St. Mary's County Library's internal control. Accordingly, we do not express an opinion on the effectiveness of St. Mary's County Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the following deficiency to be a material weakness:

A significant audit adjustment is a proposed correction to the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed several adjustments which were material to the financial statement as a whole.

Management should examine the adjustments required as a result of our audit and assess the cost-benefit of improving the internal control system to prevent the adjustments in the future. Management should address inherent limitations in the internal control system and modify their oversight function accordingly, since the updated Yellow Book standards require safeguards to be in place to ensure an auditor's independence for nonaudit services provided.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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
October 6, 2015