

ST. MARY'S COUNTY LIBRARY

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2017**



Murphy & Murphy, CPA, LLC

CONTENTS

	<u>PAGE</u>
Independent auditor's report on component unit financial statements	1-3
Management's discussion and analysis	4-10
Financial statements:	
Combined government-wide and fund financial statements:	
Statement of net position and governmental funds balance sheet	11
Statement of activities and governmental fund revenues, expenditures and changes in fund balances	12
Statement of fiduciary net position	13
Statement of changes in fiduciary net position	14
Notes to financial statements	15-34
Required supplemental information section:	
Schedule of revenues, expenditures, and changes in fund balances – budget and actual – operating fund	35-36
Other post-employment benefit plan-funding progress and schedule of employer contributions	37
Other supplemental information:	
Combining schedule of expenditures	38
Schedule of expenditures (actual and budget) – operating fund	39-40
Schedule of expenditures – gift and grant fund	41
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 <i>Government Auditing Standards</i>	42-43



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, 2017, 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, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining schedule of expenditures, and schedule of expenditures - Gift and Grant Fund, on pages 38 and 41 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 39 - 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 11, 2017, 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 11, 2017

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, 2017. Please read it in conjunction with the Library's financial statements, which follow this section.

The library's net position declined somewhat during this fiscal year when compared to the previous year, by 6.23%. Overall, our revenues increased, with a 3.72% increase in county funding, a 4.7% increase in state funding, and an 872.37% increase in grant funding being offset by a decline in how the county factors rent on our facilities and by a decline in "Other Revenues." This "Other" decline was due to a decrease in fines once we allowed items that are not needed to fill reserves to automatically renew. People are not penalized for being a day or so late to return items and our overall circulation has increased, making this change good for the library and very popular with our customers. We made changes in our fax services, eliminating a pass-through vendor to offset some of this loss. We anticipate no such decrease in coming years, as we are making no other major changes of this sort. Total revenues increased 2.31%, not quite enough to offset a 3.75% increase in expenses, mostly due to a 2.5% step raise for salaries. Note how "Other expenses" (such as supplies) has gone down by 7.67%. 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 \$5,053,520 to \$4,577,686. 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 materials with the same amount of funding. Our collection is newer and circulation of material has risen overall. 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 2017, actual expenses were \$191,136 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 2017 and also any changes in its net position since FY 2016. 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 2017, 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 2017 total costs in comparison to FY 2016 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 2017 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 2018 or the long-term.

II. CONDENSED COMPARATIVE FINANCIAL INFORMATION

For the years ended June 30, 2017 and 2016, net position consisted of the following:

Summary Statements of Net Position

Current and other assets	\$ 1,185,953	\$ 1,380,614	-16.41%
Capital assets, net	<u>1,344,957</u>	<u>1,374,475</u>	-2.19%
Total assets	<u>2,530,910</u>	<u>2,755,089</u>	-8.85%
Current liabilities	257,460	351,676	-36.59%
Other liabilities	<u>103,017</u>	<u>97,607</u>	5.54%
Total liabilities	<u>360,477</u>	<u>449,283</u>	-24.63%
Net position			
Net invested in capital ass	1,344,957	1,374,475	-2.19%
Restricted	181,283	204,570	-12.84%
Unrestricted	<u>644,193</u>	<u>726,761</u>	-12.81%
Total net position	<u>\$ 2,170,433</u>	<u>\$ 2,305,806</u>	-6.23%

The Library's net position decreased 6.23% during the fiscal year ended June 30, 2017.

II. CONDENSED COMPARATIVE FINANCIAL INFORMATION (continued)

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

<u>Summary Statements of Activities</u>			
County funds	\$ 2,684,573	\$ 2,588,064	3.73%
County funds – donated facilities	847,272	879,402	-3.65%
State aid	665,666	635,737	4.71%
Grant revenues	114,709	13,149	772.38%
Other revenues	<u>586,657</u>	<u>671,673</u>	-12.66%
Total revenues	<u>4,898,877</u>	<u>4,788,025</u>	2.32%
Salaries and employee benefits	2,660,521	2,588,251	2.79%
Rent expense	847,272	879,402	-3.65%
Depreciation	442,127	441,314	0.18%
Gift and grant expenses	229,678	23,018	897.82%
Other expenses	<u>854,652</u>	<u>920,239</u>	-7.13%
Total expenses	<u>5,034,250</u>	<u>4,852,224</u>	3.75%
Decrease in net position	<u>\$ (135,373)</u>	<u>\$ (64,199)</u>	110.86%

III. ANALYSIS OF LIBRARY'S OVERALL FINANCIAL POSITION

- In FY 2017, the total cost of the Library's programs was approximately \$5.03 million. In FY 2016, it was approximately \$4.85 million.
- The percentage of funding sources of total revenues is as follows:

	<u>FY 2017</u>	<u>FY 2016</u>
County funding	72%	72%
State funding	14%	13%
Fees, contributions, grants	14%	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 2017</u>	<u>FY 2016</u>
Salaries and benefits	53%	53%
Rent	17%	18%
Depreciation of capital assets	9%	10%
Materials for circulation	11%	9%
Other costs (including technology)	10%	10%

IV. THE LIBRARY'S FUNDS

In FY 2017 the Library received the following amounts:

- \$3,531,845, an amount which includes \$847,272 in donated facilities from St. Mary's County.
- \$665,666 from the State of Maryland.

As the Library completed the 2017 fiscal year, its governmental funds reported a total operating fund balance of \$454,395. The Board's gift fund balance was \$169,869.

V. OPERATING FUND BUDGETARY HIGHLIGHTS

- In FY 2017, the County allocation for the annual operating expenses was \$2,684,573, which was a 3.72% increase of \$96,509.
- In FY 2017, the Library received \$665,666 from the State, up \$29,929, for an increase of 4.7%.
- Eligible staff received a step increase of 2.5% in the pay period of the anniversary of their hiring date.
- In January of 2017, the library changed payroll vendors due to our previous vendor making errors in how employees' Maryland tax was calculated and because a different vendor offered more services for the same amount of money. There were some initial set-up expenses, but the increase in efficiency with the new system and the increase in employee confidence in their pay more than justifies the change.
- Funding for materials for customers to check out remained at \$410,000. Funding for Information Technology equipment was \$35,500.
- The library can be justly proud of its success in getting grants (note the increase in funding over the previous fiscal year of 872%, none of which required a "match" on our part) but it should be noted that much of this funding goes to state-wide projects. For instance, in autumn of 2016, we received a \$66,000 grant to enhance the state-wide eBook experience, which added content statewide. Our library and our customers certainly benefit from the results, but not all of the funding benefits us directly.
- Actual operating expenditures were \$191,136 under the budgeted amount.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At June 30, 2017, the Library had \$1,344,957 invested in vehicles, furniture and equipment and books, net of accumulated depreciation.

	<u>Library capital assets, net of depreciation</u>		<u>% Change</u>
	<u>2017</u>	<u>2016</u>	<u>2016-2017</u>
Furnishings and equipment	\$ 39,055	\$ 51,376	(23.98)%
Leasehold improvements	75,450	77,205	(2.27)%
Vehicles	4,266	8,074	(47.16)%
Books	<u>1,226,186</u>	<u>1,237,820</u>	(.94)%
Total	<u>\$ 1,344,957</u>	<u>\$ 1,374,475</u>	(2.15)%

Book additions, prior to depreciation, amounted to \$398,809 in 2017.

Debt administration

The Library has no long-term debt, except for accrued leave of \$103,017.

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

- In FY 2017, the County allocation for the annual operating expenses was \$2,684,573. This provided funds for the staff 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. 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 2019 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 more than had been anticipated in FY 2019 and beyond. The FY 2018 total is 1% higher than it was projected to be, up from \$14.81 per resident to \$15.00. This increase, and our county’s growth in population, has given us an increase in FY 2018 funding to \$719,221. Not all news is good: the state is facing a large budget deficit in the upcoming cycle, and it could happen that future state funding increases will be rolled back. Again, we cannot count on an increase in state funding and will budget appropriately.

- **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, however, suggested that the building might be over budget due to higher than expected construction costs due to hurricane damage in the south raising costs. Value engineering is being done to which will reduce the square footage from 30,000 to 29,000. Bidding will commence in October 2017, with bids awarded by January of 2018. Construction will last from March 2018 to September 2019. The County has approved \$10,194,250 in bonds for FY 2018 for this project. The library has received a \$1,091,000 capital grant for FY 2018 from the State of Maryland and is asking for an additional \$500,000 for FY 2019. For FY 2019, the County anticipates an additional 3 FTEs costing \$258,000 to be added to the library’s budget.

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, 2017

ASSETS

	<u>Governmental Funds</u>			Adjustments (Note 3)	Statement of net position
	<u>Operating Fund</u>	<u>Gift & Grant Fund</u>	<u>Total</u>		
Cash	\$ 278,281	\$ 680	\$ 278,961	\$ -	\$ 278,961
Investments	415,897	-	415,897	-	415,897
Restricted cash and investments	-	99,961	99,961	-	99,961
Due from operating fund	-	59,865	59,865	-	59,865
Due from fiduciary fund	17,677	-	17,677	-	17,677
Prepaid expenses	-	-	-	146,702	146,702
Other receivables	-	9,363	9,363	157,527	166,890
Capital assets, net	-	-	-	1,344,957	1,344,957
Total assets	\$ 711,855	\$ 169,869	\$ 881,724	\$ 1,649,186	\$ 2,530,910

LIABILITIES AND FUND BALANCE/NET POSITION

Liabilities:

Accounts payable and accrued expenses	\$ 152,265	\$ -	\$ 152,265	\$ -	\$ 152,265
Accrued salaries and benefits	45,330	-	45,330	-	45,330
Due to gift & grant funds	59,865	-	59,865	-	59,865
Accrued leave – expected to be paid after one year	-	-	-	103,017	103,017
Total liabilities	257,460	-	257,460	103,017	360,477

Fund balances/Net position:

Fund balances:

Nonspendable	-	70,452	70,452	(70,452)	-
Restricted	-	32,995	32,995	(32,995)	-
Committed	77,836	-	77,836	(77,836)	-
Assigned	-	66,422	66,422	(66,422)	-
Unassigned	376,559	-	376,559	(376,559)	-
Total fund balance	454,395	169,869	624,264	(624,264)	-
Total liabilities and fund balance	\$ 711,855	\$ 169,869	\$ 881,724		

Net position:

Net investment in capital assets				1,344,957	1,344,957
Restricted				181,283	181,283
Unrestricted				644,193	644,193
Total net position				\$ 2,170,433	\$ 2,170,433

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, 2017

	Governmental Funds			Adjustments (Note 3)	Statement of activities
	Operating Fund	Gift & Grant Fund	Total		
Revenues:					
County appropriations	\$ 3,531,845	\$ -	\$ 3,531,845	\$ -	\$ 3,531,845
State aid	665,666	-	665,666	-	665,666
Grants	-	114,709	114,709	-	114,709
State of Maryland - retirement benefits	355,134	-	355,134	-	355,134
Services income	75,558	-	75,558	-	75,558
Fines and damages	84,563	-	84,563	(22,265)	62,298
Contributions and donations	-	60,414	60,414	-	60,414
Miscellaneous	27,163	-	27,163	-	27,163
Investment income	1,946	4,144	6,090	-	6,090
Total revenues	4,741,875	179,267	4,921,142	(22,265)	4,898,877
Expenditures/expenses:					
Lexington Park Branch	1,186,736	-	1,186,736	(1,938)	1,184,798
Leondartown Branch	1,165,941	-	1,165,941	5,947	1,171,888
Charlotte Hall Branch	681,399	-	681,399	(4,144)	677,255
General operating	1,344,404	36,358	1,380,762	(371,034)	1,009,728
Investment expense	-	4,269	4,269	-	4,269
Other grants	-	114,709	114,709	-	114,709
Friends of Library	-	74,342	74,342	-	74,342
Depreciation	-	-	-	442,127	442,127
State of Maryland - retirement benefits	355,134	-	355,134	-	355,134
Total expenditures/expenses	4,733,614	229,678	4,963,292	70,958	5,034,250
Excess of revenues over (under) expenditures/expenses	8,261	(50,411)	(42,150)	42,150	
Change in net position	-	-	-	(135,373)	(135,373)
Fund balances/net position:					
Beginning of year	446,134	220,280	666,414	1,639,392	2,305,806
End of year	\$ 454,395	\$ 169,869	\$ 624,264	\$ 1,546,169	\$ 2,170,433

See accompanying notes.

ST. MARY'S COUNTY LIBRARY
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

ASSETS

Restricted cash and investments	\$ 870,367
Total assets	<u>\$ 870,367</u>

LIABILITIES AND NET POSITION

Due to operating fund	\$ 17,677
Total liabilities	<u>17,677</u>
Net position held in trust for other postemployment benefits	<u>852,690</u>
Total liabilities and net position	<u>\$ 870,367</u>

See accompanying notes.

ST. MARY'S COUNTY LIBRARY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017

ADDITIONS:	
Contributions	\$ 62,970
Interest and dividends	18,792
Net appreciation in the fair value of plan investments	<u>53,999</u>
Total additions	<u>135,761</u>
DEDUCTIONS:	
Benefits paid	62,970
Administrative expenses	<u>5,926</u>
Total deductions	<u>68,896</u>
Change in net position	66,865
NET POSITION:	
Beginning of year	<u>785,825</u>
End of year	<u>\$ 852,690</u>

See accompanying notes.

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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 \$4,321,743 \$ 1,344,957

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 \$27,799	\$ 157,527
---	------------

OPEB obligation prepaid	146,702
-------------------------	---------

Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds: Accrued compensated absences	(103,017)
---	-----------

Total of differences	1,546,169
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Total fund balances	624,264
---------------------	---------

Total net position	\$ 2,170,433
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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	\$ 412,609
Depreciation expense	(442,127)

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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	\$ (5,410)
OPEB expenses prepaid	(36,030)

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	(22,265)
Total differences	(93,223)
Changes in fund balances	(42,150)
Change in net position	<u>\$ (135,373)</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, 2017, the carrying amount of the Library's cash was \$278,961, and the bank balances totaled \$351,424. The Library's bank balance is insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2017, the uninsured and uncollateralized bank balance totaled \$101,424.

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, 2017

4. Cash deposits and investments (continued)

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government Investment Pool	<u>\$ 415,897</u>	<u>\$ 415,897</u>
Restricted:		
The Vanguard Group	<u>\$ 99,961</u>	<u>\$ 99,961</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, 2017

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, 2017

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 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 accrued liability (UAAL) was being amortized in distinct layers. The UAAL which existed as of the June 30, 2000, actuarial valuation was being amortized over a 40-year period (as provided by law) from July 1, 1980 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 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, 2017

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, 2017, the Library's total payroll and payroll for covered employees were \$2,327,611 and \$2,081,447, respectively. No contributions were made by the Library for the year ended June 30, 2017.

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, 2017 was \$355,134. 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 17.06% of covered payroll.

Actuarial assumptions

Significant actuarial assumptions used in the valuation include: (a) 7.55% rate of return on investments, compounded annually, (b) projected salary increases of 3.3% to 9.2%, compounded annually, attributable to inflation, (c) inflation at 2.7% general and 3.2% wage, (d) post-employment benefit increases are capped at 3% per year for service prior to July 1, 2011, with certain exceptions, and the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate, for service after June 30, 2011 per year, depending on the system.

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

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

6. Capital assets and depreciation

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>July 01, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital assets:				
Furnishings and equipment	\$ 952,535	\$ 13,800	\$ -	\$ 966,335
Leasehold Improvements	87,735	-	-	87,735
Vehicles	34,944	-	-	34,944
Books	<u>5,053,520</u>	<u>398,809</u>	<u>874,643</u>	<u>4,577,686</u>
	<u>6,128,734</u>	<u>412,609</u>	<u>874,643</u>	<u>5,666,700</u>
Accumulated depreciation:				
Furnishings and equipment	\$ 901,159	\$ 26,121	\$ -	\$ 927,280
Leasehold improvements	10,530	1,755	-	12,285
Vehicles	26,870	3,808	-	30,678
Books	<u>3,815,700</u>	<u>410,443</u>	<u>874,643</u>	<u>3,351,500</u>
	<u>4,754,259</u>	<u>442,127</u>	<u>874,643</u>	<u>4,321,743</u>
Net capital assets	<u>\$ 1,374,475</u>	<u>\$ (29,518)</u>	<u>\$ -</u>	<u>\$ 1,344,957</u>

Governmental activities depreciation expense of \$442,127 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, 2017:

<u>Balance</u> <u>July 1, 2016</u>	<u>Increase</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amounts due</u> <u>within one year</u>
\$ 97,607	\$ 5,410	\$ 103,017	\$ -

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2018	\$	7,161
June 30, 2019		-
June 30, 2020		-
June 30, 2021		-
June 30, 2022		-
		-
		\$ 7,161

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, 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

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, 2017, the cost of these post-employment benefits was \$62,970.

Plan Description

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

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

12. Other post-employment benefits (continued)

Membership

At June 30 membership consisted of:

	<u>2017</u>	<u>2016</u>
Retirees and Beneficiaries Currently Receiving Benefits	8	11
Active Employees	<u>22</u>	<u>21</u>
Total	<u>30</u>	<u>32</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 \$146,702 as of June 30, 2017.

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, 2017 and 2016, were calculated as follows:

	<u>2017</u>	<u>2016</u>
Annual Required Contribution	\$ 98,000	\$ 94,000
Interest on Net OPEB	(14,000)	(14,000)
Adjustment to ARC	<u>15,000</u>	<u>14,000</u>
Annual OPEB Cost	99,000	94,000
Contributions Made	(62,970)	(44,768)
Net OPEB Obligation, Beginning of Year	<u>(182,732)</u>	<u>(231,964)</u>
Net OPEB Obligation, End of Year	<u>\$ (146,702)</u>	<u>\$ (182,732)</u>

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2016 actuarial valuation, the liabilities were computed using the projected unit credit method, with linear proration to assumed benefit commencement. The actuarial assumptions included a 6% annual rate of return and 3.5% annual payroll increase. The initial annual healthcare cost trend rate was 6.5%, decreasing gradually each year to a rate of 4.20% in 2099. The UAAL is being amortized as a level percentage of projected payroll over a closed 21-year period for the year ended June 30, 2017.

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, 2016 asset figure of \$882,000.

ST. MARY'S COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

13. Governmental Fund Balances

Governmental fund balances at June 30, 2017, 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	-	9,363	9,363
Summer intern	-	2,863	2,863
	-	32,995	32,995
Committed:			
Budget reserve	77,836	-	77,836
	77,836	-	77,836
Assigned to:			
Fund balance usage	-	66,422	66,422
	-	66,422	66,422
Unassigned	376,559	-	376,559
Total fund balances	\$ 454,395	\$ 169,869	\$ 624,264

14. Subsequent events

In preparing these financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through October 11, 2017, 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, 2017

	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	\$ 2,684,573	\$ -	\$ 2,684,573	\$ 847,272	\$ 3,531,845
State aid	666,000	(334)	665,666	-	665,666
State of Maryland					
– retirement benefits	-	-	-	355,134	355,134
Services income	50,000	25,558	75,558	-	75,558
Fines and damages	175,000	(90,437)	84,563	-	84,563
Miscellaneous	-	27,163	27,163	-	27,163
Investment income	-	1,946	1,946	-	1,946
Total revenues	<u>3,575,573</u>	<u>(36,104)</u>	<u>3,539,469</u>	<u>1,202,406</u>	<u>4,741,875</u>
Expenditures:					
Lexington Park Branch	932,188	(20,852)	911,336	275,400	1,186,736
Leonardtwn Branch	766,240	(15,091)	751,149	414,792	1,165,941
Charlotte Hall Branch	531,778	(7,459)	524,319	157,080	681,399
General operating	1,448,736	(104,332)	1,344,404	-	1,344,404
State of Maryland					
– retirement benefits	-	-	-	355,134	355,134
Total expenditures	<u>3,678,942</u>	<u>(147,734)</u>	<u>3,531,208</u>	<u>1,202,406</u>	<u>4,733,614</u>
Net change in fund balance	(103,369)	111,630	8,261	-	8,261
Fund balance, beginning	<u>344,838</u>	<u>-</u>	<u>446,134</u>	<u>-</u>	<u>446,134</u>
Fund balance, ending	<u>\$ 241,469</u>	<u>\$ 111,630</u>	<u>\$ 454,395</u>	<u>\$ -</u>	<u>\$ 454,395</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, 2017

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)	\$ 3,539,469
Pension contribution by the State on behalf of the Library	355,134
Contributed facilities	<u>847,272</u>
 Total revenue as reported on the schedule of revenues, expenditures, and changes in fund balances	 \$ <u>4,741,875</u>
 Actual expenditures (non-GAAP budgetary basis)	 \$ 3,531,208
Pension contribution by the State on behalf of the Library	355,134
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>4,733,614</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY

COMBINING SCHEDULE OF EXPENDITURES

YEAR ENDED JUNE 30, 2017

	Lexington Park Branch	Leonardtown Branch	Charlotte Hall Branch	General Operating	Grants	Friends of Library	State of Maryland Retirement	Totals
Salaries	\$ 672,671	\$ 612,671	\$ 390,292	\$ 550,897	\$ -	\$ -	\$ -	\$ 2,226,531
Employee benefits	131,750	102,744	100,978	98,518	-	-	-	433,990
Rent	275,400	414,792	157,080	-	-	-	-	847,272
Electric	72,379	20,088	24,611	-	-	-	-	117,078
Fuel and oil	18,450	5,510	-	865	-	-	-	24,825
Water and sewer	10,197	3,344	5,181	-	-	-	-	18,722
Telephone	5,227	6,792	3,257	-	-	-	-	15,276
Books and publications	-	-	-	398,809	101,798	55,052	-	555,659
Office supplies	-	-	-	36,346	-	2,046	-	38,392
Advertising	-	-	-	3,073	-	-	-	3,073
Maintenance	-	-	-	32,424	-	4,676	-	37,100
Insurance	-	-	-	10,877	-	-	-	10,877
Staff development	-	-	-	10,137	12,911	268	-	23,316
Accounting	-	-	-	32,848	-	-	-	32,848
Bank service fees	-	-	-	4,061	-	-	-	4,061
Investment expense	-	-	-	4,269	-	-	-	4,269
Legal	-	-	-	960	-	-	-	960
Memberships	-	-	-	2,574	-	-	-	2,574
Other costs	662	-	-	6,984	-	-	-	7,646
Other contract services	-	-	-	15,277	-	-	-	15,277
Postage	-	-	-	767	-	-	-	767
Photocopy	-	-	-	20,433	-	-	-	20,433
Program services	-	-	-	12,746	-	8,688	-	21,434
Processing supplies	-	-	-	3,172	-	-	-	3,172
Mileage reimbursement	-	-	-	172	-	-	-	172
Retirees' health insurance	-	-	-	62,970	-	-	-	62,970
Retirement benefits	-	-	-	-	-	-	355,134	355,134
Capital assets	-	-	-	75,852	-	3,612	-	79,464
	<u>\$ 1,186,736</u>	<u>\$ 1,165,941</u>	<u>\$ 681,399</u>	<u>\$ 1,385,031</u>	<u>\$ 114,709</u>	<u>\$ 74,342</u>	<u>\$ 355,134</u>	<u>\$ 4,963,292</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY

SCHEDULE OF EXPENDITURES (ACTUAL AND BUDGET)

OPERATING FUND

YEAR ENDED JUNE 30, 2017

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Favorable (Unfavorable)</u>
Lexington Park Branch:			
Salaries	\$ 672,671	\$ 693,452	\$ 20,781
Employee benefits	131,750	131,786	36
Other Costs	662	-	(662)
Electric	72,379	73,000	621
Fuel and oil	18,450	18,450	-
Water and sewer	10,197	10,200	3
Telephone	<u>5,227</u>	<u>5,300</u>	<u>73</u>
	<u>911,336</u>	<u>932,188</u>	<u>20,852</u>
Leonardtwn Branch:			
Salaries	612,671	624,757	12,086
Employee benefits	102,744	103,783	1,039
Electric	20,088	21,500	1,412
Fuel and oil	5,510	5,600	90
Water and sewer	3,344	3,800	456
Telephone	<u>6,792</u>	<u>6,800</u>	<u>8</u>
	<u>751,149</u>	<u>766,240</u>	<u>15,091</u>
Charlotte Hall Branch:			
Salaries	390,292	395,886	5,594
Employee benefits	100,978	102,507	1,529
Electric	24,611	24,700	89
Water and sewer	5,181	5,185	4
Telephone	<u>3,257</u>	<u>3,500</u>	<u>243</u>
	<u>524,319</u>	<u>531,778</u>	<u>7,459</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY
SCHEDULE OF EXPENDITURES (ACTUAL AND BUDGET)
OPERATING FUND (CONTINUED)
YEAR ENDED JUNE 30, 2017

	<u>Actual</u>	<u>Budget</u> <u>(Unaudited)</u>	<u>Favorable</u> <u>(Unfavorable)</u>
General operating:			
Salaries	\$ 550,897	\$ 573,798	\$ 22,901
Employee benefits	98,518	102,343	3,825
Fuel and oil	865	2,000	1,135
Books and publications	398,809	399,000	191
Office supplies	36,346	40,000	3,654
Advertising	3,073	3,100	27
Maintenance	32,424	33,150	726
Insurance	10,877	20,000	9,123
Staff development	8,814	9,500	686
Accounting and audit	32,848	32,900	52
Legal	960	5,000	4,040
Bank service fees	4,061	5,000	939
Memberships	2,574	2,575	1
Mileage Reimbursements	172	500	328
Equipment and furniture	45,026	59,220	14,194
Other costs	2,775	350	(2,425)
Other contract services	15,277	18,970	3,693
Photocopy	20,433	21,630	1,197
Postage	767	1,500	733
Processing supplies	3,172	3,200	28
Program services	12,746	16,000	3,254
Retirees' health costs	62,970	99,000	36,030
	<u>1,344,404</u>	<u>1,448,736</u>	<u>104,332</u>
Total Operating Fund	<u>\$ 3,531,208</u>	<u>\$ 3,678,942</u>	<u>\$ 147,734</u>

See independent auditor's report.

ST. MARY'S COUNTY LIBRARY
 SCHEDULE OF EXPENDITURES
 GIFT AND GRANT FUND
 YEAR ENDED JUNE 30, 2017

General operating:	
Capital assets	\$ 30,826
Staff development	1,323
Other costs	<u>4,209</u>
	<u>36,358</u>
Friends of Library:	
Books and publications	55,052
Supplies and materials	2,046
Maintenance	4,676
Staff development	268
Program services	8,688
Capital assets	<u>3,612</u>
	<u>74,342</u>
Grants:	
EBook grant	101,798
Staff development grant	<u>12,911</u>
	<u>114,709</u>
Investment expense	<u>4,269</u>
Total Gift and Grant Fund	<u>\$ 229,678</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, 2017, 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 11, 2017.

Internal Control Over Financial Reporting

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

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

that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Murphy & Murphy, CPA, LLC

La Plata, Maryland
October 11, 2017