Financial Statements and Supplementary Information For the Year Ended June 30, 2023 With Independent Auditor's Report



Financial Statements and Supplementary Information For the Year Ended March 31, 2023

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#### INDEPENDENT AUDITOR'S REPORT

To the Board of Library Trustees Howard County Library System

#### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the financial statements of the governmental activities and general fund of Howard County Library System (HCLS), an allied agency and component unit of Howard County, Maryland, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Howard County Library System's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and general fund of HCLS, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of HCLS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

HCLS's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HCLS's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 HCLS's internal control. Accordingly, no such opinion is
  expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HCLS's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 14, budgetary comparison information on pages 48 and 49 the required pension information on pages 50 and 51 and the required OPEB related information on pages 52 to 55 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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 GAAS, 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 Reporting Required by Government Auditing Standards

Mitchell: Titus, LLP

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023, on our consideration of HCLS'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 solely 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 the effectiveness of HCLS's 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 HCLS's internal control over financial reporting and compliance.

September 29, 2023



For the Year Ended June 30, 2023

The discussion and analysis of Howard County Library System's (HCLS) financial performance provides an overall review of HCLS's financial activities for the fiscal year ended June 30, 2023. Readers should also review the financial statements and the notes to enhance their understanding of Howard County Library System's financial performance.

#### INFORMATION ABOUT THIS REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand HCLS's operations and funding.

# REPORTING HCLS AS A WHOLE – STATEMENT OF NET POSITION (P. 15) AND THE STATEMENT OF ACTIVITIES (P. 16)

The Statement of Net Position reports HCLS's net position and the changes therein. The Statement of Activities reports HCLS's expenses and revenues. These statements include all assets and liabilities using the accrual basis of accounting, which considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report HCLS's net position and changes therein. This change in net position is important because it tells the reader that, for HCLS as a whole, the financial position of HCLS has improved or diminished.

In the Statement of Activities, HCLS reports its FY23 financial activities related to its overall curriculum. Governmental activities are the activities where all components of HCLS's curriculum are reported.

# BALANCE SHEET – GOVERNMENTAL FUNDS (P. 17–18) AND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (P. 19–20)

The Balance Sheet – Governmental Funds and Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds provide information about HCLS's financial health and ongoing operations, including funding sources and the fund balance remaining for future investment. The governmental fund statements provide a detailed short-term view of HCLS's curriculum.

HCLS's activities are reported in a government fund. This fund is reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statement provides a detailed short-term view of HCLS's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance HCLS's overall educational program. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statement on page 7.

For the Year Ended June 30, 2023

#### FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2023 are as follows:

Beginning with FY18 HCLS recorded a liability for the present value of future obligations for Other Post-Employment Benefits (OPEB) – health care benefits for retirees – in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75. As of June 30, 2023, the liability of \$11,840,560 on HCLS's statement of net position represents its pro-rata share of the OPEB liability for Howard County government (see Note 11).

In total, net capital assets were \$2,099,634, a net increase of \$557,179, which was a result of new capital asset purchases being greater than depreciation.

Curriculum specific revenues in the form of operating grants and contributions, HCLS generated revenue and investment earnings amounted to \$28,898,440, representing a 5% increase compared to FY22.

HCLS's expenses totaled \$27,640,273, representing a 7% decrease compared to FY 22, caused primarily by a reduction in compensated absences benefits and OPEB expenses. Net position of \$(14,898,234) increased by \$1,258,167 from June 30, 2022.

For the Year Ended June 30, 2023

# FINANCIAL HIGHLIGHTS (continued)

Table 1 provides a summary of HCLS's net position as of June 30, 2023, compared to 2022:

# Table 1 Net Position

	30-Jun-23			30-Jun-22		
ASSETS						
Cash and investments, including restricted cash and investments	\$	6,668,602		\$	6,701,610	
Accounts and grants receivable	Φ	127,650		Φ	232,773	
Prepaid expenses		734,280			546,167	
Capital assets, net		2,099,634			1,542,455	
Total assets		9,630,166			9,023,005	
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows from OPEB		6,443,357			7,197,214	
Total assets and deferred outflows of						
resources	\$	16,073,523		\$	16,220,219	
LIABILITIES						
Compensated absences - noncurrent	\$	1,406,684		\$	2,020,408	
Accounts payable and accrued expenses - current		1,343,988			1,349,034	
OPEB liability - noncurrent Unearned revenue - current		11,840,560			26,183,114	
		406,824			410,553	
Total liabilities		14,998,056			29,963,109	
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows from OPEB		15,973,701			2,413,511	
Total liabilities and deferred inflows of						
resources	\$	30,971,757		\$	32,376,620	
NET POSITION						
Net investment in capital assets	\$	2,099,634		\$	1,542,455	
Restricted		248,009			240,989	
Unrestricted		(17,245,877)			(17,939,845)	
Total net position	\$	(14,898,234)		\$	(16,156,401)	

For the Year Ended June 30, 2023

### FINANCIAL HIGHLIGHTS (continued)

Table 2
Statements of Activities and Changes in Net Position

	FY 2023	FY 2022
REVENUES Curriculum revenue Charges for ancillary services Operating grants and contributions Investment earnings	\$ 735,807 28,095,772 66,861	\$ 591,116 26,889,269 2,480
Total revenue	28,898,440	27,482,865
EXPENSES  Curriculum expenses  Educational  Salaries and benefits  Contracts  Curriculum  Professional development  Equipment  Total expenses	21,362,261 1,696,100 4,023,107 128,207 430,598 27,640,273	23,267,438 1,448,470 4,362,468 71,339 508,950 29,658,665
Increase (decrease) in net position	1,258,167	(2,175,800)
Net position, beginning  Net position, end	(16,156,401) \$ (14,898,234)	(13,980,601) \$ (16,156,401)

#### **OPERATIONAL HIGHLIGHTS**

HCLS receives its funding from the following sources: Howard County Government, the Maryland State Department of Education, HCLS-generated revenue, investment earnings, as well as operating grants and gifts. During FY23, the County appropriated \$24,020,324 in Operating Funds, representing 85% of HCLS's operating budget. The remaining 15% in operating funds was from state per capita formula funding of \$1,163,110, together with \$735,807 in HCLS-generated funds, \$788,069 in grants and gifts, investment earnings of \$66,861 and benefits paid directly by the state of \$2,124,269. Overall, revenue increased \$1,415,575 (5%) compared to FY22.

In September 2021, HCLS issued an RFP to invite firms to redesign its website. After reviewing proposals and interviewing firms, the team awarded the contract to Taoti.



For the Year Ended June 30, 2023

Throughout FY23, HCLS continued work to redesign its website with the goal of creating a user-friendly website that enables customers to easily find what they are looking for while also discovering how else the Library can meet their needs. The new site will reflect the Library's brand, engage users, be visually appealing, function intuitively, and work seamlessly on desktops, tablets and mobile devices (whether as an app or responsive site).

The web project has two phases:

- Discovery: communicate with stakeholders (internal and external) to better understand pain points and desired features and functions. Taoti completed a landscape analysis, analytics audit, content inventory/audit, screener survey, and technical audit. Working with staff, they also conducted a survey of internal and external users, stakeholder interviews and focus groups, and user journey mapping.
- Design and Development: design and build a new website that provides a customer-focused experience comparable to in-person services. The finished product will integrate all library services into an intuitive, community focused and educational experience. Taoti created the information architecture, wireframes, and visual design while staff worked on content edits to the existing site. Taoti also created a web design and style guide. Taoti is currently working with HCLS on the development part of the project. This will include content migration and user testing.

The new site is planned to go live in the first guarter of 2024.

In November 2021, HCLS issued an RFP to invite proposals from firms to consult, design, produce, and install a comprehensive wayfinding and signage system to welcome the community to its branches. After reviewing proposals and interviewing firms, the team awarded the contract to Ayers Saint Gross (ASG), a firm with a regional presence. Since then, the team has been working with HCLS to review existing signage and propose a consistent and coherent system to help



customers navigate branches and find what they need. This wayfinding and signage project addresses primary, secondary, and tertiary signage.

During the discovery phase, ASG visited branches, surveyed customers, and engaged the public at community events.

Following a kickoff meeting with leadership to discuss their findings and a visioning exercise, ASG began the schematic design and design development phases, working with staff and the web design firm to coordinate colors and iconography. ASG is now in the detail and documentation phase, expecting to begin working with a fabricator and installer in the coming months. The entire project should be complete by the end of FY24.



For the Year Ended June 30, 2023

The Columbia Downtown Plan, approved by the County Council in 2010 and updated in 2018, called for the demolition of the existing Central Branch as part of the revitalization and redevelopment of Downtown Columbia. The plan originally called for the replacement library to be built in the Crescent Neighborhood (now known as the Merriweather District). As time has passed, HCLS had the opportunity to move the new library to the new Lakefront District on the parking lot next to Whole Foods.



As part of the FY23 budget process, HCLS submitted a proposal to the County Executive and County Council for a new Lakefront Library. The proposal and acceptance of \$10M in State funds was unanimously approved with amendments. HCLS thanks the County Executive and County Council for moving the project forward and looks forward to partnering with Howard County Government with the goal of delivering a high-quality, 21st Century Library that meets the community's growing needs and aspirations.

Conceptual designs were funded by Howard Hughes Corporation and developed by Heatherwick Studio. If the project further advances as proposed, a local architect would be hired through a public procurement process to be the architect of record, moving the design concepts to buildable documents. More detailed designs would be developed with the local architect of record and informed by recent public listening and engagement sessions, a community survey, and future community engagement.

Lastly, the idea of a mascot for Howard County Library System has been a subject of discussion over the years. Mascots make organizations more memorable and personal, increase brand awareness, connect with communities (especially children) in a way humans cannot.

Several creative concepts of an owl were created internally, based on owls' traditional link to libraries and symbolism for wisdom, knowledge, and contemplation. The HCLS owl is a Northern Saw-Whet Owl, which is native to Maryland. Staff were asked to submit potential names, which the community then voted on, selecting Booker as the new HCLS mascot.



The mascot debuted as an illustration in the 2023 summer reading program. In 2024, HCLS plans to introduce a full-body mascot costume to be worn at various events.

#### **BUDGETING HIGHLIGHT**

The annual budget process starts anew each September and is outlined in the *Howard County Library System Board of Trustees Policies* ("Board Policies").

At the September HCLS Board meeting, the President & CEO presents to the Board initial forthcoming budget projections as well as a five-year curriculum focus. The Board discusses at that time any adjustments to the projections. The Board reviews the budget proposal in November and approves it in January, at which time the final proposed budget is submitted to the County Executive. Adjustments to the County Executive requests are made between February and April when the County Executive forwards his final budget to the County Council. The County Council approves the budget in May. Completing the budget process, the HCLS Board of Trustees approves the County Council's approved budget at its June meeting.

For the Year Ended June 30, 2023

Incorporating input from HCLS's Leadership Team, the President & CEO and the COOs, the HCLS team prepares the budget based on balancing anticipated revenues from County, State and HCLS sources with projected expenses related to all three pillars of HCLS's educational mission (see next page). Budget areas include Instruction, Customer Service, Curriculum, Contracts, and Equipment.

HCLS may expend funds from one fiscal year into the next under the following conditions: On or before December 31, previous fiscal year funds not expended are divided into open commitments or transferred to a liability account.

During the course of FY23, HCLS amended its budget as provided for in Board Policies. Grant funds were added as they were awarded during the year, and funds were transferred to the Curriculum category.

#### **CAPITAL ASSETS**

At the end of FY23, HCLS's net capital assets totaled \$2,099,634 invested in books, furniture, and equipment.

Table 3 shows FY23 balances compared to FY22:

Table 3 FY23 & FY22 Balance Comparison

	2023		2022		
Furniture and equipment Curriculum	\$	623,723 1,475,911	\$	209,245 1,333,210	
Total capital assets, net of accumulated depreciation of \$2,879,076 and \$3,039,200, respectively	\$	2,099,634	\$	1,542,455	

Overall, capital assets increased by \$557,179 from FY22 to FY23. New purchases of capital assets exceeded depreciation expenses for the year. In addition, HCLS continues to increase its purchases of electronic format curriculum, which are not considered capital assets and are expensed in the current year.

#### **LONG-TERM OBLIGATIONS**

HCLS long-term obligations consist only of accrued compensated absences and other postemployment benefits liabilities. During 2018, HCLS implemented GASB No. 75, which requires HCLS to record the entire balance of underfunded post-employment benefits as a liability.

For the Year Ended June 30, 2023

#### **LONG-TERM OBLIGATIONS** (continued)

	2023	 2022
Total compensated balance Net OPEB obligation	\$ 1,406,684 11,840,560	\$ 2,020,408 26,183,114
Total long-term debt	\$ 13,247,244	\$ 28,203,522

HCLS's net OPEB obligation decreased by \$14,342,554, which related to the changes in interest rates and other actuarial assumptions and expectations used.

#### **HCLS's CURRICULUM**

A vital component of Howard County's renowned education system, HCLS delivers high-quality public education for all through a curriculum that comprises three pillars:



- Self-Directed Education through vast collections of items in print, audio and electronic formats, and thousands of specialized research tools online (e.g., Wall Street Journal and Access Science).
- Research Assistance and Instruction for individuals and groups. This pillar includes classes, seminars and workshops for all ages, taught or facilitated by HCLS instructors.
- Instructive and Enlightening Experiences through cultural and community center concepts, events, and partnerships - such as A+ Partners in Education with the Howard County Public School System and Howard Community College, Choose Civility, Well & Wise, and the many partnerships HCLS has forged with nonprofits and businesses.

As part of its strategic plan, HCLS identified seven key subject areas on which to place emphasis: Health Education, Environmental Education, Financial Education, History Education, Business Education, STEM (Science, Technology, Engineering and Math) Education, and Language and Related Arts Education.

During FY23, HCLS embarked on the process of updating its strategic plan. The process includes robust stakeholder engagement through in person and virtual sessions, and surveys. The process is on track for completion in November 2023.

HCLS continues to be recognized for its innovative approach to public education and was again recognized by Library Journal as a star library. Fewer than 5% of the nation's libraries achieve star status and HCLS is proud to do so.

HCLS enjoys widespread community support as an award-winning educational institution, advancing the economy and quality of life for everyone who lives and works in Howard County. With curriculum demands outpacing increases in funding for additional staff, HCLS will continue to explore ways to reimagine operations and efficiently deliver on its Three Pillars.

For the Year Ended June 30, 2023

### **HCLS's CURRICULUM** (continued)

Examples include reimagining and enhancing Summer Reading and STEAM (Science, Technology, Engineering, Arts, and Math) initiatives, resulting in increased engagement in both initiatives.

The theme of Howard County Library System's 2023 Summer Reading Game was adventure. Game boards that encouraged participants to choose their own adventures as they read, explored, and experimented, were designed for three age groups, children, 0-5 and 6-10, Teen, 11-17, and adult, 18+. Prizes incentivized completion of the adventures, which ranged from reading to hands-on learning activities.

For parents and caregivers of preschoolers, the goal was to continue to develop their children's five basic early literacy skills - phonics, fluency, vocabulary, and comprehension - through reading.

For school age children and teens, the goal was to fight summer slide in reading, the tendency for learning loss that occurs when students are not in school. Activities, such as borrowing library books, attending a library class, exploring nature, or visiting a historic site, provided opportunities to grow and apply the knowledge and skills they developed at school.

Adults were invited to transform reading into an adventure and explore new literary genres to provide fresh understanding of themselves, their friends and neighbors, and the world.

To facilitate their journey, adults received special edition journals to reflect on their experiences. To motivate their participation, preschoolers received books and beachballs, the latter to build hand-eye coordination, elementary school students received STEAM (Science, Technology, Engineering, Art, and Math) books and kits, middle and high school students received T-shirts and were eligible for monthly prize drawings and the end of summer prize.

Participation in Summer Reading Adventures was a tremendous success, exceeding gains higher than the past two years combined. 11,141 preschool and elementary school students, 4,509 middle and high school students, and 6,836 adults participated.

The HCLS H3 Carnival (formerly the HiTech STEAM Carnival), drew 1400 children, teens, and adult participants in STEAM and DIY (Do-It-Yourself) learning activities on the campus of the Miller Branch. H3 is an interactive, multigenerational community event that encourages families and community members to explore and learn together.



H3 featured 13 STEAM booths and 20 hands-on activities and how-to demonstrations led by HCLS staff and community partners. The HiTech booths highlighted classes taught during the six-week STEAM summer program, a component of HCLS's HiTech Curriculum.

For the Year Ended June 30, 2023

#### **HCLS's CURRICULUM** (continued)

Community members explored, among many topics, the science of art, the ecology of Chesapeake Bay, the science of the carnival's games, and civil engineering. They also played games, such as inflatable football, basketball, and miniature golf that demonstrated the STEAM concepts.

Always with our community in mind, HCLS consistently builds on its success as it plans for the future. Among the ways HCLS did so during FY23, was designing an award-winning application to become of 20 grantees in the first round of the new Maryland Makerspace Initiative Program. Created through legislation passed by the Maryland General Assembly, the Makerspace Program provides grants up to \$100,000 and technical assistance to establish a new Makerspace, expand an existing Makerspace, or develop Makerspace programming. The goal is to grow a state-wide community of Makerspaces that provides entrepreneurs with access to tools, technologies, and knowledge to support their growth and development as well as expand workforce training.

Building on HCLS's successful Glenwood Branch Makerspace, the award enables HCLS to explore developing a makerspace at a future library in downtown Columbia. The makerspace will expand students' opportunities to engage in project based, hands on learning to prepare to become tomorrow's engineers and scientists, provide technology assistance and education to support entrepreneurs and early-stage business ventures, and assist all residents to thrive by being a center of social learning that facilitates personal growth, and friendships among lifelong learners.

The grant allows HCLS to hire an independent consultant to conduct a feasibility study on the design and implementation of its makerspace. The scope of work will include industry research, market and risk assessment, proposed Makerspace operational structure and equipment, and estimated initiation and annual expenses.

The feasibility study will assist project leaders to understand, among other things, the makerspace community, create effective roles for the HCLS makerspace in the Baltimore-Washington technology and entrepreneurial eco-system, select the right mix of equipment, technology, and tools to fulfill the aspirations of each target populations (students, entrepreneurs, adult DIY), develop strategies to attract early-stage business ventures needing technical education and support; and develop efficient and effective operations and staffing. The feasibility study will be completed by the end of the first quarter of 2024.

Additionally, HCLS collaborated with Howard County Government on a project that garnered a 2023 National Association of Counties Achievement Award. Howard County began a partnership with the Howard County Library system in 2022 to develop an ongoing, free LED light bulb exchange pilot program at two libraries serving the most under-resourced populations in the county. This program dramatically improved upon the County's previous LED light bulb exchanges that occurred sporadically as one-time events. Through this program, residents turn in old, inefficient compact fluorescent and incandescent light bulbs and receive free, high efficiency LEDs in exchange. By participating in this program, residents save money on their electricity bills, reduce energy use, and help the County meet its greenhouse gas emissions reduction goals. Residents also receive information on other energy saving tips and programs with their free LED bulbs. This program also expands opportunities for residents to safely dispose of CFLs, which contain toxic mercury and cannot be thrown in the regular trash.

For the Year Ended June 30, 2023

### HCLS's CURRICULUM (continued)

Within just six weeks of launching the program, the County has provided residents with nearly 1,000 high efficiency LED bulbs, saving residents a total of nearly 40,000 kWh of electricity and nearly \$4,000. This is a scalable program that will expand to all libraries throughout Howard County based on the success of the pilot in two libraries.

#### **CONTACTING HCLS's FINANCIAL MANAGEMENT**

If you have questions about this report or need additional financial information, please contact:

Tonya Aikens
President & CEO
Howard County Library System
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Statement of Net Position As of June 30, 2023

ASSETS	
Cash and cash equivalents	\$ 4,721,426
Investments	1,699,167
Restricted cash	60,579
Restricted investments	187,430
Grants receivable	127,650
Prepaid expenses	734,280
Capital assets, net of accumulated depreciation of \$2,879,076	 2,099,634
Total assets	9,630,166
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows from OPEB	 6,443,357
Total assets and deferred outflows of resources	\$ 16,073,523
LIABILITIES	
Accounts payable	\$ 55,800
Accrued expenses	641,607
Accrued wages and benefits payable	646,581
Unearned revenue	406,824
NON-CURRENT LIABILITIES	
Due in more than one year	
Compensated absences	1,406,684
OPEB liability	 11,840,560
Total liabilities	14,998,056
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from OPEB	 15,973,701
Total liabilities and deferred inflows of resources	 30,971,757
NET POSITION	
Net investment in capital assets	2,099,634
Restricted for deferred support	248,009
Unrestricted	 (17,245,877)
Total net position	 (14,898,234)
Total liabilities, deferred inflows of resources and net position	\$ 16,073,523

The accompanying notes are an integral part of these financial statements.

Statement of Activities For the Year Ended June 30, 2023

				Program	Reve	nue	(	Net Revenue and Changes in Net Position
		Expenses	Sa	arges For ales and ervices	C	Operating Grants and ontributions	G	Total overnmental Activities
FUNCTIONS/PROGRAMS HCLS Curriculum Education	\$	27,640,273	\$	735,807	\$	28,095,772	\$	1,191,306
GENERAL REVENUE Investment earnings	<u>\$</u>	27,640,273	<u>\$</u>	735,807	_\$_	28,095,772		1,191,306 66,861
Change in net position								1,258,167
Net position, beginning								(16,156,401)
Net position, end							\$	(14,898,234)

Balance Sheet Governmental Funds For the Year Ended June 30, 2023

	 General Fund		
ASSETS			
Cash and cash equivalents	\$ 4,721,426		
Investments	1,699,167		
Restricted cash	60,579		
Restricted investments	187,430		
Grants receivable	127,650		
Prepaid expenses	 734,280		
Total assets	\$ 7,530,532		
LIABILITIES AND FUND BALANCES Liabilities Accounts payable and accrued expenses Unearned revenue	\$ 1,343,988 406,824		
Total liabilities	 1,750,812		
Fund balances			
Nonspendable	734,280		
Restricted	248,009		
Committed	-		
Assigned	1,816,583		
Unassigned	 2,980,848		
Total fund balances	 5,779,720		
Total liabilities and fund balances	\$ 7,530,532		

Balance Sheet *(continued)*Governmental Funds
For the Year Ended June 30, 2023

Amounts reported for governmental activities in the statement of net position are different because:

	 General Fund
Total fund balances	\$ 5,779,720
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	2,099,634
Long-term OPEB liabilities are not due and payable in the current period and deferred outflows and inflows of resources related to OPEBs are applicable to future periods and, therefore, neither are reported in the	
funds.	(21,370,904)
Compensated absences are not due and payable in the current period	
and, therefore, are not reported in the funds	(1,406,684)
Net position of governmental activities	\$ (14,898,234)

Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds For the Year Ended June 30, 2023

Howard County appropriation Maryland State Department of Education appropriation Federal, state and private grants, and gifts Other HCLS generated sales and fees Investment earnings Fringe benefits paid directly by State of Maryland	\$ 24,020,324 1,163,110 788,069 735,807 66,861 2,124,269
Total revenues	 28,898,440
EXPENDITURES Salaries, wages and fringe benefits (including \$2,124,269 for fringe benefits paid directly by State of Maryland) Contracts Curriculum Professional development Equipment Total expenditures	22,004,489 1,696,100 4,580,289 128,207 430,598 28,839,683
Excess of revenue over expenditures	58,757
Fund balances at June 30, 2022	 5,720,963
Fund balances at June 30, 2023	\$ 5,779,720

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2023

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances	\$ 58,757
Governmental funds report capital outlays as expenditures.  However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded	
depreciation in the current period.	557,179
Some expenses 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.	 642,231 -
Change in net position of Governmental Activities	\$ 1,258,167

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 1 ORGANIZATION

#### Reporting Entity

Howard County Library System (HCLS) was established in 1940 as a state and local government allied agency by state legislation. HCLS is governed by a seven-member Board of Trustees. New trustees are nominated by the HCLS Board of Trustees, appointed by the Howard County Executive, and confirmed by the Howard County Council. Its purpose is to deliver high quality public education to the entire Howard County community. HCLS is an allied agency and component unit of the Howard County Government. Its financial statements are included in Howard County's (the County) annual comprehensive financial report because of the significance of its financial relationship with the County in that the County approves budgetary requests and provides a significant amount of funding.

### Government-Wide and Fund Financial Statements

The government-wide financial statements (*i.e.*, the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of HCLS. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately on the government-wide financial statements. Business-type activities, which rely to a significant extent on fees and charges for support, would be reported separately from the government activities, but HCLS does not have any business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment earnings and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds.

# Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 1 ORGANIZATION (continued)

<u>Measurement Focus, Basis of Accounting and Financial Statement Presentation</u> *(continued)* 

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as measurable and available. Revenue is considered to be available when collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions, other post-employment benefit obligations, and claims and judgments, are recorded only when payment is due.

The General Fund is HCLS's only fund. It accounts for all financial resources of HCLS.

#### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Net Position and Fund Balances

The difference between fund assets and liabilities is "net position" on the government-wide and "fund balance" on governmental fund statements. Net position is classified as "net investment in capital assets," legally "restricted" for a specific purpose or "unrestricted" and available for appropriation for general purposes.

HCLS reports its fund balances in classifications that comprise a hierarchy based primarily on the extent to which the HCLS is bound to honor constraints on the specific purpose for which amounts in the fund balance category can be spent. Descriptions of these classifications are included in Note 8.

#### **Unearned Revenue**

Unearned revenue includes bequests restricted to purchase certain curriculum materials. These donations of \$187,430 are invested in the Maryland Local Government Investment Pool as a gift account. The bequests are recorded as unearned revenue until the specified expenses are incurred, at which time revenue will be recognized. Also included is an unexpended individual donation which is restricted to the purchase of curriculum materials in the amount of \$60,579, which is invested in a money market fund. Both account restrictions are imposed by the individual donors who provided the money.

Unearned revenue also includes funds received from donors for which the corresponding expenses have not been incurred. The gifts are recorded as unearned revenue until the specified expenses are incurred, at which time the revenue will be recognized. The amount of unearned revenue from gifts at June 30, 2023 was \$158,815.

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Pooled Cash and Investments

HCLS follows Governmental Accounting Standards Board Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value.

HCLS also follows Governmental Accounting Standards Board Statement 79, Certain External Investment Pools and Pool Participants, which requires disclosure of specific criteria regarding external investment pools. HCLS has an Investment Pool account with the Maryland Local Government Investment Pool (MLGIP).

MLGIP was created under Maryland State Law and is regulated by the Maryland State Treasurer's Office. The MLGIP may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by Sections 6-222 and 6-223 of the State Finance and Procurement Article. No direct investment may have a maturity date of more than 13 months after its acquisition. Securities of the MLGIP are valued daily on an amortized cost basis, which approximates market value, and are held to maturity under normal circumstances.

The fair value of the position in the MLGIP is the same as the value of the MLGIP net assets (shares). The MLGIP is a 2a-7 like external investment pool, which issues a publicly available financial report that includes financial statements and required supplemental information for the MLGIP. This report can be obtained in writing: Maryland Local Government Investment Pool; c/o PNC Institutional Investments Group; One East Pratt Street; Baltimore, Maryland, 21202; by calling 1-800-492-5160; or the website, www.mlgip.com.

HCLS has an independent third party as a custodian for investment securities, with securities held in HCLS's name. In order to mitigate risk, HCLS continually monitors the financial condition of the third-party custodian.

U.S. Treasury Bills of HCLS are recorded at fair value, whereas MLGIP investments are recorded at amortized cost, which approximates fair value.

### Capital Assets

Capital assets, which include equipment and books, are reported in the government-wide financial statements. Capital assets are defined by HCLS as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated acquisition value at the date of the donation.

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

# Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Equipment and books are depreciated using the straight-line method over the following estimated useful lives:

Assets	<u>Years</u>
Office equipment	3 - 5
Computer equipment	3 - 5
Books	3 - 5

### **Compensated Absences**

It is HCLS's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since HCLS does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### Cash and Cash Equivalents

HCLS considers all highly-liquid investments that are readily convertible to known amounts of cash or are so near maturity that they present insignificant risk of changes in value because of changes in interest rates. The Library maintains money market accounts that it considers cash equivalents under this definition.

#### Deferred Inflows and Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources ("expenditure") until the future period. The Library recognizes deferred outflows for changes of assumptions, net difference between projected and actual earnings on OPEB plan investments and differences between expected and actual experience that are being amortized over a five-year period, changes in proportion and contributions made subsequent to the measurement date related to OPEB.

HCLS has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement established reporting standards that reclassified a portion of the OPEB liability as a deferred outflow of resources.

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

<u>Deferred Inflows and Outflows of Resources</u> (continued)

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources ("revenue") until the future period. The Library recognizes deferred inflows for the net difference between projected and actual investment earnings on OPEB plan investments, changes of assumptions, differences between expected and actual experience and change in proportion.

#### NOTE 3 FAIR VALUE MEASUREMENTS

#### Fair Value

HCLS has adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value:

- <u>Level 1:</u> Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- <u>Level 2:</u> Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

HCLS has the following investments and maturities as of June 30, 2023:

	Investment Maturities (Years)						
Investment Type	air Value/ ortized Cost	Le	ess than 1		1-5		5+
Pooled Investments MLGIP - Mutual Funds	\$ 850,149	\$	850,149	\$		\$	
Non-Pooled Investments Treasury Bills	1,036,448		1,036,448		_		_
Total investments	\$ 1,886,597	\$	1,886,597	\$	-	\$	-

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 3 FAIR VALUE MEASUREMENTS (continued)

Fair Value (continued)

HCLS has investments in securities that are measured at fair value and amortized cost on a recurring basis in the financial statements. The Authority uses a three-level hierarchy for determining fair value and a financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The fair value of the Treasury Bills was determined using Level 1 inputs (quoted market prices in active markets) as of June 30, 2023. MLGIP investments are recorded at amortized cost, which approximates fair value. The fund's investments have a weighted-average maturity of no more than 60 days. The following table presents the financial assets that HCLS measured at amortized cost and fair value:

	Fair Value/ Amortized Costs		Level 1		 Level 2	Level 3	
Investments by fair value level Treasury Bills	\$	1,036,448	\$	1,036,448	\$ 	\$	<u>-</u>
Investments carried at amortized cost MLGIP - Mutual Funds		850,149		850,149	 		
Total investments	\$	1,886,597	\$	1,886,597	\$ 	\$	

### NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS

The carrying amount of total deposits and investments was \$6,668,602 and the bank balance was \$6,970,311 at June 30, 2023. Custodial credit risk is the risk that, in the event of a bank or counterparty failure, the government's deposits or investments may not be returned to it. As of June 30, 2023, HCLS's bank balance was not exposed to any custodial risk since all deposits were either covered by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) or fully collateralized with the collateral held by a third party in HCLS's name.

The Annotated Code of Maryland authorizes HCLS to invest in:

- a) insured, interest-bearing accounts in financial institutions;
- b) any obligation for which the United States has pledged its faith and credit for the payment of the principal and interest;
- any obligation that a federal agency issues in accordance with an act of Congress;
- d) a repurchase agreement that any of these obligations secure; or
- e) the MLGIP.

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 4 CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

	Bank Balance			Carrying Amount	
Deposits Insured - Federal Deposit Insurance Corporation Uninsured - collateral held by bank in HCLS' name	\$	327,276 4,759,882		\$ 324,549 4,452,306	
Petty cash  Total deposits		 5.087,158		 5,150 4,782,005	
Investments Maryland Local Government Investment Pool		660,034		662,719	
M&T - Treasury Bills  Maryland Local Government Investment Pool - Gift Fund		1,036,448		1,036,448	
Total investments		1,883,153		1,886,597	
Total cash and investments	\$	6,970,311		\$ 6,668,602	

Credit Risk - The MLGIP is duly chartered, administered and subject to regulatory oversight by the State of Maryland. This pool is managed in a "Rule 2(2)-7 like" manner and has an S&P rating of AAA.

*Interest Rate Risk* - HCLS limits its interest rate risk by primarily investing in securities with maturity dates under one year.

#### NOTE 5 RECONCILIATION OF BASIC AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Basic Statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the basic statement of net position. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this difference are as follows:

Capital assets, net of accumulated depreciation of \$2,879,076	\$	2,099,634
Net adjustment to increase fund balance - total		
governmental funds to arrive at net position -		
governmental activities	<u>\$</u>	2,099,634

Notes to Financial Statements For the Year Ended June 30, 2023

# NOTE 5 RECONCILIATION OF BASIC AND FUND FINANCIAL STATEMENTS (continued)

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Basic Statement of Net Position *(continued)* 

Another element of that reconciliation explains that "the net OPEB obligations relates to funding for future retiree health benefit payments, which are not considered current." The details of this difference are as follows:

OPEB liability	\$ (11,840,560)
OPEB related deferred outflow of resources	6,443,357
OPEB related deferred inflow of resources	 (15,973,701)
Not adjustment to reduce fund belance total	

Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities \$\((21,370,904)\)

Another element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Compensated absences \$ (1,406,684)

Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities

\$ (1,406,684)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes In Fund Balances and the Basic Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the basic statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures." However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital outlay, including books	\$ 1,575,414
Depreciation expense	 (1,018,235)
Net adjustment to in net changes in fund balances - total governmental funds to arrive at	
changes in net position of governmental activities	\$ 557,179

Notes to Financial Statements For the Year Ended June 30, 2023

# NOTE 5 RECONCILIATION OF BASIC AND FUND FINANCIAL STATEMENTS (continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes In Fund Balances and the Basic Statement of Activities (continued)

Another element of that reconciliation states that "Some expenses 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." The details of this difference are as follows:

Compensated absences	\$ 613,724
OPEB obligation	 28,507
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at	
changes in net position of governmental activities	\$ 642,231

#### NOTE 6 LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the long-term obligations of the Library:

	Balance July 1, 2022					Additions Reduction			Jı	Balance ine 30, 2023
Net OPEB obligation Compensated absences	\$	26,183,114 2,020,408	\$	- 760,642	\$	(14,342,554) (1,374,366)	\$	11,840,560 1,406,684		
Total	\$	28,203,522	\$	760,642	\$	(15,716,920)	\$	13,247,244		

#### **Compensated Absences**

All eligible employees are granted vacation benefits in varying amounts to specified maximums depending on the years of service with the Library. Sick leave accrues to full-time, permanent employees and salaried, part-time employees until termination or retirement. Generally, after one year of service, employees are entitled to accrued vacation leave upon termination.

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 7 CAPITAL ASSETS

### **Primary Governmental Activities**

Capital asset activities for the fiscal year ended June 30, 2023 were as follows:

	Beginning Balance	Increases		creases Decreases		es Decreases		 Ending Balance
GOVERNMENTAL ACTIVITIES Capital assets, being depreciated Furniture and equipment Books	\$ 1,548,206 3,033,449	\$	912,390 1,192,641	\$	(303,850) (1,404,126)	\$ 2,156,746 2,821,964		
Total capital assets being depreciated	4,581,655		2,105,031	_	(1,707,976)	4,978,710		
Less: Accumulated depreciation for Furniture and equipment Books	1,338,961 1,700,239		194,062 824,173		- (1,178,359)	1,533,023 1,346,053		
Total accumulated depreciation	 3,039,200		1,018,235		(1,178,359)	 2,879,076		
Total capital assets being depreciated, net	1,542,455		1,086,796		(529,617)	 2,099,634		
Governmental activities capital assets, net	\$ 1,542,455	\$	1,086,796	\$	(529,617)	\$ 2,099,634		

Depreciation expense of \$1,086,796 was charged to HCLS's function of Curriculum Education on the statement of activities.

#### NOTE 8 FUND BALANCES

In accordance with governmental accounting standards, the HCLS classifies its fund balances as follows:

*Nonspendable:* This component includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. As of June 30, 2023, \$734,280 was non-spendable due to prepaid expenses not in spendable form.

Restricted: This component consists of amounts that have constraints placed on them either externally by third parties (grantors, contributors, creditors, or laws or regulations of other governmental entities) or by law through constitutional provisions or enabling legislation. As of June 30, 2023, \$248,009 was restricted for gifts.

Committed: This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the HCLS's highest level of decision making. These actions would be through by-laws or board resolution passed by the Board of Trustees. These committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed previously to commit those amounts. As of June 30, 2023, no amount was committed.

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 8 FUND BALANCES (continued)

Assigned: This component consists of amounts that are constrained by the HCLS's intent to be used for specific purposes but are neither restricted nor committed. The authority for assigning is expressed by the President and Chief Executive Officer. As of June 30, 2023, \$1,816,583 was assigned for curriculum.

*Unassigned*: This classification represents amounts that have not been restricted, committed or assigned to specific purposes. As of June 30, 2023, \$2,980,848 was unassigned.

#### NOTE 9 DEFERRED COMPENSATION PLAN

HCLS has made deferred compensation plans available to all its employees. The plans were established in accordance with Internal Revenue Code Section 457. A deferred compensation plan offers employees an opportunity to defer a portion of their salary along with the related federal and state income tax, until future years. The deferred compensation funds are not available to employees until termination, retirement, death or unforeseeable emergency.

HCLS participates in plans sponsored by the National Association of Counties (NACO), which has selected the Public Employees Benefit Services Corporation (PEBSCO) to be the plan administrator and Variable Life Insurance Company (VALIC). The assets of both plans were transferred to custodial accounts and HCLS no longer reports those assets and liabilities in the Agency Funds of HCLS.

#### NOTE 10 RETIREMENT AND PENSION PLANS

HCLS participates in the Maryland Teachers' Retirement System (TRS) and the Maryland Teachers' Pension System (TPS), collectively the "Teachers Retirement and Pension Systems." Both plans are administered by the Maryland State Retirement and Pension System which is a cost sharing agent multiple-employer public employee retirement system. Coverage is available to all regular full- and part-time salaried employees to the exclusion of any temporary on-call employees.

The systems were established in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Responsibility for the administration and operation of the systems is vested in a 15-member Board of Trustees (Trustees). The Trustees also have the authority to establish and amend the respective benefit provisions. The systems provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to system members and beneficiaries.

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 10 RETIREMENT AND PENSION PLANS (continued)

Members become fully vested under TRS after completing five years or ten years of creditable service depending on the date of hire, provided the member lives to the age of 60 and does not withdraw his or her accumulated contributions. Under TPS, members are fully vested after five years, provided the member lives to age 62. Under both plans, a member terminating employment before reaching retirement age or before completing five years of creditable service is refunded his or her accumulated contributions plus earned interest.

Both plans are contributory plans. Contribution obligations are determined by the State Personnel and Pensions Article. Under TPS, employee contributions are 7% of their salary and wages to the system. Under TRS, members are required to contribute 7% of their salary and wages to the system. Employee contributions for the year ended June 30, 2023 were \$1,043,212 under TRS and \$0 under TPS.

The State of Maryland (the nonemployer contributing entity) pays the employer's share of contributions for employees participating in TRS and TPS, except for those employees eligible under TPS who are working on federal grant programs. During the fiscal year ended June 30, 2023, the State paid \$2,124,269 in retirement costs for employees of HCLS participating in the Teachers' Retirement and Pension System, equal to approximately 15% of the covered payroll. The State of Maryland is also responsible for any unfunded pension benefit obligation; therefore, any pension liability, deferred outflow of resources, deferred inflow of resources and related financial reporting disclosures in relation to these employees are included in the State of Maryland Comprehensive Annual Financial Report. The actuarial report of the TRS and TPS may be obtained from the Maryland State Retirement and Pension System by writing to the State Retirement and Pension System of Maryland, State Retirement Agency, 301 Preston Street, Baltimore, Maryland, 21201-2363, or by calling (800) 492-5909.

#### Summary

HCLS previously adopted GASB No. 68, *Accounting and Financial Reporting for Pensions (GASB 68)*. HCLS participates in the Maryland State Retirement and Pension System, (the System) and qualifies as a Participating Governmental Unit (PGU). The State Retirement Agency (the Agency) is the Plan administrator and fiduciary. GASB 68 requires that a PGU recognize its proportionate share of the System's net pension liability (*i.e.*, unfunded pension liability) and pension expense.

However, HCLS has no expense for pension costs; nor is it responsible for unfunded pension obligation because its employees participate in the TRS and TPS, and the State of Maryland is responsible for the related pension obligations.

HCLS employees participate in the System and contributed 7% of their compensation during fiscal 2023 as stipulated by the System.

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 10 RETIREMENT AND PENSION PLANS (continued)

#### Basis of Presentation and Basis of Accounting

Employers participating in the System's cost-sharing multiple-employer defined benefit plans are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Schedule of Employer Allocations and Schedule of Pension Amounts by Employer (pension allocation schedules) provide employers with the required information for financial reporting. The System's financial statements are prepared on the accrual basis of accounting and are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) that apply to governmental accounting for fiduciary funds.

Actual employer contributions billed to participating government units for the year ended June 30, 2022, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported in the Schedule of Employer Allocations. The contributions were not adjusted because the State of Maryland contributed 100% of the actuarial determined contributions for the year ended June 30, 2022.

The components of the calculation of the net pension liability for the system as of June 30, 2022, calculated in accordance with GASB Statement No. 67, are shown in the following table:

#### (Expressed in thousands)

Total pension liability	\$ 84,319,523
Plan fiduciary net position	 64,310,991
Net pension liability	\$ 20,008,532
Plan fiduciary net position as a percentage of the total pension liability	 76.27%

Notes to Financial Statements For the Year Ended June 30, 2023

# NOTE 10 RETIREMENT AND PENSION PLANS (continued)

#### **Actuarial Assumptions**

Valuation Date	June 30, 2022
Contribution Fiscal Year Ended	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Amortization Method for Unfunded	Level Percentage of Payroll, Closed
Actuarial Accrued Liabilities	
Amortization Period	25-year closed schedule ending June 30, 2039; 16 years remaining.
Asset Valuation Method	5-year smoothed market (max. 120% and min 80% of the market value)
Actuarial Assumptions	
Investment Rate of Return	6.80%
Inflation	2.25% general, 2.75% wage
Projected Salary Increases	2.75% to 11.25%, including inflation
Discount Rate	6.80%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.  Last updated for the 2019 valuation pursuant to the 2018 experience study for the period July 1, 2014 to June 30, 2018.
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality Improvements scale for males and females.

#### Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Pension system's Board after considering input from the investment consultant(s) and actuary(s). For each major asset class that is included in the Pension System's target asset allocation, these best estimates are summarized in the following table:

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 10 RETIREMENT AND PENSION PLANS (continued)

<u>Investments</u> (continued)

Asset Class	TargetAllocations	Long-Term Expected Real Rate of Return
Public equity	34%	6.00%
Private equity	16%	8.40%
Rate sensitive	21%	1.20%
Credit opportunity	8%	4.90%
Real assets	15%	5.20%
Absolute return	6%	3.50%
	100%	

The above was the Pension System's Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of the measurement date of June 30, 2022.

#### Discount Rate

A single discount rate of 6.80% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 6.80%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# Sensitivity of the Net Pension Liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the System's net pension liability and HCLS's proportionate share of the System's net pension liability (expressed in thousands), calculated using a single discount rate of 6.80%, a single discount rate that is 1-percentage point lower (*i.e.*, 5.80%) and a single discount rate that is 1-percentage point higher (*i.e.*, 7.80%).

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 10 RETIREMENT AND PENSION PLANS (continued)

Sensitivity of the Net Pension Liability (continued)

	1% Decrease (5.80%)			Current iscount Rate (6.80%)	1% Increase (7.80%)		
The System's Net Pension Liability The Library's Proportionate Share of the Net Pension Liability for the Employers' Retirement and Pension	\$	30,699,454	\$	20,008,532	\$	11,137,544	
System The Library's Proportionate Share of the Net Pension Liability for the Teachers' Retirement and Pension	\$	-	\$	-	\$	-	
System	\$	-	\$	-	\$	-	

#### Pension Plan Description Organization

The State Retirement Agency (the Agency) is the administrator of the System. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool." The "State Pool" consists of the State agencies, boards of education, community colleges, and libraries. The "Municipal Pool" consists of the participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities, thus participating governmental units that elect to join the System (the Municipal Pool) share in the liabilities of the Municipal Pool only. The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. The Agency is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 67, Financial Reporting for Pension Plans- An Amendment of GASB Statement No.25. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies, and administrative budget. Accordingly, the System is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund. The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System. HCLS's employees participate in the Teachers' Retirement and Pension System.

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 10 RETIREMENT AND PENSION PLANS (continued)

#### **Covered Members**

The Teachers' Retirement System was established on August 1, 1927, to provide retirement allowances and other benefits to teachers of the State. Effective January 1, 1980, the Teachers' Retirement System was closed to new members and the Teachers' Pension System was established. As a result, teachers hired after December 31, 1979, became members of the Teachers' Pension System as a condition of employment. On or after January 1, 2005, an individual who is a member of the Teachers' Retirement System may not transfer membership to the Teachers' Pension System.

#### Summary of Significant Plan Provisions

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. For all individuals who are members of the System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive years' AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system, which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors. Beginning July 1, 2011, the member contribution rate was increased for members of the Teachers' Pension System from 5% to 7%. In addition, the benefit attributable to service on or after July 1, 2011 in many of the pension systems now will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index (CPI) and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation. A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2022 are as follows:

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 10 RETIREMENT AND PENSION PLANS (continued)

Summary of Significant Plan Provisions (continued)

Service Retirement Allowances

A member of the Teachers' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service. An individual who is a member of the Teachers' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of the Teachers' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service. For most individuals who retired from the Teachers' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' Pension System on or after July 1. 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' Pension System shall earn an annual pension allowance equal to 1.50% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' Pension System. Exceptions to these benefit formulas apply to members of the Teachers' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for these members equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

Notes to Financial Statements For the Year Ended June 30, 2023

# NOTE 10 RETIREMENT AND PENSION PLANS (continued)

Summary of Significant Plan Provisions (continued)

#### Vested Allowances

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating five years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

#### Early Service Retirement

A member of the Teachers' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' Retirement System member is 30%. An individual who is a member of the Teachers' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' Pension System is 42%. An individual who becomes a member of the Teachers' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' Pension System is 30%.

#### Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after five years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating five years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 2/3 (66.7%) of the member's AFC plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 10 RETIREMENT AND PENSION PLANS (continued)

Summary of Significant Plan Provisions (continued)

Adjusted Retirement Allowances (As Applicable)

The annual increases to pension allowances for Employees' Pension System retirees who were employed by a participating governmental unit that does not provide enhanced pension benefits are limited to 3% of the initial allowance. However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, in all of the systems except the judges' and legislators' systems, the adjustment is capped at 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. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

# **Net Pension Liability**

The components of the State of Maryland's proportionate share of the Pension System's net pension liability (expressed in thousands) as of the measurement date of June 30, 2022 is as follows:

	In Relation to Employees Participating In the Teachers Retirement and Pension System			
Total pension liability  Less: Plan fiduciary net position	\$	49,235,396 39,126,178		
Net pension liability	\$	10,109,218		
Plan fiduciary net position as a percentage of total pension liability		79.47%		

The State of Maryland's (the nonemployer contributing entity) proportionate share for employees participating in the Teachers' Retirement and Pension System is based on total System contributions for fiscal year 2021. The Library's approximate proportionate share is 0.10% as of the measurement date of June 30, 2022.

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 10 RETIREMENT AND PENSION PLANS (continued)

# The Pension Plan Fiduciary

Plan Information as well as the Comprehensive Annual Financial Report of the Maryland State Retirement and Pension System for the year ended June 30, 2022 is available from:

State Retirement & Pension System of Maryland 120 East Baltimore Street Baltimore, Maryland 21202

www.sra.state.md.us

- General Interest
- Related Links
- Downloads
- Comprehensive Annual Financial Reports

#### NOTE 11 OTHER POST-EMPLOYMENT BENEFITS

#### Plan Description and Employees Covered By Benefit Terms

HCLS provides a post-employment health insurance program in addition to the benefits described in Note 9. All employees who retire from HCLS may participate in the program. In order to be eligible, the retiree must have a minimum of 10 years of service, have passed his/her 50th birthday, and possess a combination of age and service which totals a minimum of 75 years. HCLS will pay a percentage of the health insurance premium based upon these criteria. Other retirees who do not meet the eligibility criteria are permitted to participate in the retirees' health insurance program by paying the full premium at the group rate. Currently, 83 retirees meet these eligibility requirements. Related expense for fiscal year 2023 was approximately \$193,469.

During the fiscal year 2008, the County implemented the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The County funds HCLS's unfunded actuarial accrued liability (UAAL); therefore, this liability will be included in the financial statements of the County. HCLS is required to include in its financial statements the amount by which the County has funded the UAAL on its behalf. The amount of UAAL underfunded by HCLS during 2023 was \$117,647.

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (continued)

Plan Description and Employees Covered By Benefit Terms (continued)

HCPL participates in the County's Other Postemployment Benefit (OPEB) Trust Fund (the Plan). The Plan is a Cost-Sharing Multiple Employer Defined Benefit Healthcare Plan. Per Section 1.406B of Howard County Bill No. 14-2008, the County established an irrevocable trust for administering the plan assets and paying healthcare costs on behalf of the participants. The Plan includes the County (consisting of the County government, Howard County Library, Howard Soil Conservation District, Economic Development Authority, and Housing Commission), and its component units, Howard County Community College and Howard County Public School system. The Plan is administered and overseen by a Board of Trustees comprised of the Chief Administrative Officer, the Director of Finance, and Budget Administrator.

# Contributions

Contribution requirements of the plan members and the participating employers are established and may be amended by the Plan's Board of Trustees. Contributions to the OPEB plan by retirees were \$181,059. Employees are not required to contribute to the OPEB plan.

#### Net OPEB Liability

HCLS's net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of February 1, 2022.

### **Actuarial Assumptions**

The collective total OPEB liability for the June 30, 2022 measurement date was determined by an actuarial valuation as of February 1, 2022, with update procedures used to roll forward the total OPEB liability to June 30, 2022. This actuarial valuation used the following actuarial assumptions:

Actuarial cost method Individual entry age normal as a level

percentage of payroll

Interest assumption Discount rate of 4.40% as of 6/30/22

Investment rate of return 7.25% as of measurement period ending

June 30, 2022

Municipal bond rate 3.69% as of 6/30/22 based on the Bond

Buyer General Obligation 20-year Bond

Municipal Bond Index

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Actuarial Value of Assets Market Value

Healthcare Reform

The excise tax on high-cost healthcare plans

("Cadillac tax") has been repealed and is not factored into the valuation. Other aspects of the Affordable Care Act were included in the valuation only to the extent they have already

been implemented in the plan.

Long-term expected real rate 4.85% for Equity investm

of return, based on geometric

means

4.85% for Equity investments (based on 45% target allocation) and 2.46% for Fixed Income investments (based on 23% target allocation), 6.21% for Alternative Investments (based on 26% target allocation), 4.33% for Real Assets

(based on 6% target allocation), 2.65% inflation

rate, for a total of 7.25%.

Mortality Pub-2010 Safety Retirees Headcount -

Weighted Mortality Projected with Fully

Generational MP2019 Mortality

Healthcare cost trend rate 6% based upon 2021 SOA Model, 18.3% of

GDP, adjusted for the anticipated impact of the

ACA Excise Tax

The total OPEB liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, health costs, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2021. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Notes to Financial Statements For the Year Ended June 30, 2023

### NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (continued)

# Actuarial Assumptions (continued)

Best estimates of geometric real rates of return for each major asset class, included in the Plan's target allocation as of June 30, 2022 are summarized in the following table:

Asset Class	Long-Term Expected <u>Rate of Return</u>
Equities	4.85%
Fixed income	2.46%

# **Discount Rate**

The discount rate used to measure the total OPEB liability was 2.41% at the beginning of the current measurement period and 4.40% at the end. In measuring the total liability and determining the discount rate, the actuary projected cash flows by assuming that the County will continue to make the current contribution levels increasing 3.00% per annum. These contributions were first allocated to the normal cost for future hires as required by GASB. The benefit payment stream for the Plan is discounted based on an index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher for years when the projected benefit payouts are expected to be funded. The present value of payments through 2040 was determined using the expected rate of return of assets of 7.25% and using the bond rate of 3.69% for benefit payments after 2040. The equivalent single rate is 4.40%.

# Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the HCLS, as well as what HCLS's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.40%) or 1-percentage-point higher (5.40%) than the current discount rate:

	19	% Decrease 3.40%	Di	Discount Rate 4.40%		1% Increase 5.40%		
Net OPEB Liability	\$	14,473,081	\$	\$ 11,840,560		9,750,722		

Notes to Financial Statements For the Year Ended June 30, 2023

# NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of HCLS, as well as what HCLS's net OPEB liability would be if it were calculated using the healthcare cost trend rates that are 1-percentage-point lower (5%) or 1-percentage-point higher (7%) than the current healthcare cost trend rates:

	1% Decrease 5.00%		Me	edical Trend 6.00%	1% Increase 7.00%		
Net OPEB Liability	\$	9,611,659	\$	11,840,560	\$	14,768,290	

# OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2023, HCLS recognized OPEB expense of \$332,489. At June 30, 2023, HCLS reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources		
Differences between expected and					
actual experience	\$	147,454	\$	(3,571,271)	
Changes of assumptions		5,297,131		(7,389,032)	
Net difference between projected and actual earnings on OPEB plan					
investments		177,464		-	
Employer contribution subsequent to					
measurement date		444,903		-	
Change in proportion		376,405		(5,013,398)	
Total	\$	6,443,357	\$	(15,973,701)	

Notes to Financial Statements For the Year Ended June 30, 2023

# NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (continued)

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB (continued)

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

Fiscal Year		
Ending June 30	<u></u>	Amounts
2024	\$	(1,254,936)
2025		(1,257,786)
2026		(1,263,758)
2027		(1,160,297)
2028		(1,047,593)
Thereafter		(3,990,877)
Total	\$	(9.975.247)

#### NOTE 12 COMMITMENTS AND CONTINGENCIES

HCLS receives various federal and state grants that are subject to review and audit by the respective agencies. Such audits could result in a request for reimbursement by the respective agency for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of HCLS management, such disallowances, if any, would not be significant.

HCLS receives substantially all of its support from county and state appropriations. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the HCLS's programs and activities.

#### NOTE 13 RISK MANAGEMENT

HCLS is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. HCLS participates in the Risk Management Program of Howard County, Maryland. HCLS makes payments to the two internal service funds of the Risk Management Program based on a combination of actuarial estimates and historical cost information. In return, HCLS receives full coverage for employee benefits and long-term disability claims, automotive physical damage claims, general liability claims, property damage claims, workers' compensation claims, pollution and environmental claims.

Notes to Financial Statements For the Year Ended June 30, 2023

#### NOTE 14 SUBSEQUENT EVENTS

Events that occur after the fund balance sheet and statement of net position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the fund balance sheet and statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the fund balance sheet and statement of net position date require disclosure in the accompanying notes. Management evaluated the activity of HCLS through September 29, 2023 (the date the financial statements were available to be issued), and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

Schedule of Revenue, Expenditures and Encumbrances and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2023

	Original Budget		Final Budget		Actual		Variance With Final Budget Positive (Negative)	
REVENUES								
Howard County	\$	24,020,324	\$	24,020,324	\$	24,020,324	\$	-
Maryland Department of Education		1,163,110		1,163,110		1,163,110		-
Federal and State Grants		-		-		788,069		788,069
Use of fund balance		200,000		200,000		-		(200,000)
HCLS generated sales and fees		1,307,631		1,307,631		735,807		(571,824)
Investment earnings		28,000		28,000		66,861		38,861
Total revenues	\$	26,719,065	\$	26,719,065	_\$_	26,774,171	\$	55,106
EXPENDITURES AND ENCUMBRANCES								
Salaries and benefits	\$	20,676,523	\$	20,676,523	\$	19,880,223	\$	796,300
Contracts		1,353,819		1,353,819		1,696,100		(342,281)
Curriculum		4,131,587		4,131,587		4,242,319		(110,732)
Professional development		103,241		103,241		128,207		(24,966)
Furniture and equipment		453,895		453,895		430,598		23,297
Total expenditures and								
encumbrances	\$	26,719,065	\$	26,719,065	_\$_	26,377,447	\$	341,618
Excess of revenue over								
expenditures and encumbrances			\$		\$	396,724	\$	396,724

Note to Schedule of Revenue, Expenditures and Encumbrances and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2023

#### NOTE 1 RECONCILIATION OF BUDGETARY DATA

HCLS's President & CEO submits an annual budget to the County Executive in accordance with Resolution No. 68. Once approved by the County Council, the HCLS Board of Trustees with approval from the office of the County Executive may amend the legally adopted budget when unexpected modifications are required in estimated revenue and appropriations.

The Schedule of Revenue, Expenditures and Encumbrances and Changes in Fund Balance - Budget and Actual is prepared on a basis consistent with the budget. The budget is prepared using encumbrance accounting where encumbrances are treated as expenditures of the current period. The statement of revenue, expenditures and changes in fund balance is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) where encumbrances are treated as a reservation of fund balance.

A reconciliation of revenue and expenditures from budgetary basis to GAAP basis is as follows:

#### **REVENUE**

Budgetary basis	\$ 26,774,171
Fringe benefits paid directly by State of Maryland	 2,124,269
GAAP basis	\$ 28,898,440
EXPENDITURES	
Budgetary basis	\$ 26,377,447
Add: Prior year encumbrances expended this year	2,154,550
Current year encumbrances	(1,816,583)
Fringe benefits paid directly by State of Maryland	2,124,269
GAAP basis	\$ 28,839,683

Schedule of Required Pension Related Supplementary Information For the Year Ended June 30, 2023

Schedule of HCLS's Proportionate Share of the Net Pension Liability for the Teachers' Retirement and Pension Systems:

	2023	2022	2021	2020	2019	2018	2017	2016
HCLS's proportion (%) of collective net pension liability	0%	0%	0%	0%	0%	0%	0%	0%
HCLS's proportionate share (\$) of collective net pension liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Portion of the State of Maryland's total proportionate share (\$) of								
collective net pension liability that is associated with the Library	\$ 80,211,324	\$ 78,561,532	\$ 78,987,324	\$ 75,556,921	\$ 73,773,405	\$ 72,016,948	\$ 69,304,137	\$ 59,782,816
Sum of the Library's and portion of the State of Maryland's total								
proportionate share (\$) of collective net pension liability that is								
associated with the Library.	\$ 80,211,324	\$ 78,561,532	\$ 78,987,324	\$ 75,556,921	\$ 73,773,405	\$ 72,016,948	\$ 69,304,137	\$ 59,782,816
HCLS's covered payroll (\$) 1	\$ 14,512,157	\$ 13,476,495	\$ 11,853,435	\$ 13,294,581	\$ 12,984,901	\$ 12,365,901	\$ 12,031,711	\$ 11,875,828
HCLS's proportionate share of collective net pension liability as a								
percentage of its covered payroll	0%	0%	0%	0%	0%	0%	0%	0%
Pension plan's fiduciary net position as a percentage of total pension								
liability	76.27%	81.84%	70.72%	72.34%	71.18%	69.38%	65.79%	68.78%

<sup>(1)</sup> In accordance with GASB No. 82, amounts shown represent the payroll on which contributions to the pension plan are based.

Notes to Schedule of Required Pension Related Supplementary Information For the Year Ended June 30, 2023

# NOTE 1 ACTUARIAL ASSUMPTIONS

Valuation Date	June 30, 2022
Contribution Fiscal Year Ended	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Amortization Method for	
Unfunded Actuarial Accrued	
Liabilities	Level Percentage of Payroll, Closed
Amortization Period	25-year closed schedule ending June 30,
	2039; 16 years remaining.
Asset Valuation Method	5-year smoothed market (max. 120% and min
	80% of the market value)
Actuarial Assumptions	
Investment Rate of Return	6.80%
Inflation	2.25% general, 2.75% wage
Projected Salary Increases	2.75% to 11.25%, including inflation
Discount Rate	6.80%
Retirement Age	Experience-based table of rates that are
	specific to the type of eligibility condition. Last
	updated for the 2019 valuation pursuant to the
	2018 experience study for the period July 1,
	2014 to June 30, 2018.
Mortality	Various versions of the Pub-2010 Mortality
	Tables for males and females with projected
	generational mortality improvements based on
	the MP-2018 fully generational mortality
	Improvements scale for males and females.

# NOTE 2 CHANGES IN BENEFIT TERMS

There were no benefit changes during the year.

# NOTE 3 CHANGES IN ASSUMPTIONS

	Changes From Fiscal Year 2017 to 2018	Changes From Fiscal Year 2018 to 2019	Changes From Fiscal Year 2019 to 2020	Changes From Fiscal Year 2020 to 2021	Changes From Fiscal Year 2021 to 2022
Inflation General	2.65% to 2.60%	2.60% to 2.65%	2.65% to 2.60%	2.60% to 2.25%	No change
Inflation Wages	3.15% to 3.10%	3.10% to 3.15%	3.15% to 3.10%	3.10% to 2.75%	No change
Discount Rate	7.50% to 7.45%	7.45% to 7.40%	No Change	7.40% to 6.80%	No change
Investment Rate of Return	7.50% to 7.45%	7.45% to 7.40%	No Change	7.40% to 6.80%	No change

Schedule of Required OPEB Related Supplementary Information For the Year Ended June 30, 2023

	2023	2022	2021	2020	2019	2018
CHANGES IN EMPLOYER'S PROPORTIONATE NET OPEB LIABILITY AND RELATED RATIOS Total OPEB liability						
Service cost Interest Experience losses Changes in assumptions Benefit payments Change in proportion	\$ 1,230,227 560,299 (3,403,500) (7,273,308) (995,379) (5,427,167)	\$ 1,309,604 721,106 (70,737) 2,355,884 (362,972)	\$ 1,000,146 748,747 210,649 2,775,914 (361,036) (299,063)	\$ 866,166 738,845 (46,665) 1,550,755 (327,674)	\$ 792,700 678,894 (936,486) 1,119,052 (325,825) 725,950	\$ 896,402 564,510 - (2,244,614) (320,771)
Net change in total OPEB liability Beginning total OPEB liability	(15,308,828) 29,560,794	3,952,885 25,607,909	4,075,357 21,532,552	2,781,427 18,751,125	2,054,285 16,696,840	(1,104,473) 17,801,313
Ending total OPEB liability	\$ 14,251,966	\$ 29,560,794	\$ 25,607,909	\$ 21,532,552	\$ 18,751,125	\$ 16,696,840
PLAN FIDUCIARY NET POSITION Employer contributions Net investment income Benefit payments Administrative expense Change in proportion	\$ 382,995 201,350 (995,379) (466) (554,774)	\$ 520,426 707,738 (362,972) (217)	\$ 545,636 139,008 (361,035) (966) (30,846)	\$ 552,686 133,705 (327,675) (1,529)	\$ 556,225 132,480 (325,825) (801) 62,569	\$ 501,272 136,783 (320,771) (41)
Net change in fiduciary net position  Beginning fiduciary net position	(966,274) 3,377,680	864,975 2,512,705	291,797 2,220,908	357,187 1,863,721	424,648 1,439,073	317,243 1,121,830
Ending fiduciary net position	\$ 2,411,406	\$ 3,377,680	\$ 2,512,705	\$ 2,220,908	\$ 1,863,721	\$ 1,439,073
Library's net OPEB liability - ending Plan fiduciary net position as a percentage of the total OPEB liability	\$ 11,840,560 16.92%	\$ 26,183,114 11.43%	\$ 23,095,204 9.81%	\$ 19,311,644 10.31%	\$ 16,887,404 9.94%	\$ 15,257,767 8.62%
Covered-employee payroll*  Library's net OPEB liability as a percentage of covered- employee payroll*	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected average remaining service years of all participants	10	10	10	10	10	10

<sup>\*</sup> Because this OPEB plan does not depend on salary, salary information is not presented

Notes to Schedule of Required OPEB Related Supplementary Information For the Year Ended June 30, 2023

# NOTE 1 BENEFIT CHANGES

None.

# NOTE 2 CHANGES IN ASSUMPTIONS

The discount rate was changed as follows:

6/30/2017 - 3.20% 6/30/2018 - 3.94% 6/30/2019 - 3.98% 6/30/2020 - 3.56% 6/30/2021 - 2.84% 6/30/2022 - 2.41% 6/30/2023 - 4.40%

This schedule should be presented to show information for 10 years. However, until a full 10-year trend is compiled, HCLS will present information for those years for which information is available.

Schedule of Required OPEB Related Supplementary Information *(continued)* For the Year Ended June 30, 2023

	2023	2022	2021	2020	2019	2018
Employer's proportion of net OPEB liability Employer's proportionate share of net OPEB liability Employer's covered payroll	1.13% 11,840,560 \$ -	1.42% 26,183,114 \$ -	1.42% 23,095,204	1.44% 19,311,644 \$	1.44% 16,887,404	1.38% 15,257,767
Employer's covered payroll	Ψ -	Ψ -	Ψ -	Ψ -	Ψ -	Ψ -
Employer's proportionate share of net OPEB liability as a percentage of covered payroll	-%	-%	-%	-%	-%	-%
Plan fiduciary net position as a percentage of total	- 70	-70	- 70	-70	-70	
OPEB liability	16.92%	11.43%	9.81%	10.31%	9.94%	8.62%

<sup>\*</sup> Because this OPEB plan does not depend on salary, salary information is not presented.

This schedule should be presented to show information for 10 years. However, until a full 10-year trend is compiled, HCLS will present information for those years for which information is available.

Schedule of Required OPEB Related Supplementary Information *(continued)* For the Year Ended June 30, 2023

Actuarial Cost Method Entry Age Normal

Interest Assumption Discount rate of 4.40% as of 6/30/22

Inflation 2.65%

Municipal Bond Rate 3.69% as of 6/30/22 based on the Bond Buyer General

Obligation 20-year Bond Municipal Bond Index

Projected Cash Flows Long-term expected rate of return was applied to fiscal

years 2022 through 2041

Long-term expected real rate of return, based on geometric

means

4.85% for Equity investments (based on 45% target allocation) and 2.46% for Fixed-Income investments (based on 23% target allocation), 6.21% for Alternative

Investments (based on 26% target allocation), 4.33% for Real Assets (based on 6% target allocation), 2.65%

inflation rate, for a total of 7.25%.

Mortality Pub-2010 Safety Retirees Headcount - Weighted

Mortality Projected with Fully Generational MP2019

Mortality

Healthcare Cost Trend Rate 6% based upon 2021 SOA Model, 18.3% GDP, adjusted

for the anticipated impact of the ACA Excise Tax



# 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 Howard County Library System

We have audited, 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, the financial statements of the governmental activities and general fund of Howard County Library System (HCLS), an allied agency and component unit of Howard County, Maryland, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise HCLS's basic financial statements, and have issued our report thereon dated September 29, 2023.

# Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HCLS's internal control over financial reporting ("internal control") as a basis for designing 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 HCLS's internal control. Accordingly, we do not express an opinion on the effectiveness of HCLS'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 or significant deficiencies may exist that were not identified.



### Report on Compliance and Other Matters

Mitchell: Titus, LLP

As part of obtaining reasonable assurance about whether HCLS'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 financial statements. 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.

September 29, 2023